



Building Vibrant Communities

SANASA Development Bank PLC
Integrated Annual Report 2022





Building Vibrant Communities

Over the years, we at Sanasa Development Bank have always been on the lookout for great ideas powered by great people. This untapped potential has proved that a wealth of entrepreneurship and innovation lie dormant due to the lack of opportunity and financial inclusion; a situation that we have been trying to reverse during our 25 years of vital service. By placing our confidence in exceptional individuals, we have seen the growth of families, villages and regions; even age-old industries that have found a new revival. The year in review was by no means an easy run, but we stayed true to our values, doing all we can to ensure the wellbeing of our stakeholders, the results of which we hope to see in the time ahead. By following through on our mission to support grassroots entrepreneurship and placing their livelihoods at the forefront, we will continue to build vibrant communities, which in turn will change and sustain a nation of opportunity and a positive outlook for all that we do in our next quarter century and beyond.



Contents

Overview

Our Evolution	4
About this Report	6
Financial Highlights	8
Year in review	10
What We Offer	12



Leadership

Chairperson's Message	18
Chief Executive Officer's Review	22
Board of Directors	26
Corporate Management	32
Chief Managers	34
Senior Management	36



Operating Environment and Strategy

Operating Environment	42
Stakeholder Engagement	45
Materiality	47
How we create Value	50
Our Strategy	52
SDB Bank's Commitment to Sustainability	53



Management Discussion and Analysis

Financial Capital	58
Intellectual Capital	62
Human Capital	66
Manufactured Capital	70
Social and Relationship Capital	73
Natural Capital	79



Risk Management and Corporate Governance

Risk Management	86
Message from the Chairperson on Corporate Governance	95
Corporate Governance	96
Report of the Board Integrated Risk Management Committee	132
Report of the Board Audit Committee	133
Board Human Resources and Remuneration Committee	137
Report of the Board Selection and Nomination Committee	138
Report of the Board Related Party Transactions Review Committee	140
Report of the Board Strategic Planning Committee	141
Report of the Board Credit Committee	142



Financial Statements

Financial Calendar	147
Annual Report of the Board of Directors on the Affairs of the Bank	148
Directors' Statement on Internal Control over Financial Reporting	162
Independent Assurance Report	164
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	166
Statement of Directors' Responsibility for Financial Reporting	167
Independent Auditors' Report	169
Statement of Comprehensive Income	172
Statement of Financial Position	173
Statement of Changes in Equity	174
Statement of Cash Flows	175
Notes to the Financial Statements	176

Supplementary Information

Ten Years at a Glance	263
Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III	266
Sources and Utilisation of Income	275
Quarterly Performance of the Bank	276
Investor Relations	277
Abbreviations	290
Glossary of Terms	293
26th Annual General Meeting	299
Corporate Information	Inner Back Cover



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Our Evolution

SDB bank was incorporated in 1997 and is 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). Listed on the main board of the Colombo Stock Exchange, SDB bank has established a robust presence amongst the rural communities supporting them in their financial well-being by leveraging the broad network of corporative societies and farmer communities. By encouraging sound financial practices and habits amongst these masses through financial literacy as well as specialised products to support their requirement, we reach out to them through our 94 island-wide customer touchpoints consistently driving their progress to fuel the larger socio-economic development of Sri Lanka.

Keeping up with the changing customer trends and requirements, we remain steadfast in delivering technology-driven competitive banking solutions to suit modern-day demand. Our customers consists of MSMEs, Retail customers, Cooperatives and Business banking customers who place their trust in us to realise their aspirations and improve their way of life. We continue to move forward strengthening our relations with all these stakeholders and supporting them in their progress thereby emerging as one of the best banks in Sri Lanka that uplifts the progressive population of the country.



▶ 1997

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

▶ 1998

10th branch opened in Kandy

▶ 1999

Total assets reached over LKR 100 Mn

▶ 2006

10-year development plan initiated

▶ 2007

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

▶ 2008

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

▶ 2009

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

▶ 2010

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

▶ 2012

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

▶ 2013

Total assets increased to LKR 29.7 Bn.

▶ 2014

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

▶ 2015

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

▶ 2016

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

▶ 2017

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

▶ 2018

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

▶ 2019

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

▶ 2020

- Highest ever performance of the Bank
- Global Banking and Finance Awards 2020
 - Best CSR Bank in Sri Lanka 2020
 - Banking customer satisfaction and happiness
- Ranked 45th place on the Brand Finance Sri Lanka’s 100 most valuable brands Annual List for 2020
- Recognised by International Investor Magazine

Awards 2020

- Second Sri Lankan Bank to be verified by the Facebook with Blue tick
- Asian Banking and Finance Awards 2020
 - Rural/Cooperative Bank of the Year – Sri Lanka
 - Financial inclusion initiative of the year – Sri Lanka
 - Digital Wallet Initiative of the Year – Sri Lanka
- First digital rights issue
- Rights issue was oversubscribed
- Loan book exceeded LKR 100 Bn.

▶ 2021

- Highest ever profit of the Bank

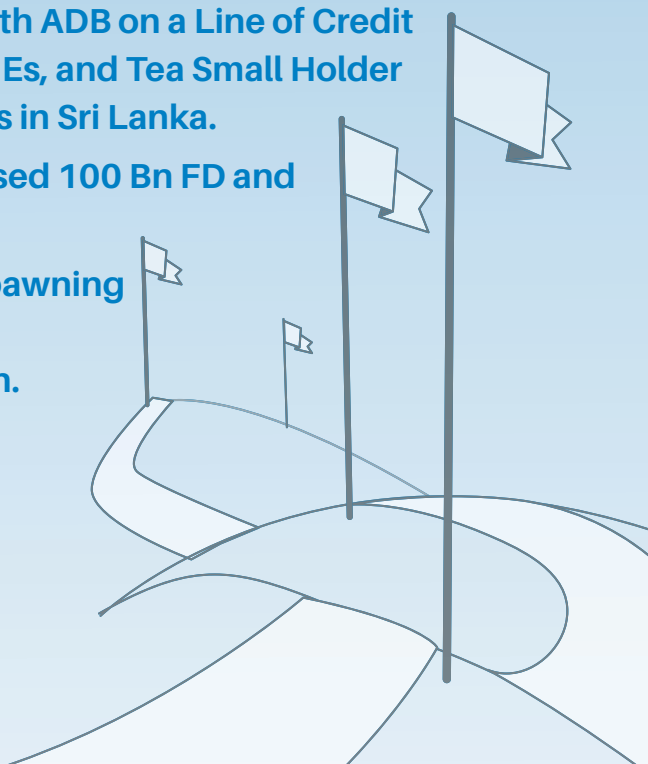
Awards

- Global Banking & Finance award 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’
- SDB bank was honored at the National Business Excellence Award 2021, receiving the Merit Award in the Banking Sector
- SDB bank was honored that their effort to empower women in the workplace has been rewarded at the first CIMA Women Friendly Workplace.
- SDB bank successfully recorded yet another oversubscription at its Secondary Public Offering
- SDB bank received USD 40 million loan facility from US International Development Finance Corporation (DFC) to nurture SMEs and female entrepreneurship
- SDB bank 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



▶ 2022

- **SDB Bank Celebrates 25 years of service to Sri Lankans.**
- **SDB bank partners with ADB on a Line of Credit project to support SMEs, and Tea Small Holder Development Projects in Sri Lanka.**
- **SDB bank has surpassed 100 Bn FD and savings portfolio.**
- **82.8% growth in the pawning loan book from Rs. 2.9 Bn to Rs. 5.3 Bn.**



About this Report

This is Our Ninth Integrated Annual Report

This Integrated Annual Report of SANASA Development Bank PLC (“SDB bank” or “the Bank”) demonstrate the financial and non-financial performance of the Bank for the financial year 2022. This report has been prepared in accordance with the reporting requirement of the integrated reporting framework which considers the six-capital management reporting structure to provide a balanced portrait of the Bank’s sustainable value creation during the period under review.

Scope and Boundary

The Report covers the core business operations of the Bank from 1st January 2022 to 31st December 2022 and contains information relating to financial and non-financial developments of the Company including a comprehensive coverage of value creation activities, strategy, business model, stakeholder engagement, risk management, and governance and practices, among other themes.

The most recent past report for the Financial Year 2021 is available for viewing and can be download from our corporate website - www.sdb.lk

Materiality

The principle of materiality has been applied in selecting and prioritising the material matters that determine the content for this report. Therefore, the material matters that could significantly affect the Bank’s ability to create value over the short, medium and long terms have been contemplated through a systematic process which is listed in pages 47 to 49.

Standards and Principles of Preparation

We have adopted the following key frameworks and guidelines in preparation of our Annual Report.

Financial Reporting

- 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)

Non-financial Reporting

- International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

Corporate Governance

- 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.

Sustainability Reporting

- Global Reporting Initiative (GRI) Standards- ‘In Accordance Core’, issued by Global Sustainability Standards Board
- United Nations Sustainable Development Goals (SDGs)

Forward Looking Statements

Forward looking statements and forecasts pertaining to SDB bank’s financial performance, position and operations may imply an element of uncertainty due to many factors in the external environment. Therefore, readers are cautioned not to place undue reliance on such “forward looking statements” as the actual results may differ from the projected conclusions.

Assurance

Messrs Ernst & Young, the Banks’s external auditor, has provided assurance on the audited financial statements and reviewed the accuracy of the financial information given in this report. The external auditor’s report is available on page 169. The Board of Directors and the Management have reviewed the non-financial performance, strategy and risk information in this report and provide assurance that the report provide a fair and balanced view of material issues.

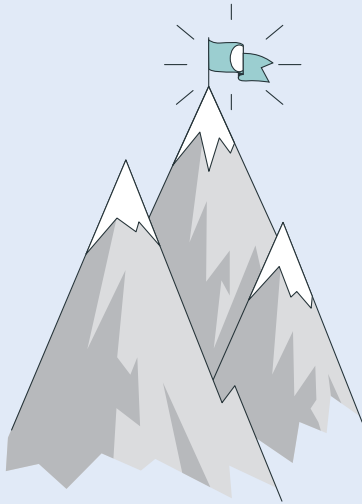
Feedback

Queries and clarifications, if any, on this annual report are to be directed to:

Chief Financial Officer

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 Colombo 06
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 Website : www.sdb.lk





Our Vision

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

Our Mission

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

Our Strategic Pillars



Customer
Centricity



Excellency
in digital
technology



Building a high
performing
team



Stability,
Governance
and Sustainable
Growth

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.

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 of the Bank.

Provide a delightful experience to customers through value added service.

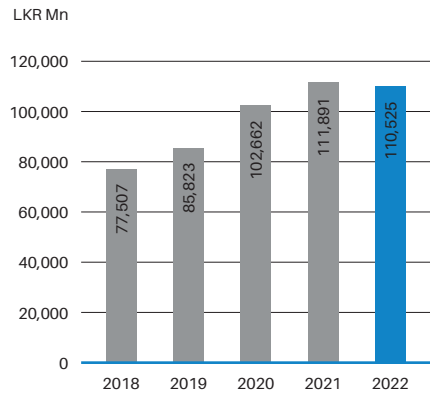
Maintain a highly motivated and competent team aligned with the mission of the Bank.

Role model Bank for responsible finance in Sri Lanka.

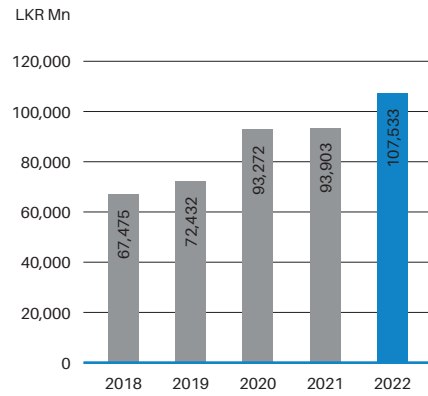
Financial Highlights

For the year ended 31st December	2022 LKR	2021 LKR	Change
Financial performance			
Gross Income	24,034,136,119	15,477,595,919	55%
Interest income	23,101,048,459	14,792,068,260	56%
Interest expenses	16,261,994,676	8,018,419,381	103%
Profit before tax	96,957,128	1,329,807,785	-93%
Profit after tax	61,166,336	883,278,171	-93%
Total comprehensive income	292,179,813	909,346,725	-68%
Financial position at the year end			
Net advance to customers	110,525,450,192	111,891,255,619	-1%
Deposit from customers	107,533,001,772	93,902,939,217	15%
Total assets	159,521,031,879	147,818,916,072	8%
Total equity	13,659,214,913	14,129,696,530	-3%
Growth in advances	-1.22%	8.99%	-
Growth in deposits	14.52%	0.68%	-
Investor information			
Earnings per share (Rs.)	0.38	7.63	
Net assets per share (Rs.)	85.00	88.00	
Market value per share (Rs.)	21.40	43.00	
Price earning ratio (times)	56.31	5.64	
Ratios			
Net interest margin-%	4.90	5.47	
Return on assets (ROA)-%	0.06	0.96	
Return on equity (ROE)-%	0.44	7.35	
Stage III impairment ratio-%	7.57	4.13	
Statutory ratios			
Common Equity Tier 1 ratio %- minimum requirement 6.5%	12.92	13.16	
Tier 1 ratio %- minimum requirement 8%	12.92	13.16	
Total capital ratio %- minimum requirement 12%	15.37	15.78	
Liquidity coverage ratio %- minimum requirement 100%	191.22	134.82	
Net stable funding ratio %- minimum requirement 100%	241.61	137.61	
Statutory liquid assets ratio %- minimum requirement 20%	23.51	22.37	

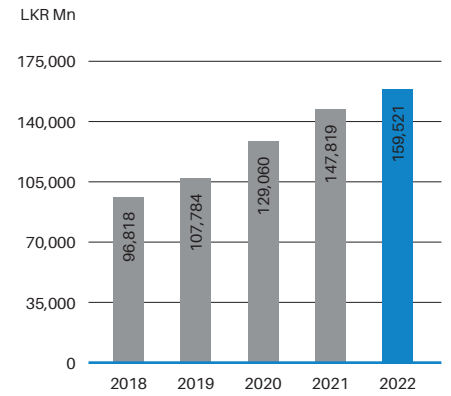
Net Advance to Customers



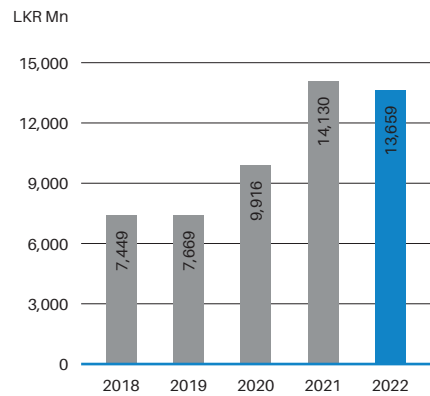
Deposit from Customers



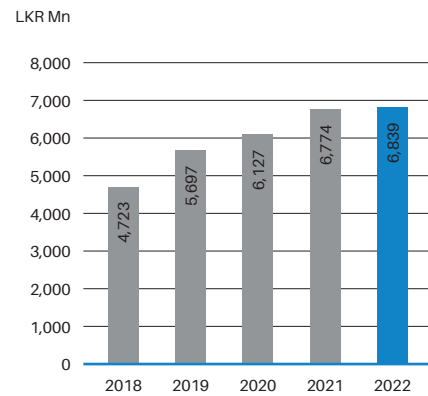
Total Assets



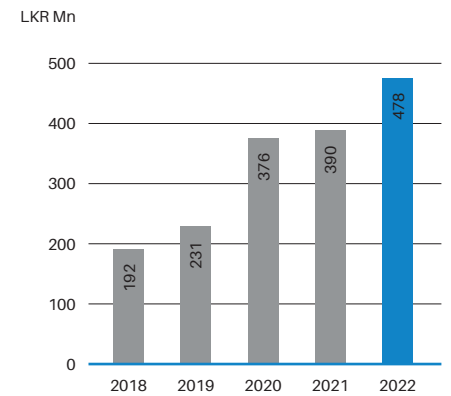
Total Equity



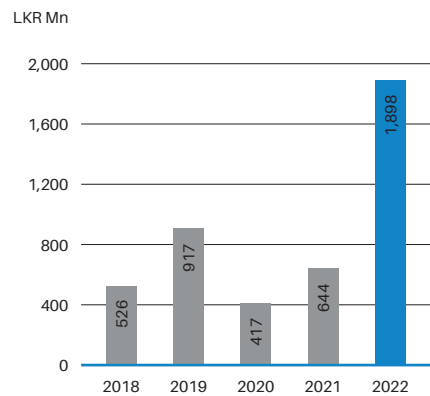
Net Interest Income



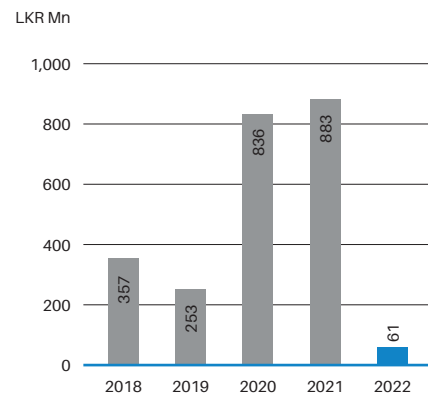
Net Fee Income



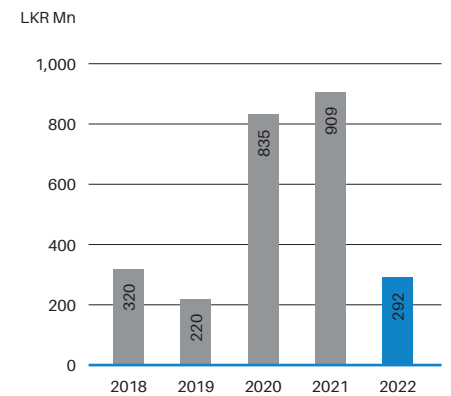
Impairment Charge



PAT



Total Comprehensive Income



Year in Review

Operating Environment



Macroeconomic Condition

Economy contracted reporting a negative GDP growth rate



Inflation

High levels of inflation impact household purchasing power. Poorest households hardest hit by inflation and unemployment



Exports and Imports

Decline in import expenditure. Slow performance of tourism and decline in workers remittances



Interest Rates

High interest rate environment

What we Delivered

- Investments on manufactured capital enhancement
- Strengthened technology foundation for easy and secure transactions
- Employee professional development for better service delivery
- Building brand equity
- Launching customer centric products
- Reinforced governance system and compliance

Sustainable Progress

- Mobilisation on renewable finance
- Commencement of Agroforestry initiative to restore 25 hectare of degraded land
- Design of Rainwater harvesting system
- Green building assessment for energy efficiency improvements
- Reduction in manual processes and paper usage through digital transaction
- Operationalize an Environmental and Social Risk Management System

What We Achieved

0.97%

Net Interest Income

14.52%

Deposit Growth

7.92%

Asset Growth

Strategic Priorities in the Year 2022



Financial Support for Rural SMEs

Provide inclusive and equitable banking in Sri Lanka by supporting SME and MSME sector to achieve further growth



Women's Empowerment

Focus on empowering female entrepreneurs through financial assistance



Digital Inclusion of Rural Masses

Focus on taking digital banking to the masses as a financier that value every customer equally



Sustainable Finance

Focus on giving preference to businesses and initiatives that take a sustainable approach over those that do not


Forward Strategy

- Increase our financial support to sustainability initiatives.
- Continues focus on digital inclusion of grassroots level SME customers.
- Improve customer service delivery to boost customer convenience.
- Continuous financial assistance to support the Country's production economy.



2022

What We Offer







SAVINGS PRODUCTS

Product Name	Product Features
 Lakdaru	<ul style="list-style-type: none"> • Saving for the future • Hospitalisation Insurance cover (including government hospitals) • Higher interest rate compared to regular savings • Attractive gifts for saving slabs
 Uththamavi	<ul style="list-style-type: none"> • The best benefits in the market for savings • Loan up to LKR 1 Mn for entrepreneurs • SDB mobile app facility and bill payments through UPay App
 Jawaya	<ul style="list-style-type: none"> • Multiple convenient digital banking platforms • Attractive interest rate • Digital banking facilities via Upay app
 Top Saver	<ul style="list-style-type: none"> • Offered highest interest rates to customers • Unlimited withdrawal • Multiple convenient digital banking platforms
 Dayada	<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
 Uththamavi	<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
 Top Saver	<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 • Multiple convenient digital banking platforms
 Business Saver	<ul style="list-style-type: none"> • The introduction of a Business Savings Account with a comprehensive solution that will meet the needs of the business community and help them save time and money as all business transactions can be handled through digital banking services, and they can earn high interest on their savings.
 Top Saver Plus	<ul style="list-style-type: none"> • Take advantage of the highest interest rates that will make your savings grow. You can access your savings anywhere, at any time. Greater flexibility to withdraw any number of times without any interest penalties.







FIXED DEPOSITS PRODUCTS

Product Name	Product Features
 SDB Fixed Deposits	<ul style="list-style-type: none"> • Attractive higher rate of interest • Immediate cash back facility of up to 90% of deposits
 Fixed Deposits Upahara	<ul style="list-style-type: none"> • Attractive interest rate for those over 55 years of age • 90% of Cash back facilities

LOANS PRODUCTS



Product Name	Product Features
 SDB Housing Loan	<ul style="list-style-type: none"> • Longer repayment period • Flexible approach and fast approval • Attractive and competitive low interest rate
 SDB Personal Loan	<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
 SDB Ranmini	<ul style="list-style-type: none"> • Purchasing options for gold jewellery, gold coins or gold biscuits at competitive interest rates
 SDB Uththamachara	<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 • 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
 SDB Athamaru	<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
 SDB Upahara	<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 up to 6.5% p.a. for savings

What We Offer

Product Name	Product Features
	<ul style="list-style-type: none"> • Maximum advance amount for a Sovereign (8g) 18K/24K of gold • Competitive low 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
	<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 • Availability of Credit lines • Open for all business segments • Promoting Environmental, Social, and Governance (ESG) in financing
	<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
	<ul style="list-style-type: none"> • Microfinance loans • SME loans • Personal loans of up to LKR 10 Mn. • Insurance benefits for those obtaining a loan
	<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
	<ul style="list-style-type: none"> • For the upliftment of Micro and Small businesses • Open for all business segments • Availability of Credit lines

CO-OPERATIVE PRODUCTS

Product Name	Financial Inclusion and Financial Wealth
Loans for Society	<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 instalments, with a 3-month grace period.
Loans for Members Agricultural Loan	<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

Product Name	Financial Inclusion and Financial Wealth
Equipment/ Machinery Loan	<ul style="list-style-type: none"> • Repayment period of three years in monthly instalments at prevailing interest rates • Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral
Export/Import Loan	<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
Tech Loan	<ul style="list-style-type: none"> • Repayment period of three years in monthly instalments at prevailing interest rates • Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral
 SDB Co-operative Top Saver	<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
SANASA Co-operative/ NGO Savings	<ul style="list-style-type: none"> • Savings product tailored for Co-Operatives and NGO's
Sahanya	<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
 SDB Samupa Saviya	<ul style="list-style-type: none"> • Additional 0.25% interest for fixed deposits • Coverage for entire co-operative segment (including society employees)



Empowering every facet of Sri Lanka has always been an imperative for us, as we strive to be a source of strength and inspiration for thousands of empowered Sri Lankan Women, whose amazing sense of ambition has fueled our own ambition for inclusive support.

Building vibrant communities with ambition





Chairperson's Message



“WE MADE EVERY EFFORT TO ADDRESS OUR CHALLENGES IN ENSURING SUSTAINABLE PROGRESS, WHILST ALSO RECOGNISING AND ADDRESSING THE DIFFICULTIES FACED BY OUR CLIENTELE INCLUDING THE SME AND MSME SEGMENTS COLLABORATIVELY, AND PRUDENTLY IMPLEMENTED MEASURES TO SUPPORT THEM IN NAVIGATING THESE TURBULENT TIMES.”

Dear Stakeholders,

On behalf of the Board of Directors, I am pleased to present to you the 9th Integrated Annual Report and the Audited Financial Statements for the Financial Year 2022. SDB Bank has been at the forefront of building, connecting and empowering communities since its inception 25 years ago, and this year's Annual Report resonates with our steadfast commitment and passion in 'Building Vibrant Communities'. We will continue to embrace and leverage our rich heritage and cooperative ecosystem, enriched by adjacent growth opportunities and modern-day banking.

Challenging global and local economic and political ramifications have significantly impacted Sri Lanka both directly and indirectly; and has resulted in an uncertain and challenging landscape. Amidst these challenges, we have evidenced an improving sentiment and await the successful restructuring of the local economy and debt position as the nation regains its foothold. We celebrate the resiliency of our customers, staff and partners and the unmistakable "Sri Lankan Hope and Spirit" that characterises us as Sri Lankans, and that which continues to help us weather this storm.

As we celebrate our 25th anniversary, we are honoured to have been an impactful influence in the lives of our stakeholders. The bank began its journey as a development bank in 1997 on the strength of the modest savings of members through primary SANASA societies. Today your bank is positioned as an inclusive and equitable financial service provider, supporting and strengthening the backbone of the Sri Lankan economy.

We at SDB Bank, are ready to deliver and go beyond, in supporting the healing of Sri Lanka, and be the nucleus of rebuilding our communities and economy ground up, as we embark on the next phase of our journey.

Operating Environment

The year under review was one of the most challenging in the history of Sri Lanka with both economic and political crises taking centre stage leading to a contraction in the economy. Although the year began with signs of recovery from the prolonged COVID-19 pandemic, the steady decline of official foreign reserves in the early part of the year led to the depreciation of the rupee, followed by sharp hikes in interest rates. The scarcity of foreign currency resulted in delays in procuring essential imports, including medicine, gas and fuel. The resultant energy crisis and scarcities coupled with high inflation and increasing cost of living impacted all key sectors of the economy leading to social unrest and severe instability. The suspension of foreign currency sovereign debt service obligations followed by a downward revision of country rating closed most channels of foreign currency inflows pending

the formalisation of a sustainable debt service plan. The harsh economic downturn along with political instability, cast down the potential post-pandemic recovery, giving rise to uncertainty on many fronts, with the economy recording a negative GDP growth rate of an estimated 7.8 percent. The wider impact of the economic crisis reverberated across the entire nation and was particularly felt across low and mid-income households which were severely impacted by the high cost of living, job losses and shortages in basic essentials and necessities, raw materials and other factors for production.

The banking sector and enterprise were not spared, and the resulting deterioration in the operating environment coupled with the high interest rates had significant repercussions, leading to stagnant credit growth, and depleting operational dynamics.

SDB Performance

SDB was no exception and had to confront these challenges in this volatile backdrop. This required a considerable focus on the part of the bank, to assess and limit the impact on the bank, customers, stakeholders and employees. The management ensured that comfortable liquidity buffers were maintained during the entire period with a sound capital position. The Bank's liquidity measured by the Liquidity Coverage Ratio (LCR) at 191.22% and the Net Stable Funding Ratio (NSFR) at 241.61 together with the capital adequacy measured by the Tier 1 Ratio at 12.92% and Total Capital Ratio at 15.37% remained well above the regulatory norms.

We made every effort to address our challenges in ensuring sustainable progress, whilst also recognising and addressing the difficulties faced by our clientele including the SME and MSME segments collaboratively, and prudently implemented measures to support them in navigating these turbulent times. Despite wide-ranging concessions, there was a deterioration in the asset quality of the sector, and the Bank adopted a conservative and prudent approach and continues to support and strengthen its capabilities to minimise the impact and enhance our recovery efforts.

The benefit of being a predominantly domestic-focused development bank, resulted in us being insulated and not being directly impacted by the foreign exchange crisis; although it was inevitable that the stresses on the economy and the ripple effect would impact our performance. We delivered modest results, given the higher levels of impairment as a part of the prudent measures adopted considering the potential stresses faced by our borrowers, a sharp increase in the cost of financing and time lag in balance sheet re-pricing. The bank had to contend with the impact of high inflation and rupee depreciation on our cost of operations despite our best efforts to operate more efficiently.

Chairperson's Message

We identified the need to focus on fee-based revenue streams to support our profitability; and have set ourselves a target to explore opportunities and improve on this front. We ensured our investments are sound and secure and applied a broad-based investment strategy, primarily in rupee denominated simple instruments.

We are ready to embrace the change in tide and scope new opportunities, whilst being cognizant of the need to have the requisite balance sheet, capability and focus.

Year of Consolidation

We perceived the year under review as a year of consolidation to grow our base and build on the core. Meanwhile, we took a closer look at our portfolio and the segments we are serving, realising the necessity for adeptness in our structuring in the current operating landscape.

The bank will continue its strategic focus on key segments; working closely with cooperatives, offering structured solutions to SMEs, providing banking services and financing to women-led businesses whilst building capability to facilitate digital inclusion. The bank has set up dedicated Units to manage the unique needs of these client segments to be able to tailor-make solutions and offer mentoring and support to suit their evolving needs.

We also continued the use of our digital products; the banking wallet UPay and SDB Mobile app in providing greater convenience and ease of transacting to our customers using the bank's digital channels. As a future-ready bank, we will continue to build on and improve the digital solutions we offer, to scale our reach and provide greater access to all the client segments we serve. The use of technology to create impact and to fast-track our mission has been on top of the board's agenda. But, we are mindful of the resource intensive nature of digital banking and its pace of evolution; and are fine-tuning the model to achieve the most favourable outcomes.

Risk Management and Corporate Governance

We remain committed to maintaining the highest standards of corporate governance that ensure our accountability and transparency. To this end, we have complied with all the required corporate governance standards including all the statutory requirements strengthening industry best practices across all levels of our business operations. During the year, in pursuant to further improvement on this front, we reviewed our governance framework in line with global best practices with a view to strengthening our governance structure.

We worked on building a stronger and closer dialogue between Board and Management, through the effective use of committees, and will continue to incorporate and adopt global best practices as we inculcate and instil a strong control and governance mind-set and framework.

We also understood the need to take a closer look at our Risk Management practices and processes in light of unprecedented and unexpected developments in both the global and the domestic economic landscape; and are monitoring and running scenarios on an ongoing basis, to ensure that the bank is safeguarded from any undue adverse effects. Another area of attention was IT and cyber security, which has evolved to be a key area of relevance for financial institutions and regulators. We understand the importance of information security, data privacy and governance, and have prioritised this as a key area of focus.

Commitment to Sustainability

Inclusive banking and building resilient communities have always been areas of focus of the bank, and form a core component of our Environmental, Social and Governance (ESG) and development goals. We continue to strengthen and create structures to ensure that we have far reaching and enhanced impact across all our work streams. The Board Subcommittee on Sustainability continues to review the bank's progress on ESG performance including on safeguards and has placed emphasis on ESG integration as a strategic priority for the bank.

The poly crisis exposed Sri Lanka's vulnerability and lack of adaptive capacity especially in relation to energy security and food security. As the country charts its path to recovery, social and economic resilience and sustainability must be at the core of the reform and structural adjustment process. With the stabilisation of the economy, we see the potential for the bank to play a meaningful role in mobilising sustainable finance for Sri Lanka's development. Currently, we are engaging with our clients and stakeholders to support them in a sustainable recovery. For our next phase of growth, we have identified clear focuses on sustainable finance and we continue to engage with development agencies and partners to obtain technical assistance to enhance our solutions and value propositions.

Despite the economic challenges, during the year under review, we financed for the first time in the bank's history, a 3MW commercial scale renewable energy venture and also implemented a 25-hectare agroforestry project in order to understand the potential for financing nature-based solutions. We hope to further strengthen our internal capacity in the ensuing years and introduce new sustainable finance propositions with the support of our stakeholders who share our ethos and commitment to sustainability.

Way forward

As a challenging year ends, a new year begins with hope. Holding on to this optimism, we will continue to take a closer look at our strategies with the adeptness to make changes where necessary in creating value for our stakeholders. We will continue to make positive strides into offering value to our SME, MSME and Cooperative clientele focusing on achieving higher penetration whilst maintaining costs at manageable levels. We have already initiated an expansion of our value offering with a structured program to operate across value chains. As a part of our continuous improvement, we will standardise and enhance service levels and work towards strengthening and cementing the Cooperative partnerships whilst focusing on near adjacencies.

The SDB Team is committed to setting the growth journey on track and staying true to the bank's potential, ensuring delivery and execution across all key segments. With the bank's levels of capital and liquidity being second to none in the SL Market, together with our early investment in Digital and in particular 'UPay', and the strong historical ties with Co-operatives and Sanasa communities gives us the right ingredients to embrace growth with purpose.

The bank will continue to build on its core business, driving transformation with Technology at the forefront and setting clear measurement criteria to be more execution focused. The bank will pursue a path of smart growth identifying quality over quantity, adopting lean strategies where possible, and using digitally enabled and supported solutions to drive efficiency with clear anticipation of future risks based on the learning from the past and other markets as well as scenario-based impact assessment of unknown factors. We will collaborate and partner with our stakeholders, DFIs, professional bodies and the government to power the next phase of the bank's growth and to deliver optimal outcomes for our clients.

Appreciation

I wish to take this opportunity to express my sincere gratitude to the outgoing Chairman Mr. Lakshman Abeysekera for his contribution and leadership in turbulent times for the bank, sector and economy. I would like to welcome our new CEO, Mr. Priyantha Talwatte, a veteran banker who has taken the mantle in pursuing and delivering a sustainable growth agenda. I would like to place on record my appreciation to the then acting CEO, Niranjan Thangarajah, who steered the bank during a period of transition, and in navigating the bank successfully through a year of extraordinary challenges.

My sincere gratitude to my fellow members of the Board for the heightened engagement, counsel, guidance and tighter rapport with Senior Management to help navigate a period of volatility and uncertainty. I am grateful to our Corporate Management Team for their unwavering commitment to steering the bank and leading by example in living and delivering our values, 'where you are valued'. My appreciation to the SDB team who steadfastly forged ahead despite obstacles to keep the bank's flag flying.

I am grateful to our longstanding investors, lenders, business partners, and customers who support and believe in our business model placing their unwavering trust and confidence in our ability to create value for them. We appreciate the support extended by our regulators. As we complete 25 years, it's a befitting time to show our humble gratitude to the visionary founders and subsequent leadership who steered the bank through its formative years, with a vision which is still relevant today.

A milestone year and a challenging environment led us to take a critical look at the way we worked in the past; and gave us an opportunity to test and prove our resilience, build on our strengths, look at adjacencies for growth, and fine-tune the model and charter our future course on a winning formula of our own design, leading the way in rebuilding our communities and the economy as a partner of national development.



Dinithi Ratnayake
Chairperson

12 April 2023
Colombo, Sri Lanka

Chief Executive Officer's Review



“AS A DEVELOPMENT BANK, WE REMAINED WELL-POSITIONED TO CONTINUE OUR JOURNEY DURING THE PERIOD DEMONSTRATING STABILITY AND RESILIENCE IN CREATING VALUE FOR THE STAKEHOLDERS, MAINTAINING OUR PERFORMANCE WITHIN THE INDUSTRY PARAMETERS.”

The year 2022 commenced with optimism gradually emerging out of the pandemic-led disruption restoring stability on many fronts. The COVID pandemic which dominated the operating environment for a prolonged period finally was behind us with normalcy returning to people's lives and the business environment. Nevertheless, the emerging financial crisis and political instability owing to soaring prices, shortage of essential items and crippling international debt triggered nationwide protests towards the end of the 1st quarter of the year once again affecting the business ecosystem. Against this backdrop, SDB bank continued its journey showing the same resilience and strength as before, navigating the Bank through a tumultuous time. Holding on to its inclusive and equitable ethos, the Bank continues to extend financial assistance to individuals and businesses that are at the bottom of the pyramid leveraging on its well-established cooperative network. I am pleased to state that the bank succeeded in delivering a commendable performance during the year despite numerous challenges that prevailed in the operating landscape, creating value for the progressive masses as well as the Bank contributing to the larger socio-economic development of the Country.

Macroeconomic Context

The hope of recovery that was presented at the onset of the year 2022 was short-lived as the operating environment was distressed by the economic collapse and political instability amidst the country's default on foreign debt. The growth momentum that was observed towards the end of 2021 dissipated rapidly driven by the spillover effects of these unprecedented developments that impacted several sectors leading to fuel shortages, power outages, widespread scarcity of key imported raw materials and other essentials, and the soaring cost of production, among other factors. The country recorded a negative GDP growth rate of 7.8 percent with a steady rise in inflation to historically high levels impacting the household purchasing power which was a heavy blow to the poorest and the most vulnerable segments of society. The supply-side disruption on the local and global front, administrative price adjustments, rapid depreciation of the Sri Lankan Rupee, and repressed demand amidst the delayed impact of large monetary accommodation during the COVID-19 pandemic contributed to the rising inflation. Meanwhile, the sharp rise in market interest rates resulted in a substantial decline in private-sector credit.

The high-interest rate environment severely impacted the SDB bank customer segment that comprise mainly of SMEs and MSMEs. Initially, the burden of high interest rates was borne by the Bank without passing it off to the consumers. However, as the interest rate continue to rise with heightening inflationary pressure, the bank was no longer able to absorb the interest rate changes which had to be passed on to the loan customers. Nevertheless, we were mindful of the cash flow constraints of the customers and continue to take measures to minimise the cash flow impact on them by maintaining

a fixed interest rate on our terms loans and extending the tenure of the loans.

Aided by the exceptional planning and strategy devised by our senior management team, we worked together with our customer base in a mutual partnership, making a sincere attempt to understand their financial concerns thereby guiding them towards making the right decisions in navigating this challenging phase. As a result, we were able to minimise the adverse impact of the crisis on our customers and ensure their progress continually building on the efforts we have made in 2021.

Bank Performance

Despite facing a turbulent moment in our political and economic history where the shockwaves of it are felt throughout, our prudent strategic positioning and vision enabled us to deliver exceptional value and performance to our stakeholders. As a development Bank, we remained well-positioned to continue our journey during the period demonstrating stability and resilience in creating value for the stakeholders, maintaining our performance within the industry parameters. This was made possible by the collaborative efforts of our customers and the SDB bank team that comprise of highly experienced and qualified professionals who are committed to empowering rural communities through financial inclusion.

The Bank demonstrated a resilient operating model registering 55% growth in gross income. The extreme volatility in the interest rate was well contained by the bank by maintaining its net interest income on par with the prior year. The expenses rose by 9% which is quite an achievement in the backdrop of an inflation rate in excess of 60% and rupee depreciation of 45%. The bank prudently took in an impairment provision of Rs. 1.9Bn an increase of more than Rs.1.25Bn when compared to the last year.

The Bank posted a modest after-tax profit of Rs.61 Mn and a total other comprehensive income of Rs. 292 Mn

Furthermore, SDB bank remains relatively insulated from currency fluctuation risks due to challenging market conditions considering its minimal exposure to foreign currency risks and exchange rate volatility. As a licensed specialised bank that is serving a domestic clientele, SDB bank remained greatly secured from external vulnerabilities during the period.

Strategic Measures

Our core strategy continued to be focused on SME and MSME customers, with special emphasis on women-owned and led enterprises, in line with our drive towards inclusive banking. Holding firmly to this strategic objective, during the year we took a closer look at our strategy and the customer segments that

Chief Executive Officer's Review

“DESPITE FACING A TURBULENT MOMENT IN OUR POLITICAL AND ECONOMIC HISTORY WHERE THE SHOCKWAVES OF IT ARE FELT THROUGHOUT, OUR PRUDENT STRATEGIC POSITIONING AND VISION ENABLED US TO DELIVER EXCEPTIONAL VALUE AND PERFORMANCE TO OUR STAKEHOLDERS.”

predominantly consist of SMEs, Cooperatives and individuals we were serving thereby making an effort to identify better ways of serving them under the current operating landscape. We contemplated portfolio diversification in minimising our risks and reviewed our portfolio from every aspect focusing on specific areas that required finetuning to better serve the customer segments. In doing so, we worked closely in collaboration with our customer segments to better understand their financial distress and deliver financial solutions in navigating these challenging times. Further, we constantly strive to cater to the ever-changing customer needs, providing mentorship and knowledge sharing on specific areas such as value chain management and financial management in strengthening their financial literacy.

Sustainability

As a responsible corporate citizen, we understand the need to make our business more sustainable in making a difference to the business and the planet and remain cognizant of the impact of our operations on the environment and society. Therefore, we consistently strive to become a more sustainable bank, adopting a sustainable business model that addresses these environmental, social and governance concerns that may arise from our business activities. This commitment is reflected in our financial activities where we give preference to supporting businesses and initiatives that take a sustainable approach over those that do not.

A notable initiative in this regard is the launching of the Forest Restoration Project in Ududumbara, a pilot initiative to research the potential of financing nature based solutions. This program saw the planting of a large number of new trees and will continue to be an ongoing project with over 25 hectares of land demarcated for reforestation supported by the Bank. This ongoing initiative has so far supported families in the surrounding communities and is expected to further contribute to positive social and environmental progress. Besides, we proactively seek opportunities to promote sustainable solutions to overcome the nation's present crisis through renewable energy and energy efficiency. For this purpose, SDB bank has collaborated with Hayleys Fentons, one of Sri Lanka's leading engineering solutions providers.

Digital Drive

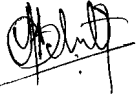
Digital inclusivity remains a key strategic priority in emerging as a futuristic, value-based, tech-savvy, contemporary bank. Therefore, we have made every effort to empower our customers with multiple digital transaction solutions and value-added services thereby providing easy accessibility to the masses for our banking services through digital channels. To this end, we have acquired UPay, a next-generation digital banking platform and launched the SDB Mobile app. Going forward, we will continue to make investments to strengthen our digital banking platform to provide an enhanced customer experience.

Future Outlook

We believe that the SDB bank is currently well positioned financially and in terms of expertise and other resources to drive the economic development of Sri Lanka. Despite a bumpy road ahead, we are optimistic of our ability to emerge out of these challenges and have taken a closer look at our strategy and the way we do things making adjustments where necessary to craft a future-ready organisation. In the 25 years of our journey, we have succeeded in fulfilling a noble cause uplifting rural communities and sustaining financial and digital inclusivity. Going forward, we will continue to make a further difference by working together with our customer segments and like-minded partners and embracing opportunities for creating a greater impact over the coming years. Joining hands with global financiers and organisations that share the same vision for an empowered and equitable society, we look forward to developing Sri Lanka's SME sector and creating new economic opportunities for Sri Lankans.

Note of Appreciation

I would like to take this opportunity to express my sincere gratitude to Dr P. A. Kiriwandeniya, founder leader of the SANASA Movement in Sri Lanka, for his dedication to develop a new social order in Sri Lanka by revamping the Cooperative societies. I would also like to thank the Chairman and the Board of Directors for their guidance and direction in driving out strategic objectives during a turbulent period. My heartfelt appreciation also goes to our dedicated SDB bank team who worked tirelessly to deliver a superior service to the customers amidst unprecedented obstacles. Last but not least, I would also like to take this opportunity to thank all our stakeholders, customers, shareholders, business partners and regulators for their continued faith and loyalty. As we step on to a new financial year, we remain optimistic and confident of our ability to create value for the stakeholders having resolutely navigated through a momentous year of Sri Lanka.



Priyantha Talwatte

Chief Executive Officer

12 April 2023

Colombo, Sri Lanka

Board of Directors





Board of Directors

1 Ms Dinithi Ratnayake

Chairperson - Non-Executive, Independent Director

Appointed to the Board in 2020

Ms Ratnayake is a veteran banker with over 25 years management experience in Banking and Advisory with an in-depth knowledge on Financial Institutions and Markets. She has worked closely with the Government of Sri Lanka, Public and Private Sector Banks and Non-Bank Financial Institutions in Sri Lanka, leading the in-country team on raising debt capital and providing access to overseas financial markets and facilitating trade and payments. She possesses a broad skill set in corporate management and governance, an extensive credit background and exposure to debt origination, global transaction services and international risk and compliance practices.

Ms Ratnayake was appointed to the Board of SDB bank in 2020 representing SBI Emerging Asia Financial Sector Fund PTE. LTD and Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V. and consequently appointed as Chairperson in April 2022.

In her role as Governing Council Member of South Asia Partnership Sri Lanka, a not-for-profit institution, which engages in social development, Ms Ratnayake works passionately in building empowered communities through training, skill development and access to finance and markets to achieve sustainable growth and uplifting livelihoods. She has been an advocate of inclusion of women in the workforce and regularly shares her views with government and related stakeholders.

Ms Ratnayake's banking career spans over 25 years 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.

She is a Co-Founder / Director of IDEAology Strategy Consulting (Pvt) Ltd., which provides advisory, strategic, tactical support and export market access to financial institutions, firms in the services industry and public sector entities in Sri Lanka and the Middle East.

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.

2 Prof Sampath Amaratunge

Non-Executive, Independent Director

Appointed to the Board in 2016

Prof Amaratunge is an expert in the field of economics with special reference to rural development and draws from three decades of service as a leading academic in Sri Lanka.

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, Raigam Southern Salt Company (Pvt) Ltd, Raigam Wayamba Cereals (Pvt) Ltd and Laugfs Power PLC. Further, Prof 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 appointed twice as the Vice - Chancellor of the University of Sri Jayewardenepura and former Chairman of the Federation of University Teachers Association (FUTA).

3 Mr Chaaminda Kumarasiri

Non-Executive, Independent Director

Appointed to the Board in 2018

An award winning Finance Professional, a Good Governance Advocate, Thought Leader, Senior Chartered Accountant, Corporate Trainer, Management Consultant and a Business Advisor with a proven track record in 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 holds advisory roles in several entities and committees. He has been appointed the Vice Chairman, Member Network Panel of ACCA Sri Lanka for the year 2023/24 and also serves on the International Panel on Accounting Education (IPAE), as the only representative from the entire South Asia.

Mr Kumarasiri counts over 23 years of lecturing and corporate training experience and has trained over 500,000 individuals over the years both in Sri Lanka and overseas. 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, The Institute of Certified Management Accountants of Sri Lanka and The Association of Accounting Technicians of Sri Lanka. He has obtained a BSc. Accountancy (Special) Degree from the University of Sri Jayewardenepura with a First Class honors 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 and as a Commission Member of the Telecommunications Regulatory Commission of Sri Lanka.

Mr Kumarasiri has been recently bestowed with ACCA National Advocate of the Year Award for 2022 in recognition of his exceptional commitment and dedication to promote the accountancy profession and its values.

4 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 Pelwate Sugar Industries before moving into the Banking Sector. He is the current Chairman of South Asia Partnership, Sri Lanka (SAPSRI).

5 Mr B R A Bandara

Non-Executive, Non-Independent Director

Appointed to the Board in 2019

Anchored to a career spanning across three decades in the co-operative sector, Mr Bandara is the Chairman of Polgahawela SANASA Shareholders Trust Company Ltd, 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 and a Justice of Peace.

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.

Mr Bandara has 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.

6 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 in 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.

Board of Directors

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.

7 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 and he provides services as a trainer in Business Development Services specialized in Micro Enterprise Development, Women and Youth Empowerment at Asian Confederation of Credit Union (ACCU).

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.

8 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 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 several subsidiaries of LOLC Group including 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.

9 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).

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 SDB bank.

10 Mr Romani De Silva*Non - Executive, Non - Independent Director*

Appointed to the Board in 2022

Mr Romani de Silva counts over 30 years' experience in the finance industry and an active promoter in developing sustainable finance in Sri Lanka. He is a Fellow of the Institute of Credit Management, Sri Lanka and serves as the Deputy Chairman and Managing Director of Alliance Finance Co. PLC and holds Directorships in many other companies. He is a Founder Director of the National Advisory Board for Impact Investing Sri Lanka.

Mr De Silva serves as a Council Member on the Sustainability Standards & Certification Initiative and the Finance 4.0 - initiative of the European Organisation for Sustainable Development - an European Union initiative. He currently heads the Sub Committee of the FHA on Sustainability and serves as a Council Member of the Finance Houses Association of Sri Lanka (FHASL). He also serves as the Honorary Treasurer of the SLICM - an educational institution dedicated for the development of the leasing and hire purchase industry in Sri Lanka, which was incorporated by an Act of Parliament.

He has represented the FHASL on the Steering Committee initiated by the Central Bank of Sri Lanka to develop a Sustainable Finance Road map for Sri Lanka for the Non-Bank Financial Sector and also on the National Financial Inclusion Strategy Project initiated by the World Bank, IFC, and the Central Bank of Sri Lanka. He also represents The Finance Houses Association of Sri Lanka on the CBSL, Multi Stakeholder Committee for the Implementation of the Roadmap for Sustainable Finance in Sri Lanka.

Mr De Silva has also represented Alliance Finance Company PLC as a Founder Investor in the pioneering "Ath Pavura" reality TV Programme co-founded by the Lanka Impact Investing Network (LIIN) and Social Enterprise Lanka (SEL) in Sri Lanka which aims to create awareness on social enterprise and develop an impact investing culture in the country. He is also a Life member of the Sri Lanka Institute of Directors.

11 Mr Senthilverl Senthil Aathavan*Non - Executive, Non - Independent Director*

Appointed to the Board in 2022

Mr Senthilverl Senthil Aathavan, counts more than a decade of corporate experience in the fields of Management, Marketing and Investment.

He holds directorships at Senthilverl Holdings (Pvt) Ltd (Investment Company specialized in Equity Investments founded by Dr. Thirugnanasambandar Senthilverl), SANASA General Insurance Company Ltd and Samindu Incense (Pvt) Ltd. He is a Partner / Business Executive of Dollar Corporation (Total solution provider for cosmetics, confectionary, beverages, toiletries, detergent, incense stick and allied industries since 1945).

Mr Senthilverl Senthil Aathavan is a member of Association of Business Executives (UK). He holds the degree of Master of Business Administration (MBA) from Edinburgh Napier University (UK).

12 Mr Chandana Dissanayake*Non - Executive, Non - Independent Director*

Appointed to the Board in 2022

Mr Chandana Dissanayake counts nearly 40 years of experience in the Banking and Non-Banking Financial Sector, with extensive experience in the areas of Corporate, Commercial and Retail Lending, Credit Risk Management in UAE, Oman & Sri Lanka. He is an Associate Member of the Chartered Institute of Bankers UK.

Mr Dissanayake has worked for 10 years with National Bank of Abu Dhabi as Vice President - Government Corporate Relations and Associate Director - Commercial Coverage, as well as with HSBC Bank Middle East as Credit Manager for 5 years. He has also worked at National Bank of Oman, Sampath Bank as well as HSBC Colombo.

He has also held the position of Head of Credit at Union Bank of Colombo and he worked at Assetline Leasing Company Limited from 2017 to 2020 initially as a Consultant and was subsequently appointed to the Board as Executive Director, to help develop their non-automotive business.

Mr Dissanayake represents Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and SBI Emerging Asia Financial Sector Fund PTE.LTD (SBI) major Shareholders of the Bank.

Corporate Management



Mr Priyantha Talwatte

Chief Executive Officer

Harvard Business School Alumni (AMP)



Mr Niranjan Thangarajah

Deputy Chief Executive Officer

FCCA UK, MBA (AUA), MSC (University of London)



Mr Hemal Lokugeegana

Head of Business Banking

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



Ms Tamarika Rodrigo

Deputy General Manager/Company Secretary

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



Mr Sudath Silva

Head of Human Resources

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



Mr Udana Asanga Fernando

Chief Risk Officer

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



Mr Shanka Yapa Abeywardene

DGM-Finance & Planning / Chief Financial Officer

MSc (Fr), FCMA, CGMA, Ex. Dip in Mgt. (UK), MCSI (UK), AIB



Mr Vindya Solangarachchi

Chief Information Officer

MSc Technology Management Staffordshire University (UK), BIT Charles Sturt University (Australia), HND ICBT, NCC UK



Mr Dhanajaya Dayananda

Chief Internal Auditor

FCCA (UK), ACA (SL), MBA (Banking Mgt) *SiKkim*
 Manipal India



Ms Pavithra Liyanage

Head of Legal

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



Ms Krishani Enoka

Head of Treasury

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



Ms Mihiri Attanayake

Head of Credit

BSc Agri. (Hons), MSc Agri, Diploma in Micro
 financing [CBSL]



Ms Lakmini Muththunga

Head of Operations

Bsc Hons (UOK), MBA Sp. Operations (IGNOU)



Ms Champa J. Dassanayake

Head of SME

BSc Agri., MSc (Hons), AIB



Mr Rajith Thoradeniya

Head of Branch Banking

PGEDBM (IBSL), Intermediate Banking *Diploma*,
 (IBSL)



Mr Dilusha Karunarathna

Chief Information Security Officer

MBA (UK), BSc IT (SLIIT), CISA, CRISC, PCIP,
 CPIS, CCPSP

Chief Managers



Mr Sarath Kumara

Head of Administration

B.Sc. (Mgt)



Mr W T R Prabath

Chief Manager-Human Resource Management

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



Mr Lasantha Edirisuriya

Head of Cooperative Development

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



Mr Jayantha Chandrasiri

Regional Head - Uva & Sabaragamuwa Regions

B.Sc. (Mgt. & Administration - Special) (USJP)



Mr Surandika Wimalarathne

Regional Head - North & North Central Regions

B.A. (Hons) Business Statistics, Post Graduate Dip.
 - Business Statistics



Mr Susil Premarathne

Regional Head - Central Region

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



Mr Dinesh Swarage

Regional Head - Western 1 Region

MBA (Cardiff Met.), BBMgt (Kelaniya), Intermediate
 Examination (IBSL)



Mr Sarath Kumara

Deputy Head of Credit

BA (Special), Diploma in Micro-finance (IBSL)



Mr Ayes Wickramarathne

Chief Manager - Internal Audit

MSc App Fin (USJP), Affiliate ACCA (UK), B Sc
 Applied Accounting (Oxford Brookes), FIB (IBSL)



Mr Binesh Aravinda

Regional Head - Southern Region

MBA, BSc Business Administration Sp. (USJP),
CBA (ICASL), Moody's Business Banking Mastery
Certification



Ms Saranga Igalagamage

Compliance Officer

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



Mr Hasitha Samarasinghe

Head of Marketing

MA (UK), BA (UK)



Mr Indika Udayagana

Head of Collection & Recoveries

BBMgt (Kelaniya), AIB, Dip.in Banking & Finance,
Dip.in Micro Finance, Dip.in Public Management,
Dip.in Small & Medium Enterprises, Dip.in
Counselling



Mr Sanjeeva Jayasinghe

Head of Finance

FCA, ACCA, BSc. Mgt. Public Admin (USJP)

Senior Management



Mr Jayalal Perera

Senior Manager – Credit Review

B.Sc. Business Administration (Sp) Hons (USJP)



Mr A M Nimal Chandra

Senior Regional Manager – Western 2 Region

BA (Peradeniya)



Ms K V R Jeewanthi

Senior Manager – Refinance

MBA (UK), BSc. Business Administration (Special) (USJP) 2nd Class Division, PGD in Community Development (UOC), Associate Member of IBSL, CGAP Trainer, Micro Finance Facilitator



Mr Bimal Rajakaruna

Senior Manager – Human Resources Development

B.A., PGCC (India) , Dip. in Psy, ACGC, National Dip in T&D (SLITAD), ECOSH, ACIPM



Mr Udena Welikumbura

Head of Liabilities

MBA (Peradeniya), 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), Moody's Business Banking Mastery Certification.



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 (Colombo) ,PG. Dip. In Economic Development (Colombo), AIB, MAAT, ATII (SL), Dip in Finance & Bank Management (IBSL), Dip.in SME Finance (IBSL)



Mr Dhammika Gamage

Senior Manager – Agriculture Entrepreneurship Development & Micro Finance

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



Mr Sujeewa Perera

Senior Manager - Co-operative Development
 BA, Intermediate Banking Dip (IBSL), National Certificate in Technology (Civil Engineering)



Mr W V P A Samantha

Divisional Head - Leasing Assessment & Approval
 B Com (Special), AIB, DBF (IBSL)



Mr K H P P K Gnanasiri

Senior Manager - CAU-Trincomalee
 BA (Special)



Mr Semera Mahathanthila

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



Mr Sujeewa Perera

Divisional Head Co-operative & Corporate Credit Assessment
 AIB, B Com (USJP), DBF (IBSL), Moody's Business Banking Mastery Certification.



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

Regional SME Manager
 Dip in Credit Mgt. (SLICM), Moody's Business Banking Mastery Certification



Ms Shashikala Subhashini

Senior Branch Manager - Kaluthara Branch
 MSc, Dip.in Mirco Finance , Executive Dip.in Service Management, CBF

Senior Management



Mr Mahinda Thennakoon
 Senior Manager - Digital Operations
 Intermediate Examination (IBSL)



Mr Nishantha Wijesinghe
 Senior Branch Manager - Negambo Branch
 Dip.in SME (IBSL)



Mr Priyankara Fernando
 Divisional Head - SME Credit Assessment
 Dip.in Credit Management, Dip.in SME Finance,
 Dip.in Mirco Finance, CBF, Moody's Business
 Banking Mastery Certification.



Mr Rajeeva Adhikaram
 Senior Manager - Information System Audit
 Executive MSc in Information Security, Certified
 Information Systems Auditor (ISACA), CBF



Mr Nishan Pallegama
 Senior Branch Manager - City Branch
 Dip.in SME Finance, CBF, Certificate in Hire
 Purchase & Leasing



Mr Sanjeewa Pushpakumara
 Regional SME Manager
 MBA (Cardiff UK), Dip.in Banking & Finance,
 Dip.in SME Finance, Dip.in Intermediate
 Banking, AIB



Mr Sasika Wickramaratne
 Senior Manager - Centralized Operations
 BMS, ACBF, DBF, CBF



Ms Manori Neththasinghe
 Senior Manager - Systems
 BSc (Business Management), DBF, CBF, AIB.



Mr Ranjith Randeniya
 Senior Regional Manager - Eastern Region
 BBA, Dip.in Management Science, CBF,
 Moody's Business Banking Mastery
 Certification



Mr Sarath Gunathilaka Banda

Senior Branch Manager - Mawanella

BSc.(Business Management Special), CBF,
 DBF, Dip.in SME & Finance, AIB



Mr Sadara Pandipperuma

Senior Branch Manager - Matara

BBA(Accounting & Finance), Certified Business
 Accounts (CBA)



Ms U G P Ranojani

Senior Manager - Legal

LLB (UOC), Attorney at Law, Commissioner of
 Oaths, Company Secretary



Ms Nilupama Madurawala

Senior Branch Manager - Battaramulla

BSc,MFE,CBF,DBF, Certificate in HRM,
 Moody's Business Banking Mastery
 Certification



Ms Chaturika Meemanage

Senior Manager - Internal Audit

FCA, ACCA, BSc. Finance (Sp) (USJP), AIB Dip
 in Information System Security Control and
 Audit (DISSCA)



Mr Adheesha Perera

Senior Manager - Strategy and Head of
 Sustainability

MBA(PIM), BA (University of Wisconsin),
 Advanced Dip in Mgt. Accounting (CIMA), Dip
 in Conflict Resolution (BCIS), Dip in Journalism
 (UoC)



Mr Tharanga De Silva

Senior Relationship Manager - Business Banking

MBA-Cardiff Metropolitan University UK,
 Diploma in Credit Management - IBSL



Mr Rajeevan Balachandran

Senior Relationship Manager - Business Banking

BBA Fin.Spcl (UoC), Management Level (CIMA
 UK), Certificate in Branch Banking Operations
 (IBSL)

NOT IN PICTURE

Mr Chinthaka Jayakody

Senior Branch Manager - Giriulla

BA(SP) Business Statistic, CBF



Committed to building a new generation of entrepreneurs, that possess the digital acumen to succeed, SDB bank is a major force behind the drive for accessibility and progress for small and medium entrepreneurs, helping them to grow through evolving technology.

Building vibrant communities with innovation





Operating Environment

Global Economy

The global economy continues to demonstrate a sharp slowdown due to a multitude of challenges including high inflation, tightening financial conditions, geopolitical tensions driven by Ukraine Russia war, lingering effects of the COVID-19 pandemic as well as mounting concerns of a global recession and food insecurity. According to the World Economic Outlook (WEO) of IMF released in October 2022, global growth is expected to drop from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. This is the lowest performance since 2001 with the exception of the global financial crisis and the period of intensified COVID-19 pandemic. This slowdown is mainly a reflection of the subdued performance of the largest economies such as the United States, Europe and China. The spillover effects impacted the performance of advanced economies as well as emerging and developing economies.

Inflation

Global inflation also remained considerably high impacting all stakeholders, particularly those who live in poorer countries affecting their socioeconomic well-being, living standards as well as the macroeconomic outlook in the near term. High inflation was mainly driven by demand pressures, delayed impact of policy interventions, disruptions to the supply chains and non availability of key commodities. Inflationary pressure is widespread among advanced economies with more inconsistency among emerging and developing economies and may continue to persist longer given the rise in energy costs and food prices. Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. This would lead to a tightening monetary policy to fight against inflation. Monetary policy will further support restoring price stability and lessen the cost-of-living pressures.

Outlook

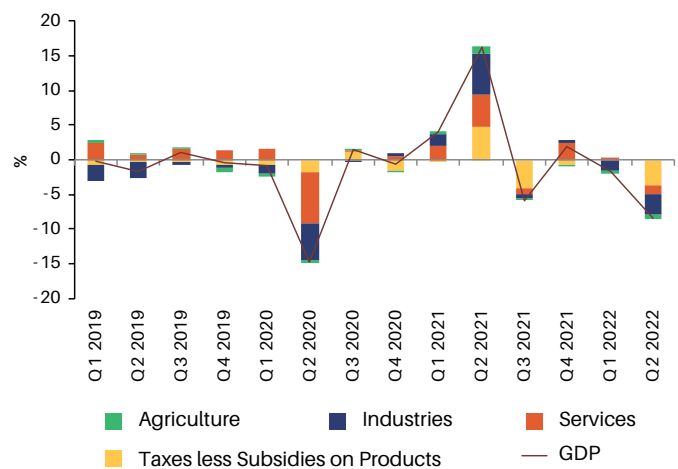
The economic outlook will be influenced mainly by the monetary policy position in controlling inflation, the impact of the Ukraine-Russia war, supply chain disruptions as well as continued effects of the COVID-19 pandemic. Inflationary pressures may continue to build up owing to the increases in food and energy prices, supply chain pressures and tight labour market conditions. The war between Ukraine and Russia will contribute to an increase in gas and energy prices, supply chain disruptions as well as elevated global food prices. Likewise, the pandemic will also weigh on the global economic outlook by contributing to slower global activity, particularly impacted by the spillover effect of slow economic performance in China. The resurgence of the virus in some countries may also continue to threaten the economic recovery while slow human capital built up due to pandemic scarring may also hinder the progress of the global economy in the near term.

Local Economy

The first half of 2022 was faced with increased uncertainty as opposed to the second half of the year which demonstrated signs of stability mainly driven by the policy interventions towards a stable growth trajectory in the medium term. According to the Department of Census and Statistics, the Sri Lankan economy observed a year-on-year contraction of 4.8 percent during the first half of the year compared to the growth of 9.3% in the corresponding period of 2021. The year-on-year GDP growth rate for the year 2022 has been reported as a 7.8 percent of negative growth rate. The gradual recovery of economic activities since the COVID-19 pandemic, reversed since the beginning of 2022 due to intensifying economic crisis and shortage of foreign exchange liquidity that drove uncertainty on the economic front. Subsequently, all key sectors contracted amidst continued power outages, fuel shortages, scarcity of raw material, and increasing cost of production and price hikes in both the local and international markets dampening the economic stability in the country during the second half of the year.

The poorest households are severely hit due to food inflation, job loss, shortage in fertiliser and a drop in remittances. The relief measures were inadequate to face the loss in real income. The good trade deficit declined largely due to important reflection while the current account deficit is expected to have widened due to the slow performance of the tourism sector and declining remittances.

Figure 1.1
Contribution to Quarterly Real GDP Growth (y-o-y)
(Base year 2015=100)



Source: Department of Census and Statistics

Labour Markets

The intensifying economic crisis also impacted the labour markets where the gradual recovery observed during the first half of 2022 was offset during the latter part of the year. Although the labour markets showed a revival from the pandemic phase with the ease of COVID-19 restrictions owing to improvements in Labour Force Participation Rates (LFPR), the growing economic uncertainty during the latter part led to declining of LFPR during the second half of the year. The LFPR increased to 51.2% in the first quarter of 2022 from 49.5% and 50.9% recorded in the fourth quarter of 2021 and the first quarter of 2021, respectively. However, slow economic activity led to a decline of LFPR to 50.1% during the second quarter of the year. The unemployment rate also declined to 4.3% in the first quarter of 2022, which was the lowest level in the last eight consecutive quarters, rising to 4.6% in the second quarter of 2022. Consequently, the unemployment rate for the first half of 2022 remained at 4.5%.

Inflation

The country's inflation also rose to notably high levels since the beginning of the year which had a severe impact on the household purchasing power of the citizens. This was mainly driven by supply-side disruption on the local and global front, administrative price adjustments, rapid depreciation of the Sri Lankan Rupee, and repressed demand amidst the delayed impact of large monetary accommodation during the COVID-19 pandemic. Consequently, headline inflation accelerated towards the latter part of the year driven by food and non-food inflation. This reflected the impact of rising fuel, gas, and electricity prices in addition to the effects across the production chain. Accordingly, headline inflation, as measured by the CCPI (2013=100), accelerated to 69.8%, y-o-y, in September 2022, recording a substantial deviation from the desired range of inflation. However, the path of CCPI-based headline inflation has subsequently shown some signs of reversing by moderating to 66.0%, y-o-y, in October 2022. Meanwhile, headline inflation, as measured by the NCPI (2013=100), also accelerated to 73.7%, y-o-y, in September 2022.

Debt Default

Sri Lanka defaulted on its foreign debt during the year leading to the worst economic crisis in the post-independence era. Outstanding central government debt increased to Rs. 24,945.9 bn the end of September 2022 from Rs. 17,589.4 bn as of the end of 2021. By the end of September 2022, total outstanding domestic debt amounted to Rs. 13,345.6 bn while the rupee value of total outstanding foreign debt amounted to Rs. 11,600.3 bn. (Source: CBSL)

Figure 1.2

Movements of Headline and Core Inflation (y-o-y)

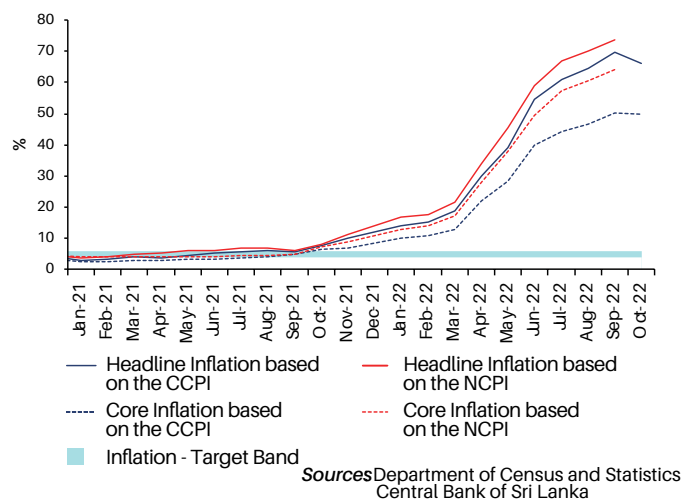
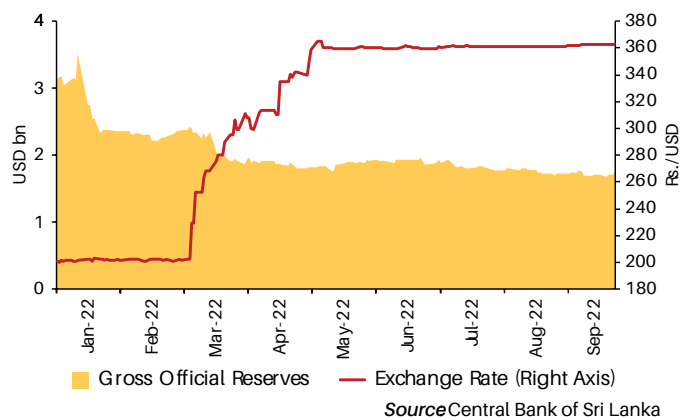


Figure 1.4

Gross Official Reserves and Exchange Rate



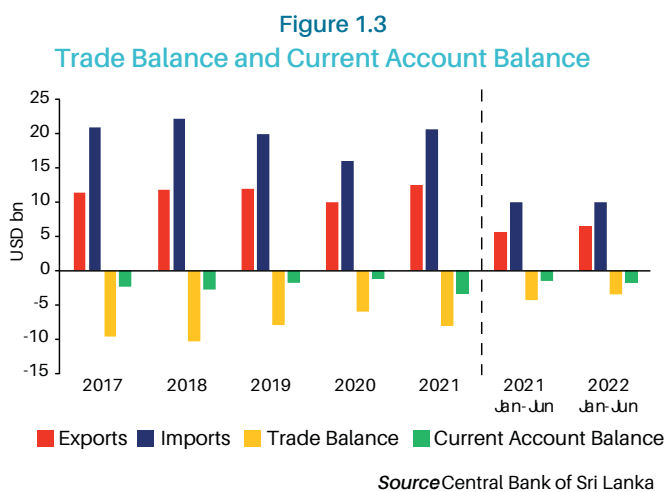
External Sector

The volatile situation of the external sector during the financial year led to an acute balance of payment crisis with the increase in expenditure on merchandise imports during the first quarter of the year, policy measures were implemented to limit expenditure to improve the foreign exchange liquidity required for essential imports. Consequently, the import expenditure declined considerably since March 2022. Export earnings also continued to remain strong during the year. During the financial year, the merchandise trade deficit recorded the lowest since 2010. The tourism sector also showed a notable rebound while the workers' remittances remained modest during the year. Foreign investments in the government securities market and Colombo Stock Exchange (CSE) also recorded a notable net inflow during 2022 compared to a net outflow in 2021.

Operating Environment

In line with these developments, the gross official reserves declined to USD 1.8 bn by the end of September 2022 in comparison to USD 3.1 bn recorded at the end of 2021. The shortage of liquidity also brought pressure on the exchange rate and the Sri Lanka rupee depreciated substantially by 41.4% against the USD by the end of April 2022. The overall depreciation of the Sri Lanka rupee against the USD stood at 44.8% during the year up to the end of October 2022.

Growth in loans and advances decelerated compared to the previous year due to the tightening monetary policy and exchange rate depreciation on foreign currency loans. The borrowing demonstrated moderate growth due to the decline in foreign currency borrowings. Despite the liquidity pressures observed in some domestic banks, the banking sector operated with liquid assets above the minimum regulatory requirement.



Banking Sector Performance

The banking sector demonstrated resilience during the year 2022 despite the developments in the macroeconomic front maintaining adequate levels of capital and impairment coverage ratios. The capital position of the banks will continue to be impacted by the significant policy rate increase, economic contractions and effects of sovereign debt restructuring issues.




Assets of the sector also grew during the year compared to the corresponding period in 2021 due to the impact of the depreciation of the Rupee and the increase in investments. Total assets of the banking sector recorded a growth of 14.1% in the eight months ending in August 2022, compared to an expansion of 12.1% growth recorded in the corresponding period of 2021. Nevertheless, the asset quality of the banking sector weakened during the period under review as reflected by the increase in Stage 3 Loans to Total Loans Ratio. The profitability of the sector also dropped during the year owing to the increase in impairment charges. The sector expansion was mainly driven by the deposit expansion.

Outlook

The year 2022 recorded a notable contraction of the economy due to a combined effect of a multitude of challenges that negatively impacted the overall economy. As such, the recovery in 2023 is expected to remain moderate due to the persistent economic volatilities, upward adjustment to domestic tax structures and the slowdown in the global economy due to monetary policy tightening by central banks to control inflationary pressure and effects on commodity prices emanating from geopolitical tensions. However, the envisaged macroeconomic adjustment programme is expected to drive growth from 2024 onwards creating a conducive environment for economic growth. In this regard, the implementation of structural reforms by the Government and other policymakers are considered essential. Such measures are expected to drive progress towards a sustainable growth path improving the resilience of the economy over the medium term.

Stakeholder Engagement

Engaging with our stakeholders is an important aspect of ensuring the Bank's ability to deliver on its strategic objectives and create value in the long term. Hence, we foster proactive engagement with all our stakeholders to obtain their feedback and insights which enable us to identify potential risks and opportunities thereby developing a robust strategy towards positive change.

Stakeholder	How We Engage	Key Concerns	Strategic Response
Investors and Shareholders 	<ul style="list-style-type: none"> Annual general meeting Annual report Quarterly earnings update Press releases and announcements to the Colombo Stock Exchange (CSE) 	<ul style="list-style-type: none"> Shareholder returns Financial performance and position Macro economic developments and its impact on strategy and business continuity Transparent reporting and disclosure Good governance 	<ul style="list-style-type: none"> Effective strategies to deliver sustainable value Effective governance and risk management framework Maintaining sustainable return on investment Timely release of relevant information
Customers 	<ul style="list-style-type: none"> Ongoing customer interaction at branch level Periodic Customer surveys Placement of customer suggestion boxes Press releases Formal complaint mechanism Corporate website Social Media channels General correspondence 	<ul style="list-style-type: none"> Customer centric solutions Superior Customer service Convenience of access Access to digital banking solutions Maintenance of customer privacy Support through debt moratorium and other concessions Brand visibility Stable returns Borrowing costs Benefits and reward 	<ul style="list-style-type: none"> Customer focused product development Digital banking solutions Efficient grievance handling Extensive network to reach rural masses Improved data security for customer privacy Effective communication and marketing Campaign to enhance brand equity
Employees 	<ul style="list-style-type: none"> Conducting induction and training programmes Periodic multi-level staff meetings Monthly regional meetings Annual performance appraisals Discussions with Union representatives Work-life balance initiatives 	<ul style="list-style-type: none"> Opportunities for professional and personal growth Fair remuneration and benefits based on effective performance management Avenue for two way communication/open door policy Avenue to voice concerns Health and safety at workplace Work life balance 	<ul style="list-style-type: none"> Provided industry par remuneration and rewards Performance based incentives Continues learning and development opportunities for employees for skill enhancement Structured grievance handling mechanism Open door policy Strict adherence to health and safety protocols Employee engagement mechanisms

Stakeholder Engagement

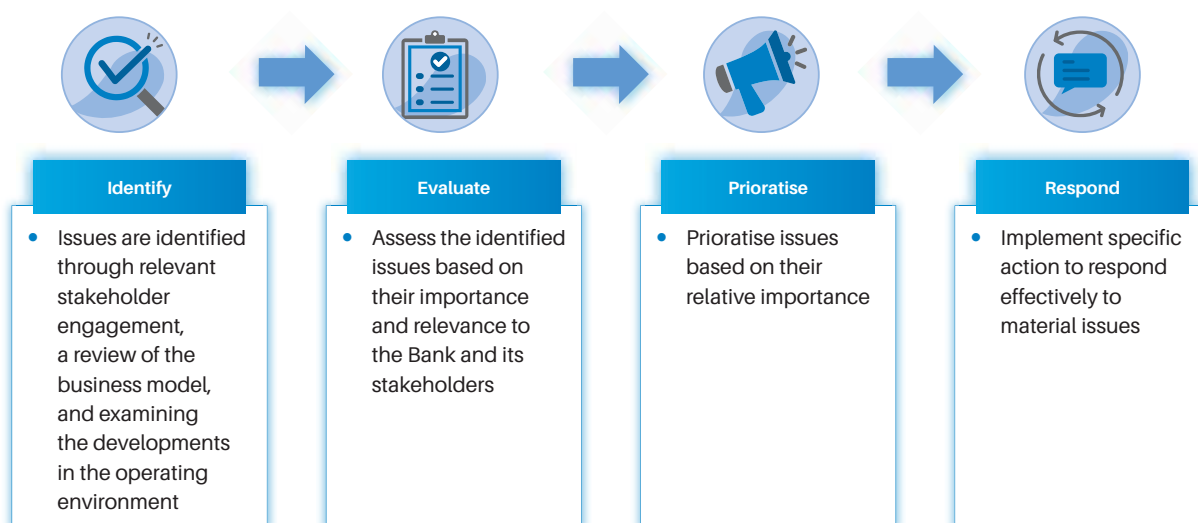
Stakeholder	How We Engage	Key Concerns	Strategic Response
Cooperative Societies and Community 	<ul style="list-style-type: none"> Annual general meeting Cooperative consultation meetings Direct engagement with dedicated departments Regular one on one financial presentations Engagement through branches Community development initiatives Community visits 	<ul style="list-style-type: none"> Financial inclusion Fair and responsible lending practices Community empowerment Livelihood development Brand visibility Improved financial literacy Support to resolve social and environmental issues Employment creation within the community 	<ul style="list-style-type: none"> Sustainability initiatives to create value for the communities Facilitate socio economic empowerment through community engagement and initiatives Providing financial advisory services to enhance financial literacy Efficient resource usage
International Agencies and regulators 	<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 Compliance reporting to the CBSL Surveillance audits Announcements to the CSE 	<ul style="list-style-type: none"> Compliance with all relevant regulations, directions, and guidelines Regular and transparent communication Drive sustainable development and economic growth Submission of statutory reports and payments 	<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

Materiality

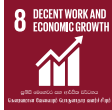



Material matters are those issues that can potentially impact the Bank's financial performance and social license to operate as well as its ability to create value for the stakeholders over the short, medium and long term. These material matters are identified based on the feedback received from our stakeholders and the changing operating environment which may pose risks and opportunities affecting the Bank's operations. These material issues (economic, social and environmental factors) are assessed annually to determine their significance and address them appropriately to manage their impacts. There are no significant changes to the list of material topics and topic boundaries compared to the previous year.

Determining Materiality

We have followed the following steps in determining material topics relevant to SDB bank.



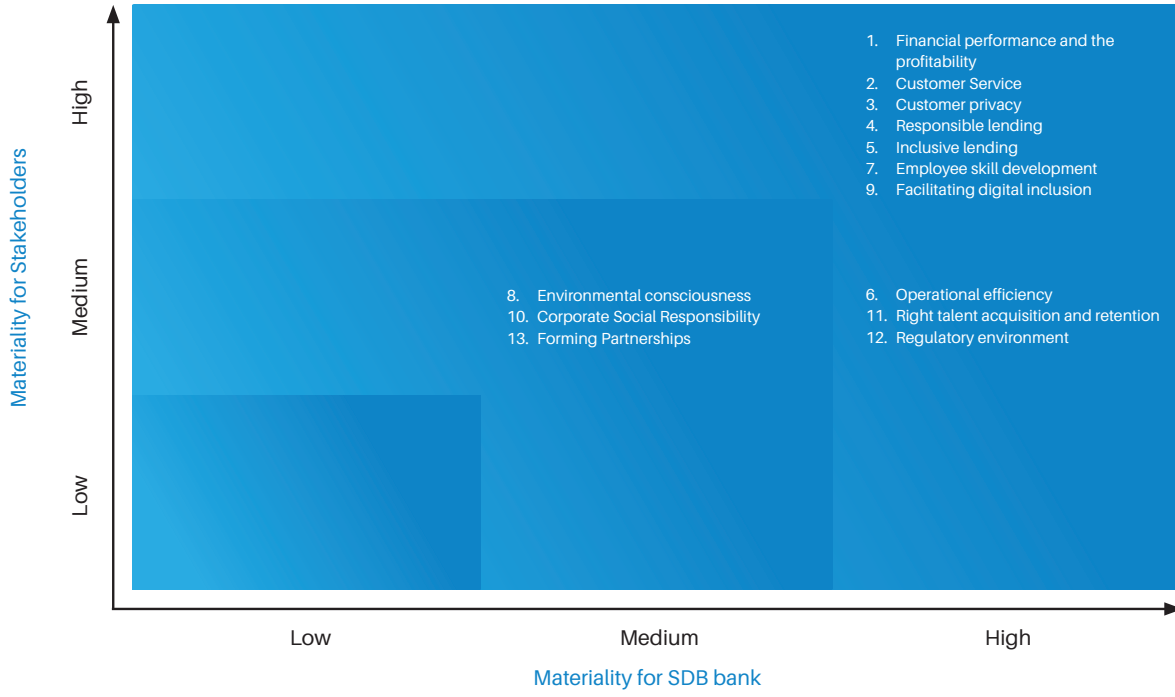
Material Aspects Relevant to SANASA Development Bank

	Aspect/Material Topic	Material Matters of Concern to SDB bank	Level of Importance		SDGs
			To Stakeholder	To the Bank	
1	Financial performance and the profitability	Ensure continued growth and profit generation under the current uncertain operating environment	H	H	
2	Customer Service	Maintain enhanced customer service to retain a satisfied customer base	H	H	
3	Customer privacy	Protection of customer information to increase customer confidence	H	H	
4	Responsible lending	Practice fair and responsible lending to avoid unsustainable financial decisions/agreements	H	H	

Materiality

Aspect/Material Topic	Material Matters of Concern to SDB bank	Level of Importance		SDGs
		To Stakeholder	To the Bank	
5 Inclusive lending	Provide access to affordable and quality financial services for rural masses	H	H	
6 Operational efficiency	Resource optimisation to achieve business objectives	M	H	
7 Employee skill development	Having a skilled and competitive workforce that will provide the competitive edge that is necessary to drive growth	H	H	
8 Environmental consciousness	Ensure commitment to preserve the environment to minimise its impact on climate change, adopt initiatives for the same	M	M	
9 Facilitating digital inclusion	Provide access to digital banking facilities for the rural masses	H	H	
10 Corporate Social Responsibility	Contribute to uplift the communities to encourage their economic progress	M	M	
11 Right talent acquisition and retention	Acquire the right talent and skills drive sustainable growth of the Bank	M	H	
12 Regulatory environment	Changes in the regulatory environment may pose threats or opportunities	M	H	
13 Forming Partnerships	Forming business alliances will create better opportunities and situations for value creation	M	M	

L - Low M - Medium H - High



How we create Value

CAPITAL INPUTS



Financial Capital

Our capital base, as well as our retained profits that are used to support our clients and ensure sustainable operations.

- Equity of LKR 13.66Bn
- Deposits of LKR 107 Bn



Intellectual capital

Our intangible assets, including brand, reputation, innovation capacity, knowledge and expertise, as well as strategic partnerships.

- Brand strength
- Expertise in SME and co-operative banking



Human capital

Our people, whose collective knowledge, skills and experience enable innovation and competitive solutions for our clients and value for all stakeholders.

- 1,381 employees
- Remuneration and benefits
- Learning and development
- Team spirit



Manufactured Capital

Our physical and digital assets that provide the framework and mechanics of how we do business.

- 94 branches
- Leading IT capabilities
- Digital banking solutions
- 13 ATM's



Social and Relationship Capital

Stakeholder relationships, including the communities in which we operate, that enable us to create value.

- 1.57 Mn customer base
- Customer digital adoption



Natural Capital

Natural resources that we draw upon for our operations (electricity, water, etc) and natural ecosystems that our clients are reliant on for livelihood and sustenance

- Environmental and Social Management System in Lending
- Managing footprint of internal operations
- Strategic sustainability initiatives to restore and enhance natural ecosystems

VALUE ADDING BUSINESS ACTIVITIES

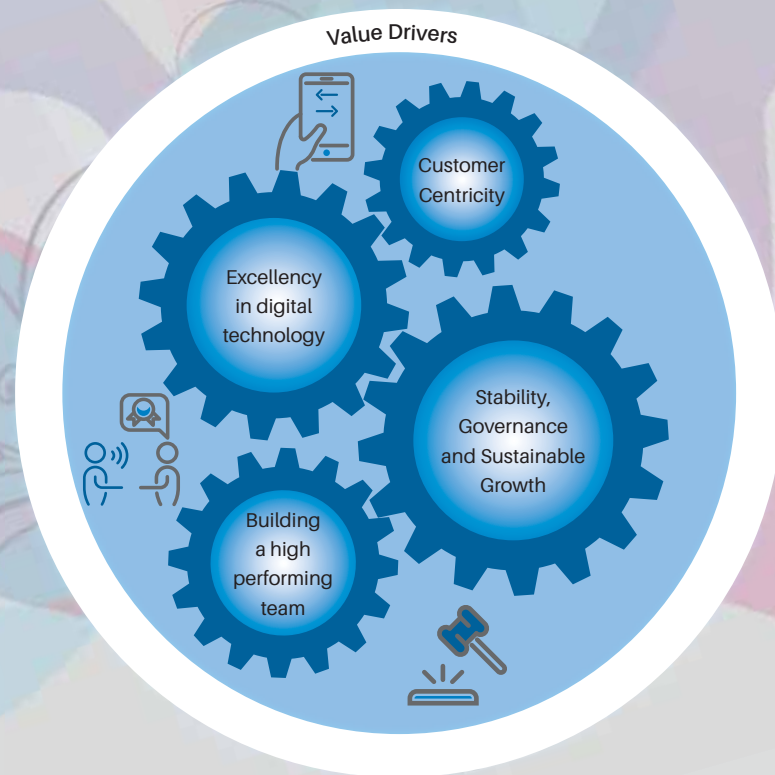
Our vision

Our Mission

Our Strategic Pillars

- Superior Customer Service
- Propelling SDB as the Bank of the masses
 - Create wealth at grassroots level
- Leading the digital adaptation/ innovation
- Design and implement a winning operating model
- Role model in sustainable banking practices

Value Drivers



Key Enablers

Business lines - SME, Retail, Co-Operative, Business Banking

Core functions - Administration, Legal, IT, HR Finance, Treasury

Governance

Risk Management

CAPITAL INPUTS



Financial Capital

- PAT: Rs. 61.2 Mn
- ROE: 0.44%
- EPS: Rs. 0.38



Intellectual capital

Brand Value:
Fitch rating BB+(lka)

Awards:

- Ranked 47th place on the Brand Finance Sri Lanka's 100 most valuable brands Annual List for 2022
- SDB bank Placed Among Top-50 in LMD's Inaugural Edition of 'Most Awarded'
- SDB bank was honored at the National Business Excellence Award 2021, receiving the Merit Award in the Banking Sector
- SDB bank was honored that their effort to empower women in the workplace has been rewarded at the first CIMA Women Friendly Workplace.



Human capital

- Fair representation within the Bank 52% Male & 48% Female employees
- Training Programs :132
- Training hours per employee: 7 hours
- Training man hours: 9,280 hours



Manufactured Capital

- Branches: 94
- ATMs: 13
- POS Machines: 8,000+



Social and Relationship Capital

- Largely focus on rural masses specially financing agriculture, dairy farming and women based enterprises
- Investment in CSR



Natural Capital

- Solar installation: 45kw of solar installations in branches, Over 3MW of solar installations financed
- Green lending: Over 500 Mn in Green Lending in FY2022

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 organisational culture
- Efficient and safe working environment
- Engaged employees
- Career progression/ skill development
- Empowerment



Government and Regulators

- Taxes paid LKR 631Mn
- Compliance with regulatory requirements



Communities

- Financial inclusion
- Improvements in quality of life



Environment

- 9,140 trees planted
- Equivalent of Over 250 fully grown from paper recycling
- Restoration of 25 hectares of degradable lands



Our Strategy

SDB Bank was established as the main financial institution of the Co-operative sector in the country and a significant contributor to national development. Today SDB Bank has evolved into a key financial institution serving the progressive masses with a keen interest in M/SME, Retail and Business Banking sectors in addition to its Co-operative roots. It is a value based banking partner championing financial inclusivity, empowering entrepreneurs and environmental & social resilience. The Bank pursues these objectives by providing its customer base with high-quality, innovative and competitive financial products and services leveraging the Island wide branch network that is spread across 94 locations. Our well-trained customer service agents closely engage with the customers in understanding their specific requirements and support them to realise their financial requirements. Backed by cutting-edge technologies and a team of diverse talents, we consistently strive to provide a total solution to our valued customers endeavouring to be the most responsible financial institution in the country.

Strategic Direction in 2022

Despite the challenges in the operating landscape, we were steadfast in driving our growth plan for the 3-4 years further extending the transformation program that was initiated in 2019. The Bank's strategy primarily focused on our core objective of wealth creation for the grassroots level communities positioning the Bank as the "Bank for the progressive masses" and aiming to drive the upliftment of cooperatives, regional enterprises, and livelihoods.

Driving financial inclusivity has been one of the key objectives of the Bank. Hence, with a greater emphasis on the M/SME segment, an important driver of the local economy, we continue to provide financial assistance to SMEs having set up a dedicated SME Development Unit within the bank to strengthen our presence within the sector. This has enabled us to serve SMEs of varied sizes and scales including micro businesses and co-operatives supporting them in their growth and evolution. Our financial assistance is mainly focused on SMEs engaged in export-oriented value chains setting the foundation for an export-driven economy.

Empowering women entrepreneurs is another strategic priority where we moved a step further in supporting numerous individuals and enterprises especially women entrepreneurs providing them with the necessary capacity building and technical know-how for them to move ahead as strong businesses that are built on best business practices. Another vital aspect of our strategy is the focus on Business Banking and value chain financing which will connect these enterprises to potential buyers.

In steering greater penetration into the rural economy and communities, we have also invested heavily in the digitisation of processes and service delivery as part of our transformation journey positioning the Bank as a future-ready digitally powered bank. Digitisation is a key facilitator in improving reach taking banking to the larger populace attaining both financial and digital inclusivity.

ESG Focus

As a bank that is focused on sustainable value creation over the long term, the bank has recognized both the need for ESG risk management and the imperative to mobilize sustainable finance. Therefore, we have incorporated Environmental, Social and Governance concerns in our growth strategy in taking the ESG mandate forward and have scaled up our initiatives for the same with a focus on environmental preservation and social welfare. When considering partnerships or financing, we give preference to businesses and initiatives that take a sustainable approach over those that do not.

Risks and Opportunities in Delivering Strategy

The macroeconomic headwinds impacted the customers' repayment capacity leading to potential repayment pressures. Multiple moratoriums coming to an end and the high-interest rate environment continue to be a massive challenge for customers and banks. However, despite these risks, the prudent measures adopted by the bank to ensure customer resilience has enabled the bank to maintain a strong capital base and enhanced liquidity stock.

Outlook for 2023

Short Term Goals	Medium Term Goals
<ul style="list-style-type: none"> • Loan Remediation to support customers • Focus on efficiency improvements including digitisation • Continue Savings drive to improve customer resilience 	<ul style="list-style-type: none"> • Sustainability Focus • Engage in supporting clients across value chains • Focus on digital driven customer centric solutions across the progressive MSME sector

SDB Bank's Commitment to Sustainability

Our Approach to Sustainability

Amidst the challenging economic outlook in the aftermath of Sri Lanka's sovereign debt default, SDB bank remains committed to building a resilient and prosperous Sri Lanka that is underpinned by a sustainable recovery. Having set-up the governance framework on sustainability in the previous year and operationalized the safeguards mechanism (including Environmental and Social Risk Management and on Universal Standards for Social and Environmental Performance Management), the mobilisation of the FY2022 focused on piloting initiatives that could help the bank to scale up its sustainable impact as the country achieves macroeconomic stability. From financing a commercial scale solar PV project for the first time in the bank's history to researching on the scalable model for nature-based solutions financing, the bank has been collaborating with external stakeholders to advance solutions that could contribute to a sustainable economic recovery in Sri Lanka.

The bank continued to integrate the following sustainability management focuses during the year:

1. Environmental and Social Risk Management System (ESMS)
2. Social Performance Management (SPM)
3. Sustainable and Inclusive Finance (SIF)
4. Operational Footprint (OPF)
5. Operational Resilience and Excellence (OPR)
6. Sustainable Brand, Culture and CSR (SBCR)
7. Integrated Strategy and Reporting (ISR)

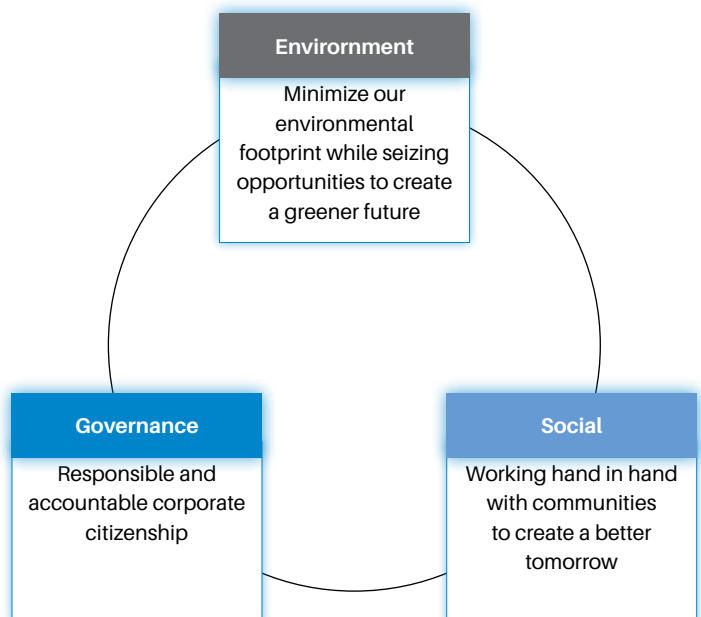
One of the key developments in FY 2022 is the defining of focus areas for the bank's sustainable finance strategy. The following key focus areas have been identified by the bank for mobilisation:

1. Sustainable Agriculture
2. Women Financing
3. Circular Economy
4. Digital Inclusion
5. Green Tech and Infrastructure - Renewable Energy, Energy Efficiency, Green Buildings, Green Transport and Green Industry
6. Promoting sustainable business practices among MSMEs and Cooperatives

In addition to identifying the high-level focus areas, the bank had also begun to set business segment level targets and KPIs related to the above sustainable finance focus areas (both financial and non-financial targets). For example, on sustainable agriculture, the bank had set targets on awareness raising and capacity building of agri

sector clients on the Sri Lanka Good Agricultural Practice (SLGAP) standard and had commenced a partnership with the Agribusiness Development Division of the Department of Agriculture to drive the implementation.

ESG Considerations



Sustainability Governance

Board Subcommittee on Sustainability

SDB bank is among the first three banks in Sri Lanka to set up a board-level committee on Sustainability. The Chairperson of the Board Subcommittee holds the responsibility to inform the Board of Directors every quarter of the Bank's sustainability performance. The committee comprises of selected representatives from the Board of Directors and Executive management with space to bring on board external sustainability experts.

This board subcommittee engages in the formulation of high-level policies and strategies relating to sustainability, guides the Executive Management Level Sustainability Committee and approves the sustainability action plan for the period under review. In FY 2022, the Board Subcommittee on Sustainability convened on 5 occasions and reviewed the status of the bank's sustainability performance including strategy and progress on the bank's ESG undertakings with its DFI investors.

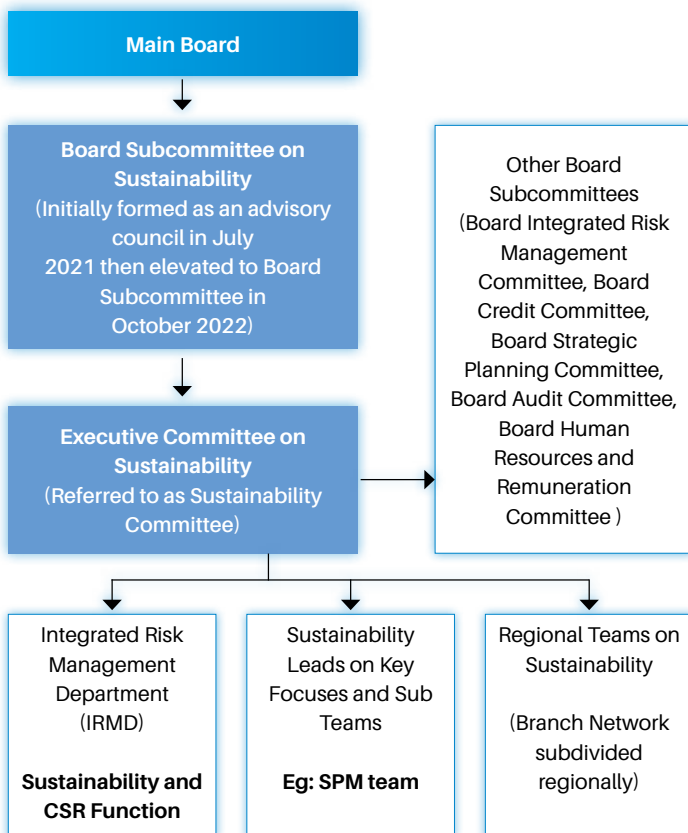
SDB Bank's Commitment to Sustainability

Executive Committee on Sustainability

The Executive Committee on Sustainability under the guidance of the CEO is directly responsible for implementing the sustainability strategy of the bank. The committee is represented by the executive management and functional management including regional managers of the bank's branch network and the business line heads. The Committee provide direction for the implementation of the management systems and key sustainability goals of the bank (with the standard agenda of the meeting focused on the seven sustainability management focus areas mentioned above).

Regional Level Teams

In 2021, the bank commenced the process of setting-up regional sustainability teams under the leadership of Regional Managers who drive the sustainability agenda at the branch level. However, due to the challenging operating environment during the year, these regional teams could not be optimally operationalized. The Bank is pursuing a partnership with UNDP BIOFIN program to obtain their support in building capacity among these regional sustainability teams on aspects such as green finance and internal footprint management.



Note: Sustainability initiatives carried out by the Bank is discussed under the Natural Capital section on page 80 of this report.

Capacity Building on Sustainability

In addition to providing access to the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI)'s e-Learning Platform for senior management, the bank also conducted specific awareness and training on social performance management. The Bank had initiated an Accompanied SPI4 Self-Assessment with the support of an external technical assistance (TA) provider who visited several branches and engaged with functional and senior management to understand the level of integration of Universal Standards for Social and Environmental Performance Management. As part of this process, the external TA provider is also engaged in sensitising and capacity building of relevant staff.

The bank also conducted a Gender Gap Assessment with the support of the Asian Development Bank (ADB) where the consultants engaged with senior management and the functional staff to raise awareness on gender whilst conducting their assessment. While this external assessment recognized SDB bank's women entrepreneur financing strategy as being in the forefront of the industry, it also called on the bank to conduct research and develop client centric solutions in the retail segment in addition to further focusing on recruiting and retaining female talent in bank's employee cadre.

Key representatives from the bank were also provided the exposure to training conducted by IFC, Central Bank of Sri Lanka and the Colombo Stock Exchange on topics such as Green Finance Taxonomy; Green, Social and Sustainability Bonds; and TCFD.

Contribution to SDGs

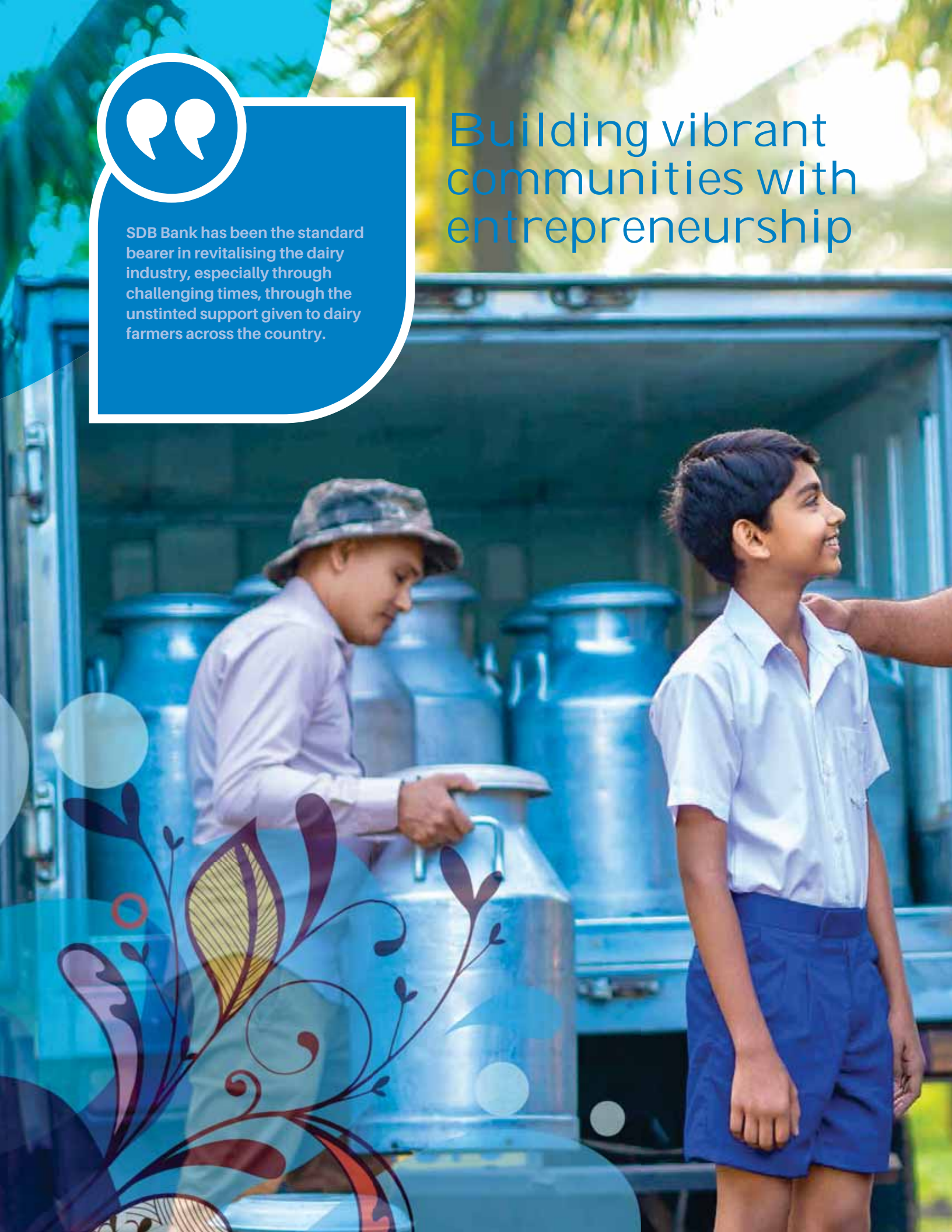
Sustainable Development Goals provide an outline to achieve a sustainable future for people and the planet addressing the global challenges we have encountered at present including poverty, inequality and climate change, environmental deterioration, peace and justice. Hence, as a development bank that is steadfast in supporting the financial upliftment of rural communities, we endeavour to contribute to SDGs by evaluating our performance against the SDGs thereby attempting to make a difference in the lives of the grassroots communities.

SDG	Our Contribution	SDG	Our Contribution
No Poverty 	<ul style="list-style-type: none"> Empowering low-income earning customer segments by providing access to financial security. Support income generation of communities through the agroforestry initiatives 	Industry Innovation and Infrastructure 	<ul style="list-style-type: none"> Latest technology-driven banking infrastructure and green infrastructure to encourage economic development Provision of financial services and affordable credit to smallholder enterprises
Zero Hunger 	<ul style="list-style-type: none"> Promoting cooperation between the financial sector and agriculture sector players towards sustainable food systems. 	Reduced Inequalities 	<ul style="list-style-type: none"> Ensure financial inclusion and digital inclusion for communities across the Country Empowering female entrepreneurs through financial assistance
Good Health and Wellbeing 	<ul style="list-style-type: none"> Ensure the Health and safety of employees Uplift communities through financial inclusion thereby supporting their health and well being 	Sustainable Cities and Communities 	<ul style="list-style-type: none"> Empower rural and urban entrepreneurs as well as women entrepreneurs. Support regional development
Quality Education 	<ul style="list-style-type: none"> Continuous professional development of employees Provision of special leave for overseas trainings Support schools in areas surrounding Bank projects 	Responsible Consumption and Production 	<ul style="list-style-type: none"> Compliance related to product development and meeting customer information requirements. Effective management of our environmental impact and promote resource conservation and waste reduction including the commencement of work stream setting green procurement criteria
Gender Equality 	<ul style="list-style-type: none"> 48% female representation in the workforce Gender Gap Assessment conducted with a focus on enhancing women financing Equal opportunity Employer 	Climate Action 	<ul style="list-style-type: none"> Commencement of agroforestry project to restore the degraded ecosystem as a pilot to scale nature based solutions Conduct awareness sessions related to environmental conservation and sustainability
Affordable and Clean Energy 	<ul style="list-style-type: none"> Energy conservation measures within the Bank Initiating a switch towards renewable energy having implemented two rooftop solar systems Renewable energy financing 	Life on Land 	<ul style="list-style-type: none"> Contributing towards environment and biodiversity conservation through our commitment to ecosystem restoration projects.
Decent Work and Economic Growth 	<ul style="list-style-type: none"> Support the grassroots level entrepreneur which in turn contributes to economic growth Creation of employment opportunities across the island supported by an extensive branch network Performance-driven work culture Benefits, Work life balance, Health and Safety, engagement opportunities and grievance handling mechanism for employees 	Partnerships for the Goals 	<ul style="list-style-type: none"> Establish local and global partnerships to fuel the national economy and create positive societal and environmental impacts island-wide.



SDB Bank has been the standard bearer in revitalising the dairy industry, especially through challenging times, through the unstinted support given to dairy farmers across the country.

Building vibrant communities with entrepreneurship







Financial Capital

The bank recorded a profit of Rs. 61.1 Mn for the financial year ended 31st December 2022. This was achieved amidst a debilitating economic crisis. The results while reflecting a 93% reduction compared to the prior year includes a 195% (Rs.1.25 Bn) increase in impairment charges compared to the prior year.

Analysis of the Statement of Profit and Loss

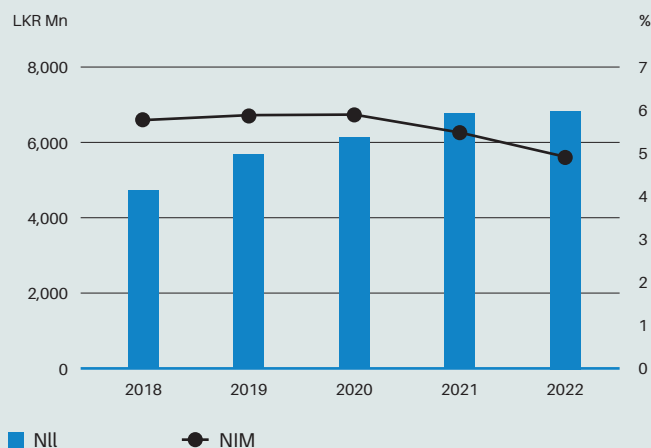
Net Interest Income

The net interest income of the bank marginally increased from Rs. 6,774 Bn (2021) to Rs. 6,839 Bn (2022). The Bank was conscious of the importance of maintaining the resilience of its customers and their ability to rebuild after the economic crisis when repricing the loan portfolio. The re-pricing was managed diligently keeping in mind the increased cost of deposits in line with the steep increase in market rates.

Interest expenses which accounted for 54.05% of the interest income in 2021 increased to 70.13% in 2022 due to the high-interest rate regime during this period.

During the year bank's total deposit base surpassed the Rs.100 Bn mark and stood at Rs.107.5 Bn as at 31-12-2022 which consist of Rs. 93 Bn Fixed deposits and Rs. 14.5 Bn savings deposits.

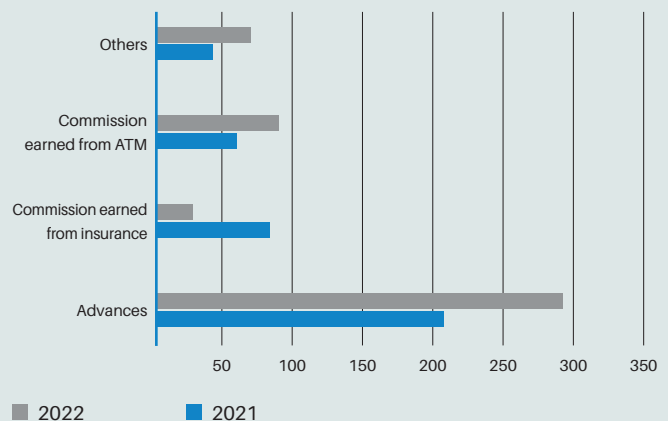
Net Interest Income and NIM



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 Rs. 478 Mn in 2022 from Rs. 390.3 Mn reported in 2021. This year-on-year growth was driven by a substantial increase in fee-based revenues generated from advance related transactions, the sizable improvement in debit card business volumes, and higher volumes of online transactions made through SDB bank's digital products in the year 2022.

Fee Based Income



Total Operating Income

Consequent to the improvements in net interest income and net fee and commission income, total operating income grew to Rs. 7.74 Bn compared to Rs. 7.44 Bn in 2021.

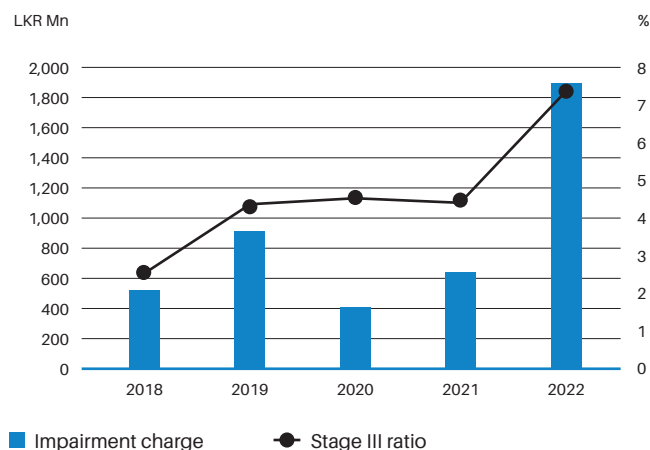
Impairment Charges

Impairment expenses increased by 195% year on year basis to Rs.1,898.4 Mn reflecting the vulnerable macroeconomic conditions of the country. During the year impairment models were re-validated and individually impaired loans were reassessed with the assistance of E&Y, our external consultants, to ensure that the bank is carrying correct impairment amounts in line with its asset quality.

Provisions made on stage 3 loans and other receivables increased from Rs. 309.7 Mn (2021) to Rs. 1,246.3 Mn (2022) which is an increase of over 300% when compared to the prior year.

The bank has sufficient provisions in view of the macroeconomic headwinds, locally and internationally.

Impairment Charge and Stage III Ratio



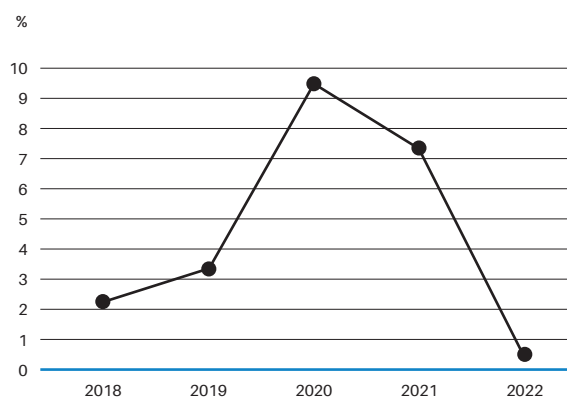
Operating Expenses

Total operating expenses at Rs. 5,365.7 Mn effects a year on year increase of just 9% despite the exponential growth in inflation. The increase stems mainly from personnel expenses and the increase recorded in other operating expenses.

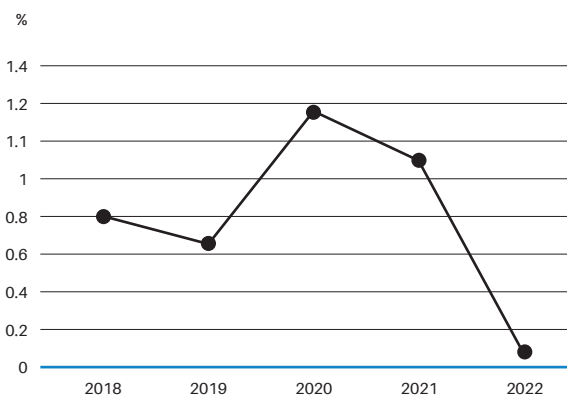
Personnel expenses increased by 15.6% in line with the collective agreement with the Bank's employee union and the salary increments granted to the bank staff. In addition to that a one-time ex-gratia payment made to the entire staff contributed to the above increase.

Other contributory factors to operating expenses increase was the office administration and establishment expenses due to the inflationary pressure that prevailed in the market in the second half of the year. Despite these increases the Cost to Income ratio was maintained below 70%.

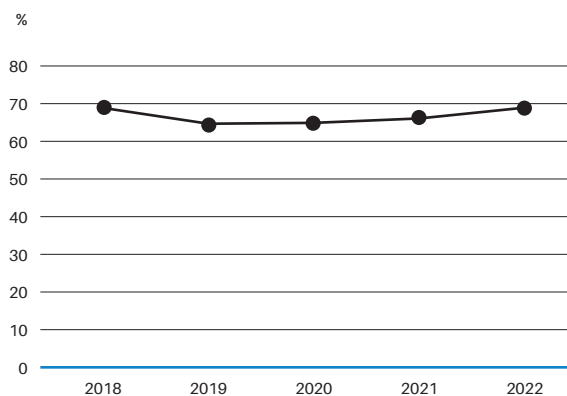
ROE



ROA



Cost to Income Ratio



Financial Capital

Taxation

The Bank applied the revised rate of 30% and other amendments in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the income tax and deferred tax assets/liabilities as of 31st December 2022. An increased tax rate was applicable for six months of the year of assessment.

For the first six months of the year of assessment commencing on April 1, 2022, the rate was 24% and for the next three months of the same year of assessment the rate was 30%.

Surcharge tax relevant for the year of assessment 2020/2021 was paid during the financial year 2022 amounted to Rs. 521.6 Mn and adjusted to retained earnings.

The reduction in VAT on financial services and income tax expenses are directly correlated to the change in profitability for the year.

Social security contribution levy was introduced during the financial year 2022 and Rs. 17.9 Mn was provided for same during the financial year ended 31st December 2022.

Profitability

The bank reported a profit before tax (PBT) of Rs. 96.96 Mn for the year 2022, against Rs. 1.33 Bn recorded in 2021. Profit after tax (PAT) for the year under review also declined to Rs. 61.2 Mn from Rs. 883.3 Mn registered in the previous year mainly due to the macroeconomic situation prevailed in the country which is reflected in the Rs 1.25 Bn increase in impairment charges.

Net interest margin (NIM) decreased to 4.9% in 2022 against the prior year's figure of 5.47% due to the upwards pressure on deposit pricing and measured re-pricing of the loan portfolio.

Other Comprehensive Income

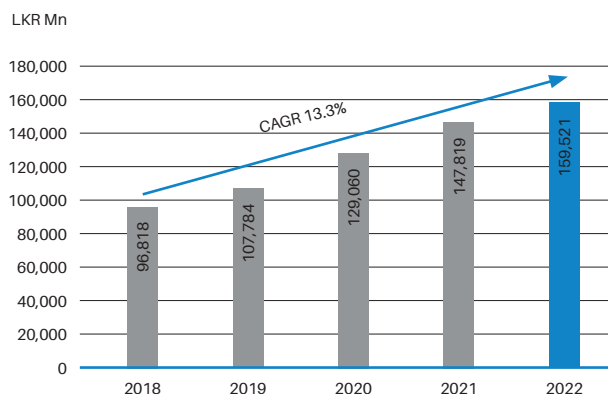
Other comprehensive income of the Bank reported a profit of Rs. 292.2 Mn during the year, as against the profit of Rs.909.3 Mn reported in 2021, primarily due to the revaluation of lands amounting to Rs. 259 Mn and other adjustments due to reassessment of the retirement benefit liability of the Bank for the period ended December 31, 2022.

Analysis of the Statement of Financial Position

Assets

The total assets of the Bank grew by almost 8% during the year to reach Rs. 159.5 Bn from Rs. Rs. 147.82 Bn at the previous year end. The increase was mainly in higher investment in Government securities from Rs.11.2 Bn in 2021 to Rs. 19.2 Bn in 2022.

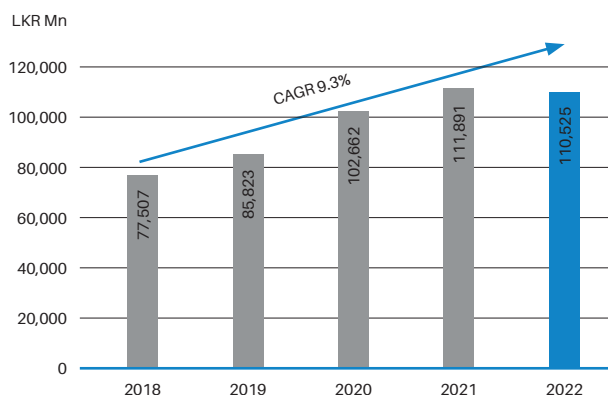
Assets Growth



Loans and Advances to Customers

The Bank's net loans and advances decreased by 1.25% from Rs.111.9 Bn in 2021 to Rs 110.5 Bn in 2022 due to the cautious approach adopted towards credit growth considering the vulnerabilities in the macroeconomic conditions. As a result, the granting of loans were restricted to pawning and cash margins.

Advances Growth



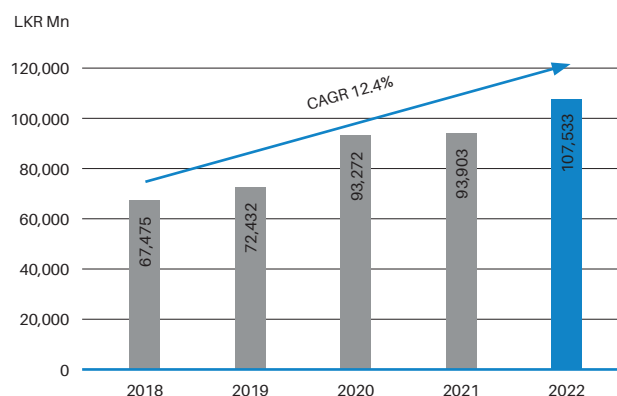
Asset Quality

Considering the long-term sustainability of the Bank's operations, the impairment provision has been increased from Rs. 643.7 Mn (2021) to Rs 1,898.5Mn (2022) in line with the vulnerable economic conditions of the country.

Deposits

Customer deposits continued to be the single most significant source of funding for the Bank, accounting for 73.7% of the total liabilities as of December 31, 2022. The Bank's deposit book surpassed Rs.100 Bn mark during the year and reported Rs 107.5 Bn as of December 31, 2022, with a year-on-year growth of 14.5%, driven mainly by Fixed deposits.

Deposit Growth



Capital

The Bank is guided by its Internal Capital Adequacy Assessment Plan (ICAAP) in maintaining capital corresponding with its current and projected business volumes. The number of issued shares as of the reporting date was 160,698,832. The total equity of the Bank has reduced by Rs 762.65 Mn as a result of surcharge tax and dividend payment made for the FY 2021 amounting to Rs.521.6Mn & Rs.241.05Mn respectively and adjusted to the opening balance of the retained earnings during the year to reach Rs 13.659 Bn at the end of 2022.

SDB bank maintained all its capital ratios well above the regulatory requirements throughout the year. As of December 31, 2022, the Bank's Tier I and Total capital ratios were at 12.92%, and 15.37%, compared to 13.16% and 15.78%, respectively, at the end of 2021.

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 ALCO meetings of the Bank. The below table shows the improvement the Bank had made in terms of liquidity when compared to the previous financial year.

Item	2022	2021
Liquid asset ratio (Minimum Requirement.20%)	23.51%	22.37%
Available stable funding	Rs.126.65 Bn	Rs.116.88 Bn
The net stable funding ratio(Statutory minimum 100%)	241.61%	137.61%
Liquidity cover ratio (Statutory minimum 100%)	191.22	134.82



Intellectual Capital

SDB bank's Intellectual Capital relates to the value of the Company's collective knowledge and resources that contribute to our long-term value creation, increasing our competitive advantage in the marketplace. These include the knowledge and skills of the employees, brand value, robust digital platform as well as the corporate culture and values that we have nurtured within the organisation. Therefore, we continue to strengthen our intellectual capital in increasing our productivity and profitability thereby ensuring the sustainable progress of the Bank.

Our Actions

- Continuous enhancement of knowledge and skills of employees through professional development
- Improve brand visibility through a press conference, reforestation project, mentorship programs and launch of two new products (Business Saver Account & Top Saver +)
- Establish a strong governance structure, policies and procedures
- Establish a robust technology foundation

Outcomes

- Highly competent workforce
- Enhanced brand recognition as a bank that supports progressive masses
- Business transactions conducted ethically upholding corporate values
- Upgraded core banking system, mobile applications, data security

SDG Focus



We continue to grow our Intellectual Capital by improving the skills and knowledge of our employees



We maintain robust systems and processes to facilitate efficient operations thereby adding value to key stakeholders

Takeouts for the next FY

- Continuous investments into development of workforce knowledge, skills and behaviours
- Build brand equity through promoting our unique business model, and product focused marketing campaigns on digital platform
- Maintenance of our strong position, financially, and in terms of expertise, experience and other resources to support SMEs
- Introduce new products to suit customer requirements
- Strengthen the core banking system through continuous improvements to existing systems and processes as well as data security
- Continued improvements into governance structure, policies and procedures to ensure ethical business conduct

Knowledge and Skills of Employees

The knowledge and skill set of SDB bank employees is one of the key intangible assets of the Company that determine our growth progress. Therefore, we have invested in developing the appropriate knowledge, skills and behaviours of all our employees in meeting the Company's business objectives in the short and long term. From top management to the executive level employees, our planned approach encourages employees access to learning and development opportunities that are primarily determined annually based on training needs analysis. During the financial year, 132 trainings were conducted mainly focusing on trainings related to leadership enhancement and technical skill development. Leadership trainings were aimed at identified potential individuals that are likely to become leaders in the future and focused on improving skills such as decision making, communication and problem solving. The technical skill trainings were intended to develop the employee's technical competencies related to the banking sector.

Beyond this, we have nurtured a learning culture within the organisation where trained employees are encouraged to share their knowledge with their peers. As a result, we have a highly competent workforce who makes a positive impact on the productivity levels including a Board of Directors who has years on industry acumen and exceptional knowledge in their areas of expertise.

LKR 5.3 Mn

Training investments

132

Trainings

3,618

Training participants

7Hrs

Training Hours per employee

9280Hrs

Training Man Hours



financial wellbeing focusing on SMEs and women led businesses. In doing so, we strive to establish robust digital presence in realising the dream of digital inclusion of rural masses. Our brand resonates this commitment and being grounded on its founding principles, the Bank continue to empower all stakeholders having evolved over the years as a futuristic, value based, tech savvy and contemporary Bank that support the grassroot level enterprise development.



We are ranked 47th most valuable brand in Sri Lanka in 2022 by Brand Finance



Brand Value

SDB bank continue to cater to changing customer needs through provision of financial support and value additions to life and businesses through mentorship and knowledge-sharing focusing on areas such as value chain enhancements and financial management. As an equitable financial service provider, we treat every customer equally supporting them in their development and



Scan QR code to view our customer testimonial video

Intellectual Capital

The Bank's rise as a leading facilitator of national economic development, and a trusted authority on small-scale entrepreneurial and personal finance growth, has garnered it a strong reputation for continuous digital banking expansion, and as a preferred employer, all of which have contributed towards the Bank receiving numerous accolades recently. These include 47th spot amongst Sri Lanka's Most Valuable Brands in 2022, as ranked by Brand Finance.

Marking 25 Years

As a key player in Sri Lanka's SME-banking landscape, SDB bank has achieved the historic milestone of 25 years of service to Sri Lanka, supporting all Sri Lankans to grow and adapt to a changing world. The Bank's 25th Anniversary celebrations commenced with an official press conference, which was held at The Kingsbury, Colombo on the 17th of August 2022.

To commemorate this historic milestone, the bank had planned a number of activities. Most notably, the bank inaugurated its 25th Anniversary Forest Restoration Project in Ududumbara, underscoring its commitment to environmental and social sustainability. This initiative, which took place on August 2022, saw the planting of a large number of new tree saplings on the day, and will be an ongoing project, with over 25 hectares planned and demarcated for reforestation, supported by SDB bank.



SDB bank's 25th Anniversary Media Conference

Future Facing

Moving beyond the milestone of 25 years, SDB bank is strongly positioned, financially, and in terms of expertise, experience and other resources, to sustainably fuel economic development in Sri Lanka, with a keen focus on the SME sector. In doing so, the bank has joined hands with prestigious global and local financiers and organisations that share its vision for an empowered and equitable society. In the present environment, the bank remains focused on creating new economic opportunities for all Sri Lankans and supporting export-oriented businesses, along with businesses that create value for Sri Lanka. Working together with like-minded partners, SDB bank is continue to further its goal and vision to develop Sri Lanka's SME sector.

SDB bank also has a strong social media presence on Facebook, Instagram, LinkedIn and Youtube platforms where we proactively engage with customers by enhancing their product awareness and a series of educational content that would assist the consumers to traverse through challenging times. In addition, our official website also provides complete coverage of products and services enabling customers to access such information from anywhere at any time. In consequence, we succeeded in boosting our brand awareness among a wider audience, positioning our bank to foster the growth of small and medium-sized enterprises (SMEs), and thus, contributing to the economic prosperity of the country.



229,500 visitors to
SDB Bank Corporate
Website in 2022



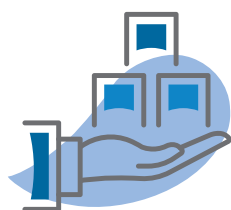
Social Media Footprint

168,594 followers on
Facebook

1,423 followers on
Instagram

12,607 followers on
LinkedIn

Our widespread branch network with 94 branches penetrates all areas of the island enabling access to masses across the nation. The well-trained staff of the bank continue to provide an enhanced experience to the potential and existing customers delivering a superior service to meet their requirements. During the year, SDB bank executed well-focused and highly effective product-centred marketing campaigns to promote our savings initiatives. In addition to enhancing our marketing activities on digital platforms, we engaged with our customers through on-ground activities to ensure effective communication. Several product campaigns were carried out to highlight our improved product portfolio tailored to meet the evolving needs of our customers. As part of our efforts, we launched two new products: "Business Saver Account" aimed at capturing the emerging business segment and "Top Saver +", a high-interest savings product targeting regular savers and salaried employees.



New Products launched in 2022

 **Top Saver Plus**

 **Business Saver**

Corporate Culture and Ethics

SDB bank's robust governance structure, policies and procedures that are in place ensure that our business activities are conducted in an ethical manner upholding the values of transparency and accountability in ensuring continued value creation. From the time of joining the organisation, the new recruits are given an induction to the Bank's culture and values ensuring that they uphold these principles when carrying out business activities. We further demonstrate our integrity through an improved product portfolio that fulfils customer requirements, employee engagement in decision-making, cultivating a learning culture that encourages employees professional and personal growth, and space for expressing opinions and concerns.

IT Foundation

In our commitment to establish a technology driven banking platform, we continually improve our existing systems to increase efficiency and customer satisfaction. We upgraded our core banking system to iserver version 15 in full compliance with CBSL standards thereby providing an outstanding customer service. In addition, we have introduced a mobile app/UPAY app, where users can perform multiple digital transactions apart from accessing several value-added services. This multi-functional mobile wallet is directly connected to the SDB bank and other banks allowing various payment options including credit and debit cards transactions. These technological innovations have made financial services more accessible, low cost and easy to use.

We also provide the following services in our effort to fast-track towards digital inclusion.

- Paperless business model
- E signatures on loan applications
- Internet banking facility

Data Security

Information Security is of paramount importance to the SDB bank. SDB systems and technologies are deployed/ implemented and operated in line with industry standards and best practices. We strengthened the information and cyber security aspect of the Bank by implementing a set of processes and procedures for information and cyber security including state of the art technologies. Multi-layered security architecture implemented along with the security and data protection solutions/ technologies that supports the Information Security Strategy of the bank have elevated the security posture of the bank. Such initiatives include data protection and leakage prevention, access management, security operations, endpoint protection, security event management, etc.

Further, the Bank has taken initiatives to increase efficiency and security in branch connectivity by implementing SD-WAN solution. This has provided not only the security of the connectivity but also increased customer experience due to the efficiency of the branch connectivity.

These implemented procedures have created a risk aware culture within the Bank while information security posture and related information are being independently evaluated by internal and external parties as well as by the Risk Management department of SDB bank from time to time.



Human Capital

SDB’s Human Capital relates to the economic value of employees’ knowledge and capabilities. This stock of collective knowledge, skills, experiences, and behaviours that the workforce retains contributes to the overall productivity of our operations creating value for the stakeholders. Hence, we remain committed to cultivating their capabilities consistently supporting them in their professional and personal growth, appreciating their valued contribution and ensuring their health and safety at the workplace.

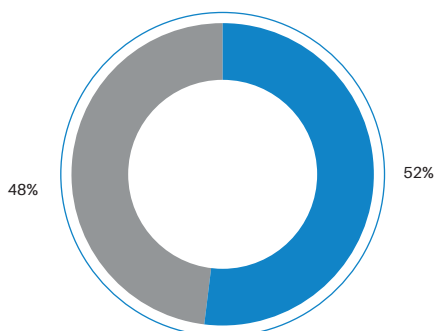
Our Actions	Outcomes
<ul style="list-style-type: none"> • 132 trainings 	<ul style="list-style-type: none"> • Improved capacities of management level employees as well as other staff categories
<ul style="list-style-type: none"> • Fair Recruitment 	<ul style="list-style-type: none"> • 17 new recruits
<ul style="list-style-type: none"> • Employee engagement through strong HR network, ‘HRtogether’ forum, ‘Better You’ WhatsApp group 	<ul style="list-style-type: none"> • Increased female employees
<ul style="list-style-type: none"> • Promote a performance-driven culture 	<ul style="list-style-type: none"> • Involved and driven workforce
<ul style="list-style-type: none"> • Ensure Health & Safety 	<ul style="list-style-type: none"> • Employees are assessed based on performance. Due recognition of well-performing employees with opportunities for training, benefits, and rewards
<ul style="list-style-type: none"> • Grievance mechanism in place 	<ul style="list-style-type: none"> • A safe and positive co-working environment
<ul style="list-style-type: none"> • Work-life balance 	<ul style="list-style-type: none"> • Correct and Timely resolution of grievances • Happy and Satisfied employees

SDG Focus			Takeouts for the next FY
			<ul style="list-style-type: none"> • Focus on HR digital transformation • Continuous professional development of employees with a special focus on improvement of leadership team • Stringent recruitment based on capacity requirements • Continuous contribution to UN SDGs
<p>Conducted 132 training investing LKR 5.3 Mn fro 3618 participants</p>	<p>As an equal opportunity employer, we maintain 48% female representation in the workforce</p>	<p>We have ensured a healthy and safe work environment for employees including providing them with an array of benefits, opportunities for growth, performance driven culture, grievance resolution</p>	

SDB bank currently retain a total workforce of 1,381 individuals of which 719 are male employees and 662 are female employees. As an equal opportunity employer, we ensure that all employees are treated equally without discrimination based on age, gender, ethnicity or religion and strive to ensure fair representation within the workplace with 52% male and 48% female employees. All employees are evaluated based on their performance without preference.

During the year, despite a challenging external environment, we were steadfast in seeking the right skills and traits that could drive our strategy in the long term. We also continued to improve the existing talents of employees by providing them opportunities to enhance their capacities to perform their current job roles more effectively while strengthening their future career paths.

Employee Demographics by Gender



■ Male - 719

■ Female - 662

Training and Development

The professional development of employees mainly focused on leadership development towards succession planning and technical skill development to improve employee abilities. With this purpose, SDB bank conducted a range of trainings and development programs during the year to improve the employees at different levels of operations. As for the technical skill development, a training plan was developed. Based on the Training Needs Analysis, for the year under review, we focused on trainings related to credit skills and technical skills enhancement which is a vital requirement in the banking profession.

Accordingly, we conducted 132 training programs during the year covering 7 hours PP. These trainings were usually carried out by external resources who are competent in those areas. A key program was the credit skill training that was conducted in collaboration with Moody's Analytics and IBSL. Besides, we encouraged employees to gain on-the-job training nurturing a

learning culture within the organisation. In this way, trained staff members were persuaded to share their knowledge with their peers.

Enhanced attention was also given to the Management Development Workshops that were conducted focusing on the improvement of our leadership team in determining a succession plan. These trainings conducted by reputed coaches were carried out as one on one interactive sessions for the management level employees. Further, team-building exercises were also carried out at the regional level.

Type of Trainings

SME	Legal
Cooperative	Administration, Operations
Credit	IT
Leasing	Finance
Pawning	Human Resources
Retail	Branch Operations
Recovery	Marketing
Audit	Environment, Social & Governance (ESG)
Compliance	Integrated Risk

We strongly encourage a performance-based culture where employees are evaluated based on performance for their training needs and promotions within the organisations.

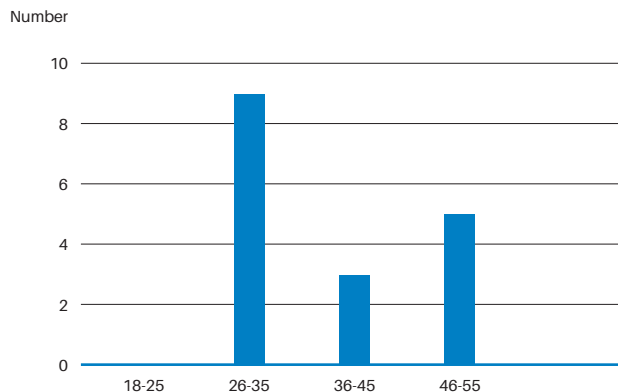
Talent Acquisition and Retention

We have put in place a robust mechanism to understand our capacity requirement. Based on that SDB bank's recruitment policy outline the organisation's recruitment practices for the entire organisation including branch-level staffing. Accordingly, we recruited a total of 17 individuals to our workforce during the year and of the total recruits (1.2% of total workforce), majority of them are between the ages of 26 and 35.

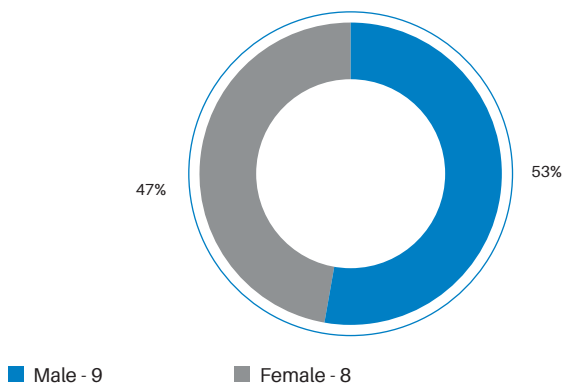
Recruitment only takes place upon justification of the need for such a position and the candidates were screened through a proper screening process to evaluate their suitability for a position. Psychometric tests were also carried out to obtain a clear understanding of the candidate's cognitive ability, personality and work behaviour at the final interview.

Human Capital

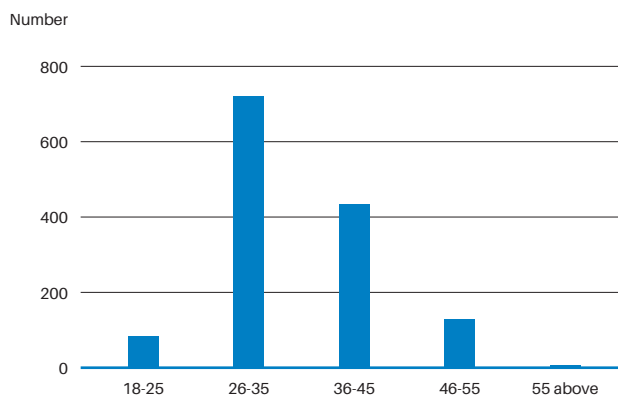
New Recruits by Age Breakdown



New Recruits by Gender



Age Wise Breakdown of Staff Cadre



Considering the prevailing situation of the country during the financial year, our employee turnover rate remained relatively high. However, we continue to make every effort to retain well-performing employees providing them with industry-par remuneration, a range of benefits, and opportunities for promotions including rewards based on their performance. In addition, they were also provided with opportunities for growth through special trainings local and overseas. Even at the branch level, employees were evaluated based on the branch performance, profitability, and managers’ feedback where teams were rated for increments, benefits and rewards.

Benefits

- 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 assigned bond
- Provision of feeding breaks for female employees with infants during the first year
- Professional membership subscription reimbursements
- Financial assistance for completion of banking exams
- Higher education assistance

Employee Engagement

Engaged employees remain more involved and dedicated to their job roles and demonstrate improved efficiency and productivity at the workplace. In recognising this, we made continuous effort to keep our employees engaged in reinforcing their connection with the organisation, boosting output as well as facilitating a culture of solidarity. We utilized the following engagement channels to sustain our connectivity with the employees.

- Well-connected HR network with a representative from each branch acting as HR Lead
- A monthly forum termed ‘HRtogether’ providing space for branch employees to voice their concerns to the head office contact point
- ‘Better You’ WhatsApp group for valuable information sharing

We are currently engaging in obtaining Great Place to Work Certification having conducted the first phase of the survey in 2021. Based on this survey we were able to identify key areas for improvement thereby taking action to address the same. The second phase of the survey was carried out in 2022.

Workplace Health and Safety

All employees have a right to be safe at work and hence we remain morally obligated to ensure the health and safety of all our staff in maintaining efficient and productive outcomes. Apart from implementing all the necessary health guidelines during the COVID phase, we promote a healthy and safe work environment through regular medical screening of employees for their mental and physical well-being.

During the pandemic period, we carried out the following to ensure the health and safety of employees.

- Implementing safety practices such as hand washing, temperature checks, frequent disinfecting of offices, remote working, maintenance of social distancing
- Provision of an insurance policy to cover COVID-related expenses
- Special scheme to reimburse any costs exceeding the insurance limits of employees
- New travel scheme and reimbursement mechanisms
- Arrangement of intermediate care facilities for infected employees
- “Ayubo Life” a 24-hour hotline enabling our staff to call and obtain medical advice and be guided through the process of recovery
- Distribution of dry rations and other essential items to the staff
- Appointment of dedicated HR personnel to connect with infected staff

Employee Grievance Mechanism

We are committed to addressing any complaints from employees that may arise from various issues such as miscommunication, harassment, unfair treatment, financial consequences as well as challenges in the external environment. For this purpose, we have established a comprehensive grievance handling policy where we handle such concerns in a structured manner encouraging all our employees to voice their concerns in confidence to their superiors. The open-door policy also ensures that employees have the freedom to approach their superiors (Immediate superior, Head of HR or CEO) to raise their concerns. We have also put in place a Whistle-Blower Policy where employees are encouraged to come forward and voice their concerns thereby taking action to resolve them appropriately and on time.

Work-life balance

A healthy work-life balance enables employees to maintain an equilibrium between the pressures of work-life and one's commitments. On another level, this will also enhance the organisational reputation through people's enhanced productivity due to higher commitment. With this intent, we have promoted work-life harmony within the organisation.

At SDB bank, we promote work-life balance through the following initiatives.

- Lifeline Program that conducts discussions with experts on relevant topics related to life skills
- Internal competitions (eg. language proficiency)
- Power Hour
- SDB Ape Gedara
- SDB Api e-Magazine
- Pick a Book Corporate and Pick a Book, Junior
- Seasonal events (Dharmadeshana, Bakmaha ulela, Carols, Bakthi Gee etc.)
- Children's club for employee children
- Photography club
- Fitness club

Compliance

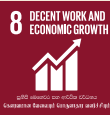

In further strengthening our human resource practices, we adhere to all the relevant law and regulations that are applicable to human resources. These include the regulations under Shop and Office Act, all applicable labour laws in the country and banking standards. There was no breach of compliance during the year under review.



Manufactured Capital

SDB bank’s Manufactured Capital relates to our physical and digital infrastructure that increases our performance in delivering exceptional value to our stakeholders. Manufactured capital utilized efficiently leads to improved productivity, the efficiency of our systems and processes optimising resource usage. Therefore, we continue to invest in the improvement of our manufactured capital which comprises of branch network, equipment, IT hardware and software that has strengthened our ability to provide effective financial services to customers across the country.

Our Actions	Outcomes
<ul style="list-style-type: none"> Investment of LKR 513 Mn into Fixed Asset 	<ul style="list-style-type: none"> Increase SDB bank’s market value, service delivery, and customer experience.
<ul style="list-style-type: none"> Branch relocation for better reach 	<ul style="list-style-type: none"> Increase accessibility to rural masses.
<ul style="list-style-type: none"> Strengthened core banking facility, Mobile Apps and data security platform 	<ul style="list-style-type: none"> Fast, convenient, and safe access to banking

SDG Focus		Takeouts for the next FY
		<ul style="list-style-type: none"> Branch relocation and revamp based on necessity for better service delivery Continued consolidation of the core banking system through upgrades Continuous focus on process automation
<p>We have established an islandwide branch network in 94 locations generating employment opportunities across the country</p>	<p>We have established a latest technology-driven banking infrastructure and green infrastructure to encourage economic development through provision of financial services and affordable credit to smallholder enterprises</p>	

Physical Assets

Our physical infrastructure includes land and buildings, leasehold properties, computer hardware, machinery and equipment, office furniture and fixtures as well as Company vehicles. The value of these tangible fixed assets is worth LKR 1,093 Mn. During the financial year under review, we invested an amount of LKR 513 Mn.

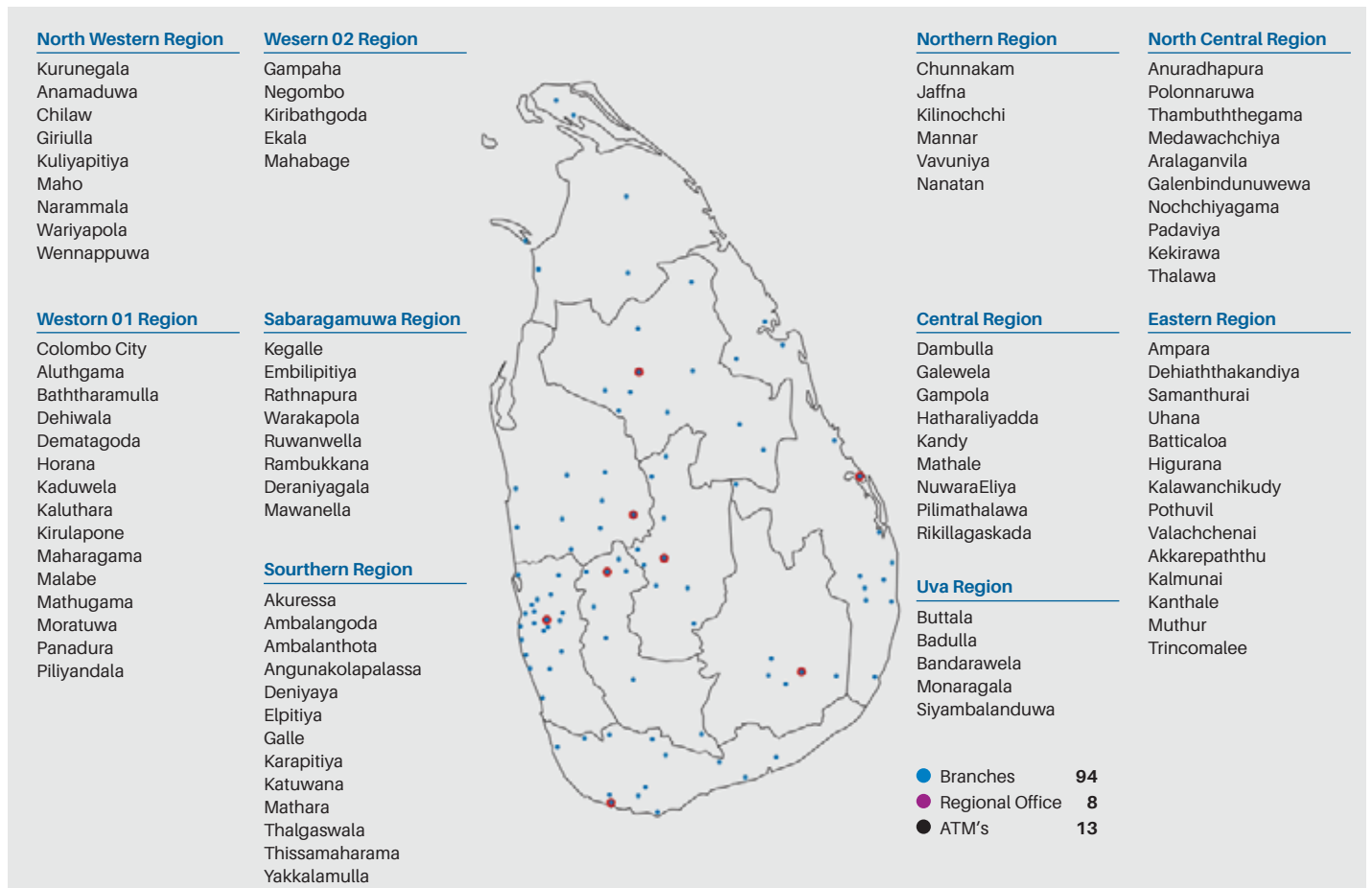


**Fixed assets worth
 LKR 1,093 Mn**
**LKR 513 Mn
 invested on fixed
 assets in 2022**

Branch Operations

SDB bank operates a network of 94 branches island-wide which is fully equipped to provide a wide range of financial services to its diverse clientele that comprises Retail, SME, Co-operative and Business banking clients. Utilising its own as well as leased

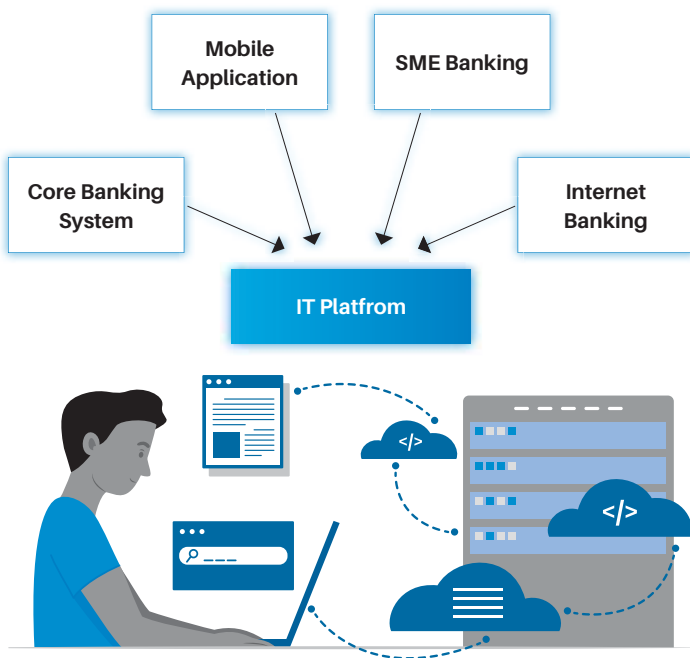
buildings that form the branch network that has inclusive coverage, SDB bank continues to deliver enhanced value to the customers creating noticeable change at the rural and grassroots level, subsequently impacting the overall economic progress of the Country. Our Head office is located at 12 Edmonton Rd, Colombo 06.



Manufactured Capital

IT Platform

Our main technology platform is the SDB bank's core banking system that processes our daily banking transactions with real-time banking facilities. From customer onboarding to customer relationship management, deposit and withdrawal processing, and loan issuing, our core banking system supports a multitude of banking transactions at the convenience of the customer. During the year, we have taken initiative to further consolidate the system with full compliance to CBSL standards and upgraded it with iserver version 15 in improving the customer experience. This platform mainly caters to our corporate clientele including companies, trusts, partnerships, proprietorships, and others.



SDB bank's mobile app/UPAY app offers the customer a fast and convenient space for banking transactions on a user-friendly interface. This personalised mobile app enables customers to perform basic day-to-day banking requirements at their ease, quickly and in a secure manner. The main services provided by this app include online transactions with balance inquiries and internal and external fund transfers catering to the increasing demand for mobile banking amongst Sri Lanka's digitally inclined customer base.

We also offer an SME banking facility for those customers who wish to perform instant balance inquiries, mini account statements, and receive transaction alerts at their convenience.

Similarly, we have a corporate internet banking facility that enables businesses for simpler, faster and more secure transactions. Targeted for corporate clients with real-time access to company funds and transaction records, this allows companies to manage their financial on their own time.

All branches are also securely connected to the internet for effective service delivery.

Data Security

SDB bank has improved its data security aspect streamlining the local area network and implementing SD-WAM in partnership with Dialog and SLT. Information security policy was also upgraded to the final level streamlining our security information management (SIM) and implementing data loss prevention on the network.



Social and Relationship Capital

SDB bank’s Social & Relationship Capital relates to the mutually beneficial relationships that we have cultivated with various stakeholders and networks in ensuring our individual and collective well-being. Hence, we continue to strengthen these relations with our customers, suppliers, business partners, regulators and local communities thereby nurturing trust and loyalty amongst them in contributing towards sustainable value creation and enhanced reputation as a valued business entity.

Our Actions	Outcomes
<ul style="list-style-type: none"> Tailored products for customers to support their financial wellbeing Ethical products in compliance with regulations Improved customer convenience through value-added servicesv Customised financial packages for women, children, youth and senior citizens Provision for credit at the grassroots level through a corporative model Support for larger corporates through business banking 	<ul style="list-style-type: none"> The improved financial well-being of each customer segment Increased customer base in each segment
<ul style="list-style-type: none"> Selection of suppliers who comply with industry best practices and specified standards of the bank Continued association with business partners 	<ul style="list-style-type: none"> Supplier loyalty Increased competitive edge Mutually beneficial alliances Strengthened community
<ul style="list-style-type: none"> Assist the community in addressing their pressing concerns and uplifting their lives Regulatory compliance 	<ul style="list-style-type: none"> Business operations conducted in compliance with necessary rules and regulations

SDG Focus							
<p>1 NO POVERTY Curauntun puvu povutun</p>	<p>2 ZERO HUNGER Curauntun puvu vutun</p>	<p>3 GOOD HEALTH AND WELL-BEING Curauntun puvu vutun</p>	<p>8 DECENT WORK AND ECONOMIC GROWTH Curauntun puvu vutun</p>	<p>10 REDUCED INEQUALITIES Curauntun puvu vutun</p>	<p>11 SUSTAINABLE CITIES AND COMMUNITIES Curauntun puvu vutun</p>	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION Curauntun puvu vutun</p>	<p>17 PARTNERSHIPS FOR THE GOALS Curauntun puvu vutun</p>
We are empowering low income earning customer segments through financial inclusion	We promote alliance between the financial sector and agriculture sector actors towards sustainable food systems.	We uplift communities through financial inclusion thereby ensuring their health and well being	We support grassroots level entrepreneurs which in return supports economic growth	We ensure financial inclusion and digital inclusion for communities across the Country	We empower rural and urban entrepreneurs as well as women entrepreneurs	We ensure compliance related to product development and meeting customer information requirements	We continue to nurture local and global partnerships to fuel the national economy and create positive societal and environmental impacts island-wide.

Social and Relationship Capital

Takeouts for the next FY

- Continue to develop products to cater to all customer segments and support their financial wellbeing
- Foster strategic business partnerships for long term value creation
- Continued strengthening of banking platform for secure transactions

CUSTOMERS

The trust that the customer place in us is crucial to our continued progress as a development bank that is focused on the financial inclusion of the progressive masses. Hence, we consistently make effort to understand the customer requirement thereby devising products to support their financial well-being. Amidst a volatile operating environment during the year, we remained well-positioned to navigate individuals and SMEs through financial assistance to support their livelihoods. By being consistently open to adopting strategies that enhance the customer experience, SDB bank has succeeded in establishing a robust presence among small and medium entrepreneurs over the years giving enhanced focus to women's empowerment and digital inclusion.

How We Create Value for Customers

- A product portfolio that caters to customer requirements ensuring their financial wellbeing
- Ethical product development in adherence to all the necessary compliance requirements
- Customer convenience and accessibility through a widespread branch network, digital platform, improved customer service
- Secure platform for banking transactions ensuring customer privacy

At present, we cater to the following customer segments;

1. SMEs: Micro, Small and Medium-sized enterprises
2. Individual/retail Customers: General Savers, Minors, Women, Youth, Senior Citizens and Veterans
3. Cooperatives: Small clusters of individuals collaborating with cooperative societies in grassroots communities
4. Business Banking: Mid-scale businesses that do not fall under Micro or SME categories

Small & Medium Entrepreneurs (SMEs)

Sri Lanka's small and medium enterprises play an important role in the country's economic revival. With more than 75% of the enterprises under the SME banner, these enterprises represent the businesses at the grassroots level that has growth potential. Hence, our support to SMEs is aimed at uplifting these communities through facilitating guided financial assistance to raise their livelihoods and living standards.

We provide a range of loan products to suit the requirement of every social segment from young entrepreneurs to women and senior citizens who are engaged in the workforce. Active products in the SME segment include SME, Divi Saviya, Jawaya, Upahara and Uththamavi. The country's prevailing situation remained a hindrance to expanding our loan portfolio during the year. However, the bank disbursed a total of LKR 17 Bn during the year. Credit lines were granted by CBSL and the Ministry of Finance in addition to the funds acquired from the Development Finance Corporation of USA. Our lending largely focused on financing agriculture, dairy farming, and women-based enterprises.

The loan portfolio grew by approximately 9,000 customers compared to the previous year with a total of 75,000 customers at the end of the financial year.



**Loan portfolio growth
by approximately
9,000 new
customers**

New initiatives during the year to strengthen our customer ties;

SME LoC Loan Scheme	Women's Programs at Branches	Introduced 'Business Saver Account'
A scheme funded by the Ministry of Finance and ADB aimed to develop SME customers in the areas of manufacturing, production, and agriculture. Under this scheme, SDB bank disbursed LKR 340mn for SME and tea development sector.	A special women's program was conducted in all 94 branches of SDB bank with a total participation of 1500 women. In this program, a female entrepreneur who had succeeded through SDB bank assistance shared her experience with fellow female participants. As a result, 1500 new women customers were onboarded.	A new saving product called 'Business Saver Account' was introduced with a digital banking facility. This enables the customer to earn an additional income from their daily business turnover whilst enjoying the online transactional facilities. Besides, the product is also intended to take digital banking as a practice to the micro and small entrepreneurs in addition to the medium scale entrepreneurs. This new product succeeded in onboarding 7800 new customers during the year.

Individual/Retail Customer

Our retail banking is focused on providing a range of general savings, fixed deposits and loan products to customers apart from creating specialised financial packages for women, children, youth, and senior citizens to assist with their specific financial requirements. Our financial products are intended to empower each of these segments, enhancing their financial security and living standards. We also introduced a new FD with a special interest rate to celebrate the SDB bank's 25th Anniversary which became an instant success during the year. As a result, our deposit base grew by 31% during the year.

Our products come along with a series of value-added services to enhance the customer experience. These include;

- Digital onboarding system
- Doorstep banking facilities
- Mobile banking service
- UPAY payment app
- ATM facility

What We Offer

General Saving	Fixed Deposits	Investments	Loans	Leasing	Pawning
General savings with attractive interest rates.	A highly secure, risk-free financial investment with a guaranteed lump sum of money at the end of maturity periods.	A range of investment targets and tenures to choose an ideal financial solution.	Loan schemes with attractive interest rates and repayment options to suit the diverse needs of the customer.	Personalized leasing packages to suit individual requirements with flexible repayment schemes at competitive rates	Fast and secure monetary assistance through pawning gold jewellery for critical financial need

Specialised Products

Senior citizens: In appreciation of their dedicated service over the years, we have introduced a range of financial products to support their welfare. Under the title 'Upahara', we offer saving, fixed deposit, and loan schemes to empower Sri Lanka's senior citizens to be fulfilled in their post-retirement life while also contributing to the country's economy.

Women: In our commitment to empowering female entrepreneurs in Sri Lanka, we offer several products under the title 'Uththamavi' supporting their financial security and well-being. These include a saving scheme, an investment package as well as a loan product to cater to their diverse requirements. Besides, we have also introduced a short-term loan scheme, 'Athamaru' that allows women customers to do low-risk credit transactions using gold as collateral.

Social and Relationship Capital

Youth: We understand the significant role played by youth in a country's economic development and therefore support their dreams through financial assistance. Introduced under the title 'Jawaya', these products include savings and loan schemes that support them to develop and maintain strong financial strategies.

Children: In our commitment to build a strong financial foundation for the children and encourage their habit of saving we have introduced two saving products - 'Lakdaru' and 'Dayada'. We believe such a financial foundation will enhance their capacity for prudent financial management in the future thereby contributing effectively to the country's overall development.

Veterans: We pay tribute to our armed forces through the 'Uththamachara' loan facility which is available to war veterans who are suffering from disabilities, and families of deceased military personnel to support their income-generating activities.

Co-operatives

The SANASA Co-operative network contributes nearly 30% to the SDB's total deposit base. This network known as the "SANASA Movement" is the largest cooperative network in the country and consists of over 8000 cooperatives with over 3 million members. SANASA cooperatives are member-owned societies and are grouped under the SANASA Federation and are overseen by the Department of Co-operative Development. These cooperatives are particularly active in rural areas and SDB was created to serve as their main financial institution.

The key objective of this cooperative model is to encourage rural development through the provision of credit to grassroots-level communities. Our core focus remains entrepreneur development with an enhanced emphasis on agriculture-related enterprises. Therefore, SDB bank continues to nurture healthy relations with these societies by participating in their meetings and discussions as well as conducting workshops and trainings on financial management and literacy where necessary. Our support further extends to providing these societies with concessionary facilities assisting them in business development including the creation of new value chains. During the year we introduced the 'Co-op Saver' product offering high-interest rates to the cooperative sector. We have also introduced digital products to societies to drive digital inclusion and enhance convenience. During the year under review, LKR 2.5 Bn worth of transactions was carried out through this platform.

We introduced 'Co-op Saver' product with high-interest rates to the cooperative sector during FY 2022

Going forward, we intend to utilise relationship development strategy in building a loyal cooperative customer base. To this end, we will conduct relationship build up programs with cooperative departments across the SANASA corporative network with the aim of introducing bank's services to the corporative societies and its members. Further, the Bank will continue to assist the co-operative societies to increase their business volumes through conducting Outbound Training programs with these societies including staff training programs and business-related training programs. We also intend to introduce a payment card for the cooperatives for which we are currently awaiting approval from the CBSL. Additionally, promoting value chains in production cooperatives, linking markets with societies, as well as developing weak societies remain priorities on our agenda.

LKR 2.5 Bn worth transactions carried out through digital channels

Business Banking

This segment which was commenced in 2020 caters to the larger corporates where we provide a variety of products for businesses of all sizes in various industry sectors supporting their continued growth. Three types of products are covered under this segment which includes asset products, liability products and value-added services. While maintaining service excellence and digital and internet banking facilities to provide customers with a greater experience, we continue to extend our support to businesses that are involved in agriculture exports in addition to assisting sustainable development projects and energy projects.

As a development bank that is focused on national development, within this segment we have identified priorities for industry sectors that require support during this challenging economic backdrop. As such, we have extended our support to manufacturing, agriculture production, renewable energy, IT and export industries that are impacted due to high inflation. We assisted them through a short-term loan facility and working capital loan facilities to ensure their continued operations and contribution to the local economy. We are committed to supporting the export industry in addition to initiating value chain finance and dealer chain finance.

SUPPLIERS

The suppliers play an essential role in our business functioning as they provide the necessary support services required for the efficient functioning of the Bank. The bank procures a range of services from over 400 suppliers who contribute to our productive operations in various ways. We ensure that all the suppliers comply with the required industry standards including the stipulated

standards of the Bank. As a development bank that is focused on empowering the local communities through supporting progressive masses, we strive to obtain products and services necessary for our functioning mostly through local suppliers including the associates of the SANASA federation.

Our suppliers include;

- Utility service providers
- Transport service providers
- Software vendors and support services
- Material suppliers
- Maintenance services
- Waste management services
- Debt collection agencies
- Landlords
- Contractors

BUSINESS PARTNERSHIPS

We have fostered various strategic business partnerships with local and global entities that support our continued progress and long-term value creation. These associations have increased our competitive edge while reinforcing our ability to assist the progressive masses at the grassroots level.

Local Partnerships

Institute of Chartered Accountants of Sri Lanka

SDB bank partnered with the Institute of Chartered Accountants to educate the local SMEs in financial management and literacy. Carried out in the form of mentorship programs, this endeavour involved over 1000 volunteer Chartered Accountants as mentors and financial educators for the SMEs. This partnership will support the expansion of our customer base in addition to creating opportunities for grassroots-level entrepreneurs to advance in their businesses contributing to the overall economy.

MILCO (Pvt) Ltd

SDB bank partnered with MILCO (Pvt) Ltd to support the country's dairy industry and provide financial assistance to dairy farmers from the MILCO farming network in the North Central Province. This initiative was a timely intervention given the high demand for local dairy products and the industry's growth prospects.

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, Senior Manager - Strategy and Head of Sustainability representing SDB bank as a Core Group Member of the initiative.

Global Partnerships

SDB bank is currently engaged with the international cooperation section of the EU in Sri Lanka, through which preliminary discussions are underway with a DFI, which has an EU blended finance window, for a long-term funding facility for sustainable agriculture for smallholder farmers.

The Bank has also established associations with the International Cooperative Alliance, Asian Confederation of Credit Unions (ACCU), International Raiffeisen Union (IRU) and Centre for International Cooperation in Agriculture Banking (CICAB) in harnessing opportunities in the global cooperative arena.

SAPP, IFAD, and MILCO

SDB bank partnered with Smallholder Agribusiness Partnerships Programme, IFAD (International Fund For Agricultural Development), and MILCO with the aim of uplifting small-scale dairy entrepreneurs and boosting national milk production.

DIMO

SDB bank renewed its MOU with DIMO to uplift the Sri Lankan agriculture sector by offering financial solutions and equipment financing for agricultural mechanisation.

We further maintain memberships with the following association in expanding our network, knowledge and expertise.

Membership of 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

Social and Relationship Capital

COMMUNITIES

Our commitment to uplifting the grassroots level communities does not end with the financial inclusion of smallholder and women entrepreneurs but also extends to the larger community in which we operate by addressing their pressing concerns. Leveraging on our strong community presence across the nation, we continue to address critical issues of those communities thereby reflecting our accountability and commitment to the betterment of society at large.

Corporate Social Responsibility (CSR) at SDB bank

SDB bank's ESG framework provides direction to the CSR initiatives that are implemented in alignment with the Banks' overall CSR vision and strategy. Currently, our key focus areas in relation to CSR include financial assistance to SMEs and women entrepreneurs, capacity building as well as improving the living standards of disadvantaged communities.

CSR Activities

As part of our 25th-anniversary celebrations, we commenced a reforestation project with the objective of embracing sustainable finance. As such, we focused on climate adaptation through an ecosystem restoration project utilising an agroforestry model. From an environmental perspective this project endeavours to restore the ecosystem while from a social perspective, it attempts to create economic value for the local community.

Consequently, in partnership with the Dumbara SANASA Cooperative Union, we continue to support the income generation of the local community by supporting them for cash crop cultivation and the promotion of the agroforestry model amongst the Cooperative unions and the ground-level farmer societies. In doing so, we have provided technical assistance to the Cooperative societies and farmer societies.

Community support through Agroforestry Model and 'Green Village' Concept

Besides, under the CBSL's 'Green Village' concept, we are supporting the nearby schools in the same area to establish an IT lab in addition to the donation of books for their library. In the near term, we intend to introduce livestock farming to the community through a loan scheme.

In addition, during the financial year we conducted awareness sessions for the farmer communities relating to good agricultural practices as well as on medicinal plants of Sri Lanka.

REGULATORS

We sustain our relations with regulators through consistent adherence to all the industry standards including CBSL guidelines and SEC regulations in carrying out our business operations.







Natural Capital

At SDB bank, we recognize that the health of our economy and financial system is intricately linked to the health of our natural ecosystems. While we take proactive action to minimize the environmental impacts of our own operations, we are cognizant of the reality that our biggest impact on the environment emanates from the financed activities. Therefore, while we continue to make improvements to the Environmental and Social Risk Management in our lending operations, we also codified our sustainable finance focuses during the year to bring in greater emphasis in mobilising capital to activities that have a positive environmental and social impact – from sustainable agriculture and circular economy to renewable energy and energy efficiency, which are aligned with the Green Finance taxonomy declared by Central Bank of Sri Lanka in May 2022.

Our Actions	Outcomes
<ul style="list-style-type: none"> • Non-retail loans screened through an environmental and social due diligence process, with all loan facilities above Rs.30mn undergoing enhanced due diligence 	<ul style="list-style-type: none"> • Engagement with clients to manage their Environmental and Social risks and enhance their profitability through green productivity and differentiation
<ul style="list-style-type: none"> • With the codifying of sustainable finance focuses, mobilisation on renewable energy financing 	<ul style="list-style-type: none"> • Financing of over 3MW of rooftop solar installed capacity during the year, which will generate 4,235,898 kWh of renewable energy each year over the next 20 years with annual emission reduction of approximately 3,136 tonnes of carbon dioxide equivalent
<ul style="list-style-type: none"> • Piloting an agroforestry initiative as part of an effort to promote financing of nature-based solutions in Sri Lanka 	<ul style="list-style-type: none"> • Restoration of 25 hectare of degraded land adjoining VRR sanctuary and supporting the local community to adapt to climate change by helping them to explore income streams in non-timber forest products. Approx. 228 tonnes of carbon sequestered per year over 30 years from the perennial plants
<ul style="list-style-type: none"> • Energy Management 	<ul style="list-style-type: none"> • Procuring of two rooftop Solar systems for our Horana Branch (25Kw) and Karapitiya branch (20Kw) • Follow-up activities on green building assessment and air condition assessment conducted at Horana Branch to compile cost-benefit analysis for energy efficient A/C upgrade and other energy efficiency improvements.
<ul style="list-style-type: none"> • Formulating revisions to procurement guidelines to integrate green procurement 	<ul style="list-style-type: none"> • Environmental performance and total cost of ownership factored in beyond cost considerations in procurement decisions
<ul style="list-style-type: none"> • Water Conservation efforts 	<ul style="list-style-type: none"> • Rainwater Harvesting System design at Horana Branch finalized for implementation
<ul style="list-style-type: none"> • Waste Management (Digital Savings Account Opening and Customer On-boarding Workflow, Digital Loan Processing Workflow) 	<ul style="list-style-type: none"> • Reduced manual processes and paper usage due to the digital transaction process • Process efficiency and reduction in energy consumption

Natural Capital

SDG Focus				Takeouts for the next FY
				
<p>We ensure energy management through implementing energy conservation measures across our operations</p>	<p>We effectively manage our environmental impact and promote resource conservation and waste reduction including the commencement of work stream setting green procurement criteria</p>	<p>We commenced Agroforestry project and raise environmental awareness amongst employees</p>	<p>We contribute to environment and biodiversity conservation through our commitment to ecosystem restoration projects</p>	<ul style="list-style-type: none"> Continued implementation of energy saving measures across our operations Greater focus on environmental and social risk management and sustainable finance (sustainable energy solutions) Enhanced focus on financing value chains

Managing the Internal Footprint

With regards to internal environmental footprint management, in FY2021, the Bank adopted an approach to pilot and demonstrate the value of environmentally friendly initiatives. This focus continued in FY2022, with the procurement of solar rooftop systems for Horana and Karapitiya branches and the designing of rainwater harvesting system at Horana branch. Based on the energy audit and A/C assessment conducted in FY2021 with the support of consultant, Co-energi, and the Green Building preliminary assessment carried out by GBCSL accredited professionals at the Horana branch, the Bank had mobilized to compile a cost/benefit analysis for upgrades and retrofits to the Horana branch. However, the economic conditions that prevailed post-April 2022 made such investment cost-prohibitive with the escalation of prices of capital equipment. Therefore, the A/C upgrade had to be put on hold and would be re-considered during FY2023/24.

Despite the cost escalations, the Bank proceeded on the procurement of two solar PV rooftop systems for Horana and Karapitiya branches, where the installations are currently in progress. These two installations, which together constitute 45KW of installed capacity would contribute to reduction of approx. 866 tonnes of CO2 equivalent over the 20-year power purchase agreement.



Solar Rooftop System installation at Horana Branch underway

SDB bank continued to implement energy saving measures by rationalising the use of office space and releasing several office buildings that had been rented. Work from home arrangements and floor-based work rosters were implemented at the head office and across some central operations, where the power-downs of selected floors was implemented based on the roster.

The Bank also continued the practice of handing over paper waste from operations in the Western Province to Neptune Recyclers. We have also been communicating internally via e-flyers on sustainability practices including on electricity use and food waste.

With pilots implemented, we hope to demonstrate the sustainability practices with the regional sustainability teams that have been constituted to scale these solutions within its branch network.



In 2022, we handed over 14,501Kg of paper waste to Neptune Recyclers for recycling

Environment and Social Risk Management Framework (ESMS) and Sustainable Finance

The Bank had commenced to operationalize an Environmental and Social Risk Management System (ESMS) from September 2021 commencing with environmental and social due diligence assessment for all non-retail loans. With the onset of the poly-crisis, the Bank had to curtail new lending. The fuel shortages and other disruptions also made physical inspections of client operations more challenging. However, the Bank's relationship officers continued to assess client operations in using the environmental and social due diligence checklist that the Bank had developed with the support of IFC and ADB. Senior Manager - Sustainable Banking conducted enhanced due diligence of several large clients in coconut-based product manufacturing and export and in FMCG product manufacturing and distribution. The Bank engaged with clients to address risks and leverage sustainable business practices for profitability.

Post-disbursement reviews in December 2022 had identified areas for further improvement in ESMS implementation including the need for regular portfolio level visibility on E&S risks. A key aspect is the integration of the Environmental and Social Due Diligence questionnaire to the Bank's Loan Origination System along with improvements needed to capture data on Bank's alignment to the Green Finance Taxonomy for Sri Lanka that the Central Bank of Sri Lanka had declared in May 2022.

Based on business level KPIs set on Bank's sustainable finance focuses, we mobilized in leveraging partnerships. On e-mobility, the Bank had conducted a demo of electric bicycles for its staff including its leasing sector staff in collaboration with RHODA in March 2022. As part of the engagements on circular economy, we initiated engagements with MAS Foundation for Change to discuss the modalities of awareness and capacity building for cooperatives in Southern region (tourist areas) to set-up material recovery facilities and commence upcycling businesses. In relation to sustainable agriculture, the Bank had partnered with the Agribusiness Development Division of the Department of Agriculture to promote the uptake among farmers of the Sri Lanka

Good Agricultural Practice (SLGAP) standards with organising of workshops. The Bank had also commenced engagements with Market Development Facility (MDF) during the year to enter into a strategic partnership for sustainable value chain development.



The strategic partnership with Hayleys Fentons entered into in FY2021 paved the way for the Bank to finance commercial scale Rooftop Solar PV Project [3MW in total at two sites in Colombo (1,854kWp) and Kandy (1,200kWp)] in July 2022. The Bank had also previously financed smaller scale residential systems prior to March 2022, however with the cost escalations, the proposition had become unviable for small scale installations. With the cost-reflective pricing being implemented by the utilities, the Bank will be exploring the opportunity to resume residential and commercial scale solar financing.



Partnering Sustainable Energy Solutions

Financed commercial scale Rooftop Solar PV Project (3MW in total) at two sites in Colombo (1,854kWp) and Kandy (1,200kWp) in July 2022

Natural Capital

The Bank facilitated engagements between the Solar Industries Association (SIA) and the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI) to work together to address bottlenecks in scaling solar financing including in advocating for green wheeling as a workaround for the financial challenges faced by CEB in making due payments to renewable energy developers.



Discussion between Solar and Banking industries facilitated by SDB bank

Research on Financing Nature Based Solutions

The Bank had commenced financing of value chains of certain perennial crops such as Kithul in FY2021 in partnership with certain cooperatives with the support of the Smallholder Agribusiness Partnerships Program (SAPP). As part of the Bank's 25th anniversary commemorations, the Bank had intended to launch a flagship strategic sustainability initiative. With the decade 2021 to 2030 declared by the United Nations as the decade on ecosystem restoration, SDB bank envisaged to develop a landscape finance/ nature-based solution finance proposition by implementing a pilot agroforestry initiative to restore degraded ecosystem closer to a protected area.

The Bank had reached out to its partner cooperatives which were engaged in agribusiness and had assessed various sites for this restoration activity including several sites in Gilimale adjoining the Peak Wilderness Sanctuary. However, based on detailed assessments build on input from Forest Department, Department of Wildlife Conservation and Divisional Secretariats, the Bank had selected a site near the Victoria, Randenigala, Rantembe (VRR) sanctuary for restoration. Dumbura SANASA Union, a collective of cooperatives, with whom the Bank was already engaging on financing for agri-produce aggregation and value addition was selected as a key partner in this initiative alongside with IUCN Sri Lanka.

The site for this pilot agroforestry initiative was a 25 hectare degraded land in Dewahandiya East village in Ududumbara. This land area adjacent to VRR sanctuary had been degraded due to decades of tobacco cultivation in the mountain slope. The local population had phased out tobacco cultivation over time and replaced with vegetable cultivation. However, with the fertilizer ban/high input costs in 2021 and 2022, their production had been adversely affected. Over the past four years, the local community had also been impacted from climate change with rainfall variability affecting their pepper cultivation, which was a primary cash crop for the village. The area forms a part of the Randenigala Reservoir's catchment area and had been identified for high soil erosion. During the dry seasons, this degraded area is engulfed with mana and poses a risk of being the cause of forest fire that could spread to VRR sanctuary. Therefore, based on making positive impact on biodiversity, climate action, land degradation neutrality and community resilience, the Bank initiated the agroforestry project in December 2022. The Bank partnered with multiple state agencies including Divisional Secretariat of Ududumbara, Forest Department, Department of Wildlife Conservation, Central Province Department of Agriculture, Department of Export Agriculture and Central Province Department of Ayurveda to name a few in implementing this initiative as a multi-stakeholder program with the local community being central to the program design.

Conduct training programs for the local community on Sri Lanka Good Agricultural Practice (SLGAP) standards and on biochar and vermicompost production

Prior to initiating planting, the Bank commissioned scientific studies (geospatial and soil analysis). Based on inputs from experts and through multi-stakeholder consultations, inter-crop model with 10 types of perennial plants (Jackfruit, Bael fruit, Indian gooseberry, Coffee, Cinnamon, Bibile Sweet Orange, Lime, Mee, Bulu, Neem) were identified to be planted.

The Bank also conducted training programs for the local community in Sri Lanka Good Agricultural Practice (SLGAP) standards and on biochar and vermicompost production locally with the support of Department of Agriculture, Central Province Department of Agriculture and Department of Export Agriculture.

Planting commenced in August 2022 and continued till February 2023 where we succeeded in planting over 9,000 perennial plants. Staff from SDB bank also participated in the planting activities. A total of 84 farming families benefitted through this agroforestry initiative.

Planted over **9,000** perennial plants
 benefiting **84** farming families.

As a next step in this program, the Bank is working with the Dumbara SANASA Union to engage with the local community to develop value chains in these perennial crops and scale this agroforestry program to other regions. The Bank is currently engaging with the USAID Climate Adaptation program with the intent of developing the capacity of cooperatives to be robust aggregators in export-oriented value chains. The data and knowledge gathered through this pilot project would support the Bank to attract international sustainable finance to Sri Lanka and the Bank remains keen to support the Government of Sri Lanka in implementing nature-based solutions as part of a debt for nature swap.



Training on Biochar and Vermicompost production further to SLGAP training



25th Anniversary Reforestation Project



Born from the vision of creating a self-sufficient, and resilient economy, SDB Bank is always at the forefront of supporting local entrepreneurs in building a production based economy.

Building vibrant communities with opportunities





Risk Management

Approach to Risk Management

SDB comprehend the importance of risk management across every aspect of our business operations and has taken a proactive approach to establish risk controls to minimise the risks that can impact Bank's continued growth. In this regard, we have implemented an Integrated Risk Management Framework clearly defining our governance structure, policies, processes, and procedures that are in place to manage risks that impact our profitability and financial standing. This framework continues to serve the Bank in foreseeing the potential risks thereby taking appropriate measures to evade risks in the current volatile macroeconomic backdrop.

The Board of Directors hold the responsibility for managing risks guiding in formulating policies and setting the risk parameters. The Board of Directors have delegated the oversight of the risk management to the Board Integrated Risk Management Committee (BIRMC) which comprises of Independent and Non-Executive Directors.

The Executive Integrated Risk Management Committee (EIRMC) holds the responsibility for implementing the risk management framework and reviews the Bank's credit, market, liquidity, and operational risk indicators as well as its internal capital adequacy levels. The Chief Risk Officer reports to the EIRMC and the BIRMC.

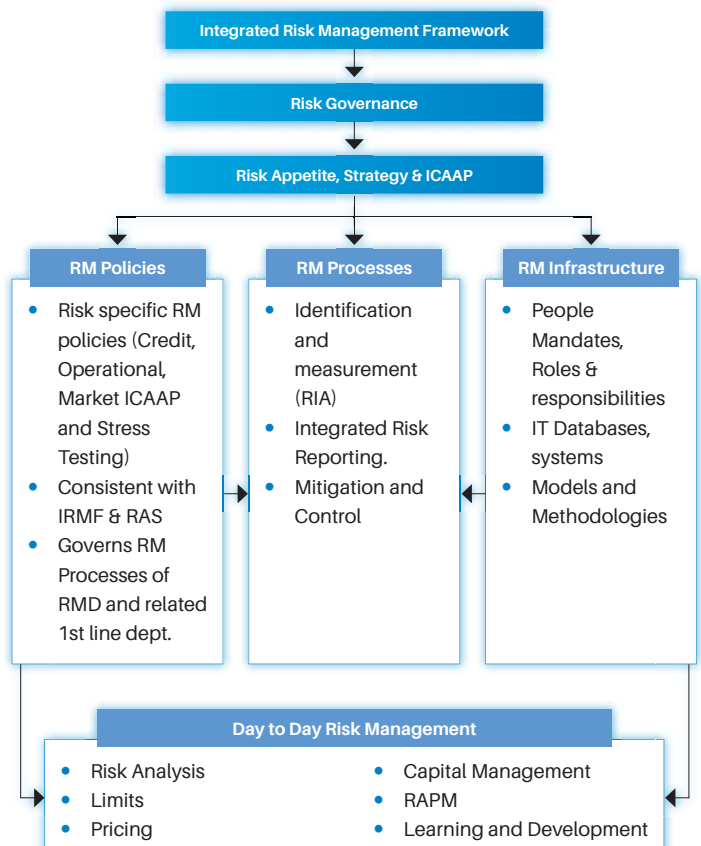
The Banks' Risk Management Framework (IRMF) consists of all the elements set out by the Bank to attain the general objectives of risk management which comprises of;

- i. Integrated Risk Management Framework is setting the ground rules for the Risk Management Framework, including, without limitation, risk governance, Risk Appetite guidelines, definition of the risk management processes, as well as Risk Management policy documentation and reporting guidelines. The IRMF is also catering for risk categories not captured by risk specific policies. All the other components of the RMF shall be developed consistently with the principles set out in the IRMF.
- ii. Risk Governance lays down the main roles and responsibilities, including levels of authority and reporting lines, of all key stakeholders involved in Risk Management. The Governance elements of the RMF are documented under IRMF (see next section)
- iii. Risk Appetite, Strategy and ICAAP defines the risk strategy of that the Bank in terms of risks the Bank wishes to assume, clear boundaries for each material risk type, integration of risk planning with business planning through ICAAP. Detailed description of governance, processes, methodologies pertaining to Risk Appetite and ICAAP shall be documented in dedicated policies.

- iv. Specific Risk Management Policies and Processes are defined for credit, market & ALM risks, operational risk, and ESG risk following principles set out in the IRMF. All these policies are standalone documents that govern specific segments of the RMF.
- v. Risk Management Infrastructure consists of all the resources deployed by the Bank to carry out the provisions set out in the risk management policies and procedures, including without limitation, people, systems, data, models and methodologies.
- vi. Day to day Risk Management Activities are the risk policies and procedures in action carried out by all relevant stakeholders.

The Bank has put in place the following policies in supporting risk management;

- Integrated Risk Management Policy
- Credit Risk Management Policy
- Operational Risk Policy
- Asset & Liability Management Policy
- Investment Policy
- IT Security Policy
- Compliance Policy



Risk Environment in 2022

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

The financial year under review was confronted with heightened macroeconomic uncertainties that resulted in economic contraction recording a negative growth rate. The shortage of foreign exchange and the intensifying economic crisis contributed to the economic contraction leading to a contraction of all key sectors including power outages, fuel shortages, lack of raw material, and increasing cost of production and price hikes in both the local and international markets. The instability of the political environment during the early to mid-part of the year stemming from public demonstrations, changes in the political leadership and government had knock-on effects on the banking industry as a whole.

In this milieu, we remain alert to different risks affecting our operations and developed an overall risk profile for the Bank. Based on the risk profile, we continued to improve our risk management framework and practices to consolidate its ability to abate such downside risks while capitalising on growth opportunities. During the period, a key risk concern remained the risks associated with potential credit portfolio stress in the context of moratorium phase-out for COVID-impacted borrowers. The increased digitisation of our banking systems and processes had increased the potential risk of IT and Cyber security risks.

Key Highlights during 2022

- We increased the frequency of the BIRMC meetings and had monthly meetings commencing from mid of the year under review to have more focused and proactive risk monitoring and management in light of increased uncertainty in the macro economy.
- We expanded the Capital Adequacy Assessment Process with additional safeguards and additional calculation methods to strengthen risk management stress testing.
- In light of the elevated risks and lower risk appetite in the market, we set up appropriate credit portfolio strategies including more prudent underwriting standards with more focus on net positive risk segments and products.
- We setup a dedicated Remedial and Rehabilitation unit to support the revival of stressed borrowers due to the macroeconomic factors. In this light we have further streamlined the credit portfolio monitoring with dedicated officers assigned to remedial actions in the branch network with more attention and focus on the rehabilitation and revival of the borrowers.
- We initiated a review and revalidation of the impairment models in line with the expected credit stresses and took on additional impairments through management
- Strengthening of the application and behavioural risk scoring methodologies
- We were more prudent in managing the banks liquidity profile while carrying sufficient liquidity buffers and positions to safeguard the bank with the market liquidity was tight. We gave more priority in retaining and growing the deposits within reasonable cost.
- Instituted the Environment, Social and Governance (ESG) risk concerns into our risk framework considering the increased investor deliberation of ESG risks and our response to them.
- We continue to implement appropriate strategies to handle operational risk and IT and Cyber security incidents.

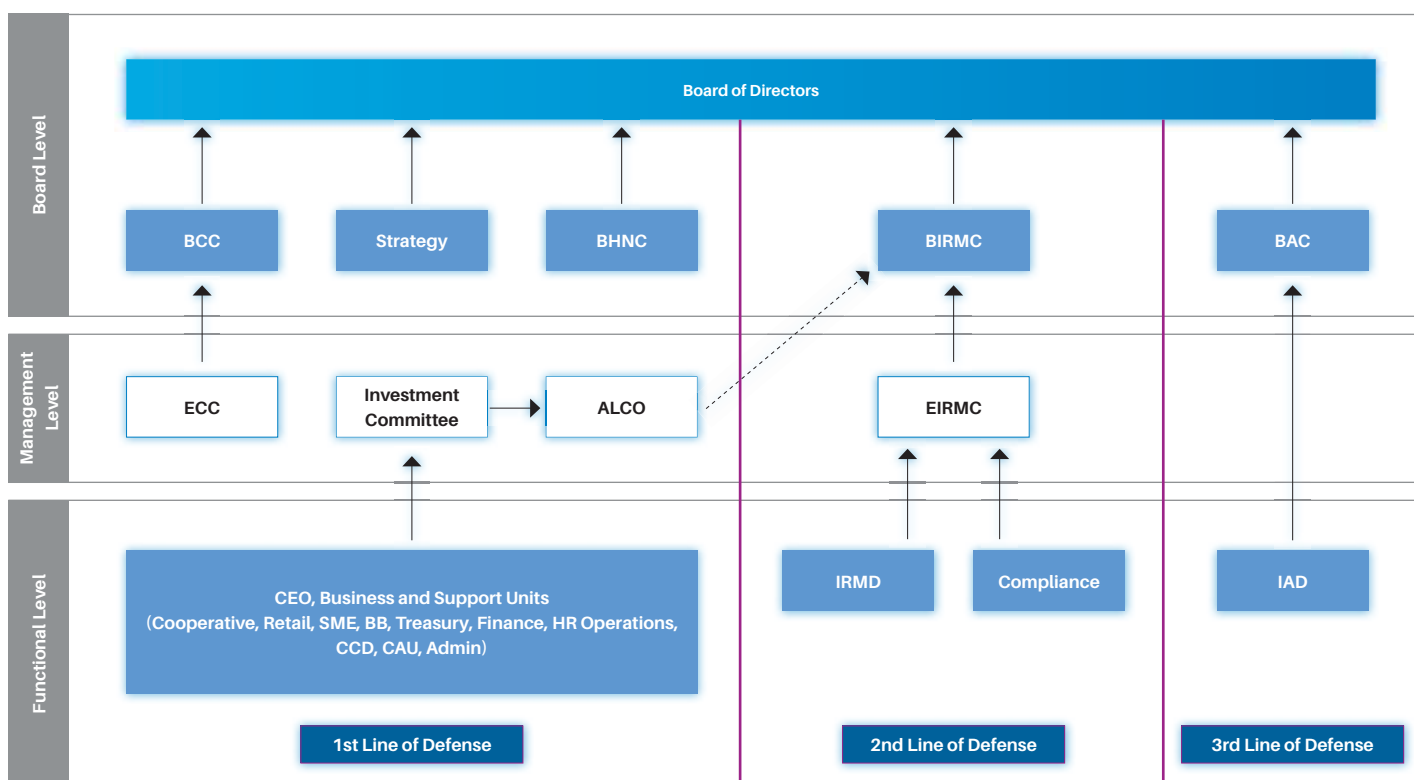
Risk Governance

SDB's risk governance structure is based on the three lines of defence model that separate risk oversight. All material risks as defined in the IRMF shall be based on the principle of three lines of defence:

- **1st line of Defence:** Branches, Business and Support Units shall be the primary risk owners and risk takers being responsible to manage risk exposures on a day-to-day basis through controls embedded at business process level or specialized back office functions.
- **2nd Line of Defence:** The Risk Management Division as an independent function headed by the CRO. The CRO has direct access to the BIRMC without impediment and reporting functionally to the BIRMC and administratively to the CEO. Compliance is the other independent function headed by the Compliance Officer and with similar reporting line of CRO. One of the key roles of the Risk Management Division under the 2nd line of defence is to ensure that the 1st line adequately applies and complies with risk and control policies and standards and to provide independent oversight of the risk profile of the Bank. On the other hand, the function of the Compliance is to ensure that the 1st line is conducting the respective operations in accordance with industry laws and regulations, internal policies and best practices.

Risk Management

- **3rd line of Defence:** Specific to Risk Management, the Internal Audit Department is responsible to assess compliance and adherence to Risk Management Policies and Procedures on an ongoing basis and provide an independent assurance of the robustness of the Risk Management framework, processes and methodologies.



Risk Culture

We have inculcated a risk awareness culture across the organisation continually carrying out training programs for the same. The staff were trained on early detection of credit quality deterioration, operational risk reporting and data capture functions that consist of several mandatory trainings 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 the maintenance of the desired risk profile. Hence, we have established the risk appetite of the Bank through a clear set of indicators, with limits and triggers, relating to the key risks the Bank is exposed to. These guidelines are reviewed and updated regularly by the Board of Directors in keeping with the evolving developments, strategic objectives, and the corporate plan for the year.

		Limit	Dec22
Credit Risk			
1	Single Borrower Limit	10%	5.03%
2	Group Borrower Limit	15%	3.85%
Liquidity and Solvency			
3	Liquid asset ratio	>20%	23.51%
4	Liquidity Coverage Ratio	>100%	191.22%
5	Net Stable Funding Ratio	>100%	241.61%
6	Capital Adequacy Ratio	>12.5%	15.37%
Operational Risk			
7	Operational Losses	<0.25%	Nil
8	Fraud Cases		Nil

Risk Reporting

We regularly report those factors relating to the exposures we have identified by sending reports to the Board of Directors, the relevant department heads, EIRMC and the BIRMC by the Chief Risk Officer.

Risk Exposure	Risk Reports
Credit Risk	Stage wise, PaR Models and DPD wise portfolio analysis on Products, Geography, and Sectors
Market Risk	Impact on interest rate shifts on Bank's Economic Value of Equity and Net Interest Income Approaches
Liquidity Risk	Asset & Liability and Liquidity Risk validation via - Stock Approach, Maturity Gap Analysis - Static approach and Maturity Gap Analysis - Behavioural/Dynamic approach
Operational Risk	Assessment of operational loss events, Key Risk Indicators and RCSA process reporting
Strategic and Reputational Risk	Reporting of actual against forecasted performances, monitoring and update of reputational risk scenarios bank is exposed to. Scorecard based questionnaire assessments
IT and Cyber Security Risk	Updates on the existing security levels of the bank, regular monitoring outcomes and way forward
ESG Risk	Validation of the adherence to the Environmental and Social Due Diligence requirements on transaction and portfolio levels.

Risk Profiling

We establish our key risks through a review process that analyses the risks encountered 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.

Stress Testing

The Bank conducts regular stress testing to identify potential impacts of the fluctuations in market variables and other risk factors could have on the Bank's risk profile. Stresses in the Bank's credit, market, and 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.

Risk Exposure	Stress Scenario
Credit Risk	Increased Shifts in Staging and the respective provisioning, decrease in collateral values,
Credit Concentration Risk	Increase in HHI under stress - Name, Product and Sector Concentrations
Interest Rate Risk	Immediate impact of changes in interest rates on Bank's earnings through changes in its Net Interest Income (NII)-using the EVE and EAR methodologies
Liquidity Risk	Impact on the liquidity and profitability ascertained via stress testing on Withdrawal of higher % of the deposits, Rollover of loans/ deferment of loan repayment, Increase in funding cost at stressed situations
Forex Risk	Change in the value of Foreign exchange in adverse direction
Overall Credit Quality Deterioration	Increase in Staging along with Credit Concentration Risk - HHI
Financial Crisis	Multifactor stress considering all the above stress scenarios

Credit Risk

The Bank's core 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 response: The Board Credit Committee 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. Other key aspects 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 Management

Credit Risk Performance during 2022

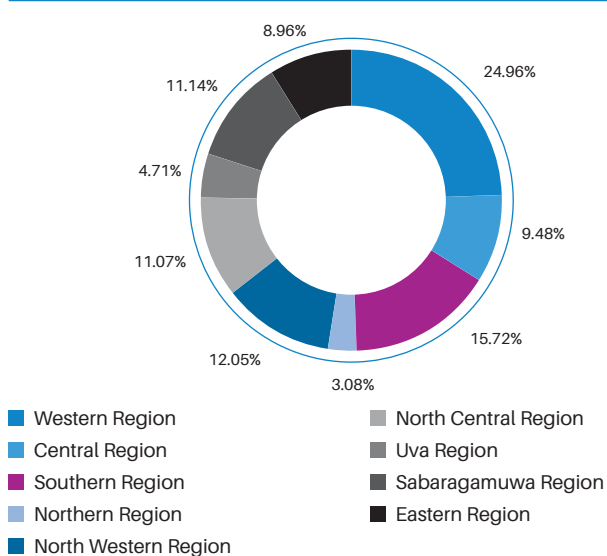
Index	Product	Dec-22											
		Amortized Cost			Cumulative Impairment				Cover Ratio				
		Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total %	Stage 1 %	Stage 2 %	Stage 3 %
1	Personal Loans -Floating Rate	25,073.31	22,120.75	800	2,152.48	862.8	199.9	139.03	523.85	3.44%	0.90%	17.38%	24.34%
2	Upahara Loans	24,607.18	24,048.12	137	422.10	90.9	8.2	4.51	78.24	0.37%	0.03%	3.29%	18.54%
3	SME	16,707.17	8,586.64	2,723	5,397.32	2,876.1	373.6	510.97	1,991.55	17.21%	4.35%	18.76%	36.90%
4	Jawaya Loans	13,557.78	12,837.07	219	502.15	96.1	12.6	6.70	76.82	0.71%	0.10%	3.06%	15.30%
5	Cash Margin	11,770.37	11,442.45	233	95.01	8.7	8.3	-	0.47	0.07%	0.07%	0.00%	0.49%
6	Lease	8,236.39	4,467.85	2,063	1,705.07	739.3	94.5	151.59	493.23	8.98%	2.11%	7.35%	28.93%
7	Gold Loans	5,820.85	5,597.78	45	178.20	10.5	9.2	0.17	1.13	0.18%	0.16%	0.37%	0.63%
8	Staff Loans	2,046.49	2,038.24	5	3.43	5.1	-	-	5.07	0.25%	0.00%	0.00%	147.81%
9	Housing	3,165.16	1,632.91	572	959.86	597.3	77.3	120.51	399.44	18.87%	4.73%	21.05%	41.61%
10	Cooperative Loans	2,056.44	1,246.04	114	696.24	292.1	14.4	11.21	266.45	14.20%	1.16%	9.82%	38.27%
11	Personal Loans -Fixed Rate	1,476.24	1,234.13	69	173.01	72.2	10.8	10.95	50.44	4.89%	0.87%	15.85%	29.15%
12	Business/Corporate	987.31	885.43	-	101.88	77.9	29.9	-	47.93	7.89%	3.38%	0.00%	47.05%
13	Uththamavi Loans	582.02	561.21	-	20.81	10.9	0.9	-	10.00	1.87%	0.16%	0.00%	48.04%
14	Consumption Purpose Loans	215.50	107.29	40	68.29	58.7	7.0	13.44	38.27	27.22%	6.48%	33.67%	56.04%
15	Group Loans	17.57	0.55	-	17.02	5.9	0.0	-	5.90	33.61%	0.70%	0.00%	34.67%
	Total	116,319.76	96,806.67	7,020.45	12,492.87	5,795.4	837.5	969.08	3,988.78	4.98%	0.87%	13.80%	31.93%

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.

Risk response: The credit risk management of the Bank maximise a Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. We have set risk concentration limits for which the portfolio balances are monitored. These risk limits takes in to account prudent limits based on product type, geographical distribution, single and group borrower limits. The portfolio performance are reviewed at Board Credit Committee and the BIRMC and appropriate mitigants are proposed.

2022



Market Risk

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

Interest Rate Risk is the risk exposure relating to interest rate changes in the trading portfolio of Government securities, and other investment securities.

Risk response: The Bank has set limits for trading book exposures and is marked to market and measured against the set limits. The Bank carries only a limited trading book with majority of the investment portfolio is held for maturity (HTM). The bank is aware of the implications on its HTM portfolio in light of potential domestic debt restructurings that could materialize with the IMF bailout package and the resultant activities for debt sustainability initiatives.

Foreign exchange rate risk is the possibility of an adverse impact on the Bank's capital or earnings due to fluctuations in the market exchange rates. This risk arises due to the holding of assets or liabilities in foreign currencies. The Bank holds two-dollar-denominated FDs with the Bank of Ceylon. These two deposits have been placed from the proceeds from the Subordinated Term Loan of USD 8 Mn received from the Belgian Investment Company for Developing Countries (BIO) and USD 40 Mn, an unsecured senior term loan received from the 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 the 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 2022.

Liquidity Risk

Liquidity risk relates to the possibility that the Bank is 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 response: The Assets and Liabilities Management Committee (ALCO) is responsible for managing the Bank's liquidity risk. The Committee regularly reviews the Bank's cash flow positions, projections, funding capabilities and pricing decisions to ensure internal targets and regulatory liquidity requirements are met.

Liquidity Risk Performance during 2022

	As at 31 December 2022							
	Less than 7 days LKR	7-30 days LKR	1-3 months LKR	3-12 months LKR	1-3 years LKR	3-5 years LKR	Over 5 years LKR	Total LKR
Financial assets								
Cash and cash equivalents	3,072,845,490	-	-	-	-	-	-	3,072,845,490
Investments	2,057,492,243	4,308,405,542	7,293,004,926	13,083,065,170	9,566,478,649	7,335,248,910	506,996,539	44,150,691,978
Loans and receivables to other customers	2,424,254,345	3,933,917,651	3,665,695,179	21,882,547,043	15,534,016,083	9,465,392,844	63,405,598,322	120,311,421,467
Total financial assets	7,554,592,078	8,242,323,193	10,958,700,105	34,965,612,212	25,100,494,732	16,800,641,754	63,912,594,861	167,534,958,936
Financial liabilities								
Due to other customers	2,791,264,156	4,705,099,291	14,150,963,082	58,764,378,004	19,940,652,527	6,460,392,739	3,465,633,803	110,278,383,602
Other borrowings	-	5,289,599,022	3,592,854,813	8,163,146,247	11,773,889,720	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	2,791,264,156	9,994,698,313	17,788,966,229	67,639,549,697	35,649,209,488	11,367,404,470	5,835,884,475	151,066,976,827
Net financial assets/(liabilities)	4,763,327,922	(1,752,375,119)	(6,830,266,124)	(32,673,937,483)	(10,548,714,755)	5,433,237,284	58,076,710,386	16,467,982,108

Risk Management

Interest Rate Risk

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 response: 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.

Asset or liability	Interest rate sensitivity assets and liabilities as at 31 December 2022						Total LKR
	Carrying Amount LKR	On Demand LKR	1-3 Months LKR	3-12 Months LKR	Over 1 Year LKR	Non interest Sensitive LKR	
Cash and cash equivalents	3,072,845,490	1,545,567,378	-	-	-	1,527,278,112	3,072,845,490
Placements with banks	18,205,195,883	785,512,417	1,335,574,868	2,285,627,733	13,798,480,865	-	18,205,195,883
Financial assets fair value through profit or loss	1,905,738,326	296,448,184	296,448,184	1,312,841,958	-	-	1,905,738,326
Loans and receivables to other customers	110,525,450,192	5,486,917,284	3,163,388,195	18,884,000,882	82,991,143,832	-	110,525,450,192
Debt and other instruments	19,819,735,716	4,021,065,706	4,850,572,850	10,320,191,454	627,905,707	-	19,819,735,716
Interest bearing assets	153,528,965,609	12,135,510,969	9,645,984,097	32,802,662,027	97,417,530,404	1,527,278,112	153,528,965,609
Due to other customers	107,533,001,772	7,204,797,132	13,585,939,041	56,631,430,681	30,110,834,919	-	107,533,001,772
Other borrowings	30,704,547,675	1,183,076,116	2,799,093,353	7,289,428,088	19,432,950,117	-	30,704,547,675
Debt securities issued	-	-	-	-	-	-	-
Subordinated term debts	5,055,590,136	88,479,814	187,894,232	110,652,151	4,668,563,939	-	5,055,590,136
Interest bearing liabilities	143,293,139,583	8,476,353,062	16,572,926,626	64,031,510,920	54,212,348,975	-	143,293,139,583
Interest rate sensitivity gap	10,235,826,023	3,659,157,907	(6,926,942,529)	(31,228,848,892)	43,205,181,429	1,527,278,112	10,235,826,023

Operational Risk

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

Risk response: The risk department together with operations units administer the evaluation, to define operational risk parameters, of all key business units on their exposure. This is a mechanism that enables business units to identify and assess their 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 Risks

IT risk is the business risk associated with the 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, cyber-attacks, and obsolescence in applications. With the high adoption of IT-related business models and digital channels, there are heightened risks and emerging risks associated with IT. There are challenges to identifying and quantifying the uncertainty of the likelihood of occurrence and the impact or magnitude of IT-related risk incidents.

Risk response: The Bank has developed policies and procedures for the 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.

Legal Risks

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.

Risk response: 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

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 response: 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 in adopting relevant policies, monitoring progress through several reporting formats and helping the Bank maintain its focus on the end goals.

Reputational Risk

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

Risk response: 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 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

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

Risk response: Bank's governing principles on compliance ensure that compliance starts from the top, emphasising standards of honesty and integrity and holding itself to high standards when carrying on business at all times striving 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, ensuring 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 to play a key role in managing this risk.

Message from the Chairperson on Corporate Governance

Dear Stakeholders

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

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

The collective industry acumen, depth of skills and diversity of experience of Board of Directors have enriched Board discussions and will be a key driver of the Bank's strategic transformation over the next few years. The Bank's ability to attract international investors and employee confidence on the Bank's mission, providing renewed vigour and enthusiasm to our team. In 2022 the Board met 20 times and key areas of focus included implementation of the transformation strategies.

The reports on pages 96 to 131 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.



Dinithi Ratnayake
Chairperson

12 April 2023
Colombo, Sri Lanka

Corporate Governance

Our Approach

At SDB bank, Corporate Governance incorporates the system of rules, practices, and processes that direct and manage the Bank towards long-term value creation for its stakeholders sustaining its continued growth. Hence, the Bank's Board of Directors hold the primary responsibility for formulating policy frameworks and executing robust governance practices in effectively driving the Company's strategic objectives. These governance practices are regularly reviewed and updated based on the regulatory amendments, risks and opportunities in the operating environment as well as internal adjustments. The SANASA Movement has established the foundation for the Bank's ethical conduct that is built upon the corporative principles of empowerment, equal opportunity, and collective participation in decision-making.

The Bank's Corporate Governance framework has been fundamentally built on the following requirements and guidelines (listed below) and we continuously review our corporate governance practices on par with the specified standards.

External Frameworks/Standards

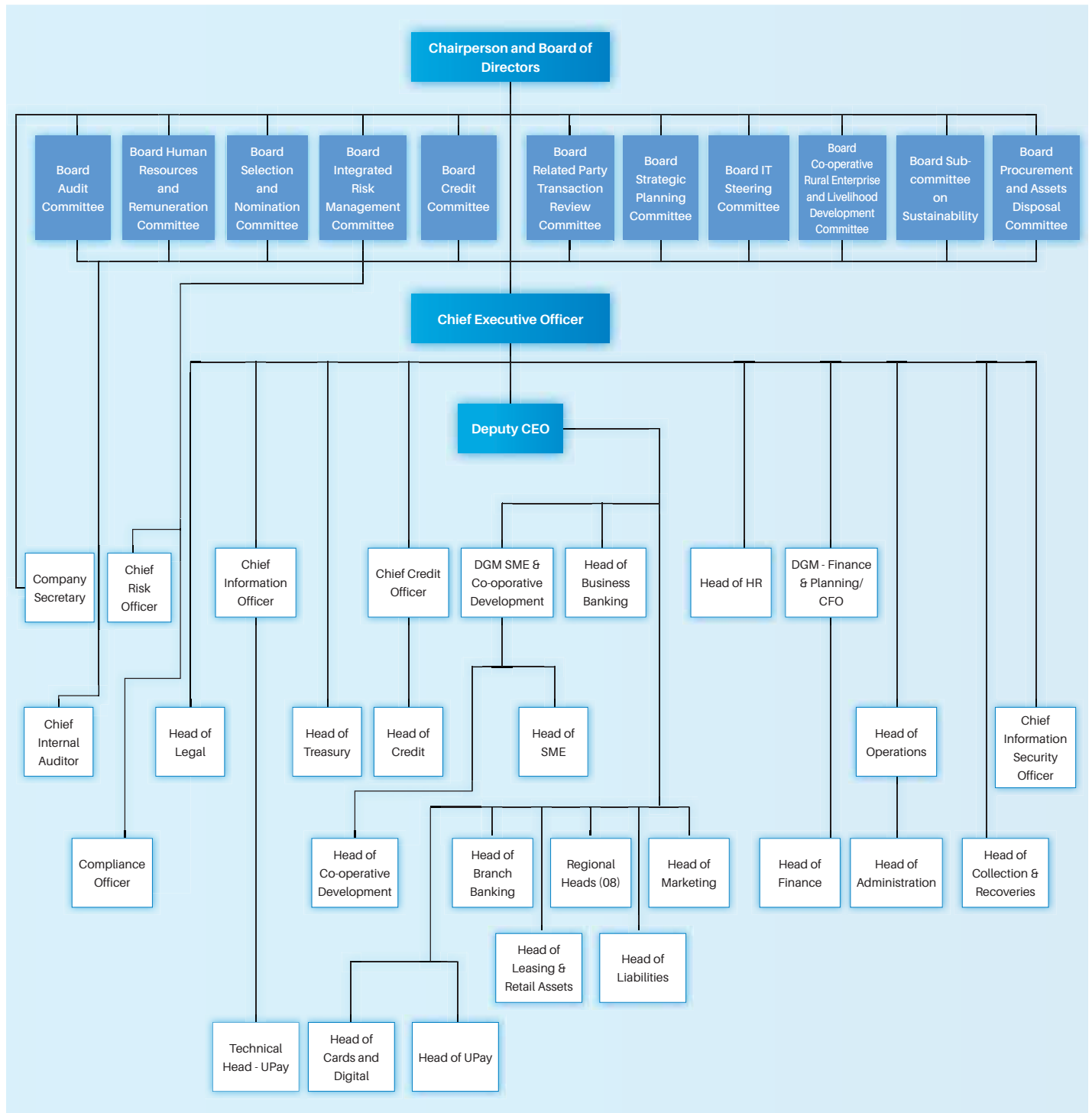
- Companies Act No. 07 of 2007
- Banking Act No. 30 of 1988 and amendments thereto
- Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and amendments thereto
- Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (a Voluntary Code)
- Listing Rules of the Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto
- 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
- Inland Revenue Act No. 24 of 2017
- Road-map for Sustainable Finance in Sri Lanka
- Recommendations from Task Force on Climate-Related Financial Disclosures (TCFD)
- Developing a Body of Knowledge from the Task Force on Nature-Related Disclosures (TNFD)

Internal Frameworks/Standards

- Articles of Association of the Bank
- Board-approved policies on all major operational aspects
- Customer Charter
- Policy for the secrecy of information, Related Party Policy, credit and other internal manuals
- Integrated Risk Management Procedures
- Code of Conduct and Ethics for Directors
- Disclosure policy, Communication policy
- Processes for internal controls
- Compliance Charter, Compliance Policy and procedure manual for Know Your Customer and Customer Due Diligence lead to the prevention of money laundering and terrorist financing
- Internal circulars on operational practices
- Governance Framework on Sustainability

Governance Structure

The Board of Directors which is led by an Independent, Non-Executive Chairperson holds supreme accountability and responsibility for the affairs of the Bank. In this endeavour, the Board is supported by eleven subcommittees, which provide supervision with intense focus on specific areas, enabling the Board to commit sufficient time and focus on broader issues within its scope.



Corporate Governance

Board of Directors

Board Composition

- 13 non-executive directors of which 5 are independent.

Board Diversity and Effectiveness

- The Board brings forth diverse industry experience and knowledge that enable the evaluation of matters from a varying perspectives strengthening the outcome of discourse.
- Have expertise in the field of academics, rural development, administration, entrepreneurship and cooperatives.
- Strong financial acumen on the Board with a Director holding membership in professional accounting bodies and several directors holding MBAs from reputed universities
- A one Director is a PhD holder and BAC Chairman holding a membership in professional accounting body and several Directors holding MBAs from reputed universities.

Appointment to the Board

- New directors are appointed through a transparent procedure.
- Nominations for the vacancies are made through the Board Selection and Nomination Subcommittee (BS and NC) as per the criteria laid down by the Banking Act
- The nominated person provides an affidavit of authenticity and the details are communicated to the CBSL for Fit and propriety approval.
- Appointments are thereafter communicated to the CSE and shareholders through press releases.

Balance of Power

There is a clear segregation of responsibilities between the Chairperson and the CEO to facilitate the appropriate balance of power and authority which is important for sound governance. Therefore, we have established a clear distinction between the role of the Chairperson and the CEO.

Chairperson	<ul style="list-style-type: none"> • Provides leadership to the Board • Ensures effective functioning through setting up the Board's annual work plan and agenda, timely meetings for clear and accurate information sharing • Monitors the overall effectiveness of the Board
CEO	<ul style="list-style-type: none"> • Leads the bank towards the achievement of strategic objectives • Monitor and report the Company's performance to the Board

Board Remuneration

The remuneration of the Board of Directors and the Key Management personnel is determined based on the formal Remuneration Policy that is formulated to attract, motivate and retain high performing senior professionals. The Board Human Resource and Remuneration Committee is vested with the responsibility of guiding the Board of Directors and the Senior Management within agreed terms of reference and in accordance with the remuneration policies of the Bank.

Board Access to Information

The Board of Directors have unrestricted access to the Bank's Management team and other information resources that are vital to the effective execution of their responsibilities. For this purpose, the Management makes regular presentations to the Board to keep the directors well-informed of emerging trends in the operating landscape. The Board of Directors can also seek independent professional advice that can be coordinated through the Company Secretary.

The Board participate in seminars conducted by the Sri Lanka Institute of Directors as well as forums organised by the CBSL.

Board Meetings

The Board met 20 times in 2022 and the details of meeting attendance are given in the Annual Report of the Board of Directors on the Affairs of the Company on page 157. Notices of all Board meetings (except Emergency Board meetings) are given at least seven days prior to the holding of the meeting, thereby providing the members with adequate time for preparation. Likewise, 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 for the effective discharge their duties.

Board Assessment

The Board and individual Directors engage in annual self-assessments to identify the potential areas for improvement in their performance and efficiency. This evaluation focuses on the Board as a whole as well as the performance of each director and is carried out based on the requirements of the Securities and Exchange Commission (SEC) and CA Sri Lanka. Areas such as Board composition, access to information, team dynamics and training opportunities are considered in self-assessment. Further, the members of the subcommittees are also annually assessed for the effectiveness of their performance.

Sub Committees of the Board

The Board has established mandatory Board Subcommittees and voluntary Board Subcommittees to assist the Boards. The composition of both mandatory and voluntary Board Subcommittees, as of 31 December 2022 is given in the Annual Report of the Board of Directors on the Affairs of the Company on pages 148 to 151.

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 Standards on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Directors' responsibility with regard to Financial Statements is given on page 167 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 the 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 86 to 94 of this Report.

External Audit

The Board Audit Committee is responsible for overseeing the financial statements and reporting and 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 an Annual Statement confirming independence as required by the Companies Act No. 07 of 2007. Non-audit services are not provided by External Auditors.

Board Subcommittee on Sustainability

The Board Subcommittee on Sustainability was set up in FY 2021 to integrate ESG into the bank's decision-making and performance management. This governance framework is aligned with the recommendations of the Roadmap for Sustainable Finance and the Sri Lanka Banks' Association's Sustainable Banking Initiative. This Subcommittee will review the integrated strategy, risk management and metrics and targets on sustainability including TCFD and TNFD standards.

Good Corporate Citizenship

The Bank has established the following standards for reinforcing the ethical conduct of the Bank's employees:

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 protecting their anonymity.

Corporate Governance

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 2022-2025 and communicated to all employees through meetings covering all employees and staff and frequent meetings with the Corporate and Senior Managers.	Complied with
	(b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	The Bank's current Strategic Plan includes measurable goals and there is a Board-approved risk management policy which defines risk-related procedures and tools for identification, measurement and management of risk exposures.	Complied with
	(c) Identify the principal risks and ensure implementation of appropriate system to manage the risk prudently.	The Board has delegated its risk-related functions to a dedicated committee, namely the Board Integrated Risk Management Committee (BIRMC) and its findings are submitted on a monthly/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.	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
	(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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(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 2022.	Complied with
	(j) Ensure that the Bank has a succession plan for Key Management Personnel.	The Bank has developed a succession plan and one to one succession plan for certain KMPs is available in the Bank.	Complied with
	(k) Ensure that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	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 and non-compliances are reported to the BOD by the Compliance Officer for their understanding of the regulatory environment. Awareness programmes are conducted on an ongoing basis.	Complied with
	(m) Process in place for hiring and oversight of External Auditors.	The Board selects External Auditors through the BAC, which holds responsibility for overseeing their activities.	Complied with
3 (1) (ii)	The Board has appointed the Chairman / Chairperson and the Chief Executive Officer (CEO) and defined the functions and responsibilities of the Chairman / Chairperson and the CEO in line with Direction No. 3 (5).	Appointment of the Chairperson 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

Corporate Governance

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: <ul style="list-style-type: none"> • A summary of data and information used by the Board in its deliberations; • The matters considered by the Board; • 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; • The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; • The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and • The decisions and Board resolutions. 	Minutes of the Board meetings contain all the necessary information required under the direction.	Complied with

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3 (1) (xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	A Board-approved procedure is in place to seek independent professional advice when necessary, with the cost borne by the Bank.	Complied with
3 (1) (xii)	There is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoiding conflicts of interests, or the appearance of conflicts of interest. A Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be in the quorum for the relevant agenda item at the Board meeting.	There is a provision in the Related Party Transactions Policy to determine, report, resolve and to take appropriate actions relating to Directors to avoid conflicts of interest, or the appearance of conflicts of interest.	Complied with
3 (1) (xiii)	The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	A formal schedule of matters specifically reserved for the Board is in place.	Complied with
3 (1) (xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	This situation did not arise during the year.	Complied with
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 2022.	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.	Former Chairman retired after completion of nine years of service on the Board during the year 2022.	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 comprises of five Independent Non-Executive Directors.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3 (2) (v)	In the event an Alternate Director was appointed to represent an Independent Director, the person so appointed meets the criteria that apply to the Independent Director.	This situation did not arise during the financial year 2022.	Complied with
3 (2) (vi)	The Bank has a process for appointing Independent Directors.	A procedure is in place for appointing Independent Directors by the Board upon the recommendation of the Board Selection and Nominations Committee.	Complied with
3 (2) (vii)	The stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.	Every meeting during the year was consistent with the required quorum and composition.	Complied with
3 (2) (viii)	The Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	The composition of the Board has been disclosed under "Board of Directors" on pages 28 to 31 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 organisations; 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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
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		
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 Chairperson 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 Chairperson 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 Chairperson and the CEO and Board members and its nature. However, there were no relationship during the year 2022.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
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 Chairperson.	Complied with
3 (5) (vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	The Chairperson ensures that the Directors receive adequate information in a timely manner and Directors are properly briefed on issues arising at the Board meeting. The minutes of the previous month's meetings are distributed to the Board members in advance and tabled at the next Board meeting for approval.	Complied with
3 (5) (vii)	The Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman takes the lead to act in the best interest of the Bank.	A scheme of self-assessment process for the BOD is in place which covers the requirement.	Complied with
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Assessment process covers the contribution of Non-Executive Directors as well. All the Directors are Non-Executive.	Complied with
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	The Chairperson 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 2022.	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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
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.	<p>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:</p> <ul style="list-style-type: none"> (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) Board Co-operative, Rural Enterprise and Livelihood Development Committee (9) Board IT Steering Committee (10) Board Sub Committee on Sustainability (11) Board Procurement and Assets Disposal Committee <p>This is disclosed under the "Annual Report of the Board of Directors".</p>	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 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

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	<p>(i) The appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) The implementation of the Central Bank guidelines issued to Auditors from time to time;</p> <p>(iii) The application of the relevant accounting standards; and</p> <p>(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.</p>		
	(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 2022 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 2022, 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> <p>(i) Major judgemental areas;</p> <p>(ii) Any changes in accounting policies and practices;</p> <p>(iii) The going concern assumption; and</p> <p>(iv) The compliance with relevant accounting standards and other legal requirements; and</p> <p>(v) In respect of the Annual Financial Statements the significant adjustments arising from the audit.</p>	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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(h) The Committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.	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
	(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 2022 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 2022.	Complied with
	(iv) Recommend any appointment or termination of the head, senior staff members, and outsourced service providers to the internal audit function;	No any appointment or termination of head, senior staff in the year 2022.	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

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(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 – (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.	The Board approved Terms of Reference (ToR) of the Committee addresses all those matters.	Complied with
	(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 2022, the BAC held 24 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: “Report of the Board Audit Committee”. 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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
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. The performance evaluations of the CEO and Key Management Personnel have been completed against the set targets and the goals for 2021 and the same are in progress in 2022.	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
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) reelection 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

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(e) The Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	<p>The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank.</p> <p>The Bank has a succession plan for KMPs. It is under review to meet the emerging requirements of the Bank.</p>	Complied with
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	<p>The Committee is chaired by an Independent Director, and the majority of the members are also Independent Directors.</p> <p>The CEO participates only on invitation.</p>	Complied with
3 (6) (v)	The following rules apply in relation to the Board	Integrated Risk Management Committee (BIRMC):	
	(a) The Committee shall consist of at least three Non-Executive Directors, CEO, and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks, and work within the framework of the authority and responsibility assigned to the Committee.	<p>At present the BIRMC consists of five Non-Executive Directors.</p> <p>The Committee includes CEO and KMPs supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks as members of the Committee.</p>	Complied with
	(b) The Committee has a process to assess all risks, i.e. credit, market, liquidity, operational, and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	Credit, market, operational, and strategic risks are evaluated on a monthly basis by the Risk Management Department and minutes are submitted to the BIRMC on a monthly/quarterly basis.	
	(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 will initiate action to review effectiveness of management level committees moving forward.	
	(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 2022.	
	(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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(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.	As a practice minutes of EIRMC are submitted to next board meeting. This process will be further strengthened to submit a report on each meeting with in a week to the Board.	Complied with
	(h) The Committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls, and approved policies on all areas of business operations and that there is a dedicated Compliance Officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.	Compliance function is in place to ensure that the Bank complies with all relevant regulations, rules, and guidelines. A dedicated senior officer has been appointed by the Bank in this regard who has designated as a KMP. The Compliance Officer submits a monthly compliance report to the Board and Related Party Transactions Report on a monthly basis to the main Board.	Complied with
3 (7)	Related Party Transactions		
3 (7) (i)	<p>There is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>(a) Any of the Bank's subsidiary companies;</p> <p>(b) Any of the Bank's associate companies;</p> <p>(c) Any of the Directors of the Bank;</p> <p>(d) Any of the Bank's Key Management Personnel;</p> <p>(e) A close relation of any of the Bank's Directors or Key Management Personnel;</p> <p>(f) A shareholder owning a material interest in the Bank;</p> <p>(g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.</p>	<p>There is a Board approved "Related Party Transactions Policy" which defines guidelines on related parties and avoiding any conflicts of interest with said parties that may arise from such transactions of the Bank.</p> <p>Transactions with related parties are done strictly according to the Board approved Related Party Transactions Policy and are reported to the Board on a monthly basis.</p> <p>Further, the Related Party Transactions Review Committee (RPTRC) is a subcommittee of the Board and is responsible for making decisions over related party transactions other than day-to-day normal business activities.</p>	Complied with

Corporate Governance

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>	

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(d) Providing services to or receiving services from a related party without an evaluation procedure;	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.	Complied with
	(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.	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.	
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-third 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 2022.	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 2022.	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 2022.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(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 2022.	Complied with
3 (7) (vi)	There is a process in place to identify when the Bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	No favourable 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 2022 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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied												
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 167 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 162 and 163 of this Annual Report under "Directors' Statement on Internal Control over Financial Reporting".	Complied with												
	(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 164 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"> <thead> <tr> <th>Category of Related party</th> <th>Balance (LKR Mn.)</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>30.42</td> <td>0.22</td> </tr> <tr> <td>Corporate Management</td> <td>171.51</td> <td>1.26</td> </tr> <tr> <td>Related Companies</td> <td>409.17</td> <td>3.00</td> </tr> </tbody> </table>	Category of Related party	Balance (LKR Mn.)	%	Board of Directors	30.42	0.22	Corporate Management	171.51	1.26	Related Companies	409.17	3.00	Complied with
Category of Related party	Balance (LKR Mn.)	%													
Board of Directors	30.42	0.22													
Corporate Management	171.51	1.26													
Related Companies	409.17	3.00													
		Spouses and other family members of related parties - NIL													

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied																
	(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.	<p>Disclosure of remuneration paid by the Bank to its KMP and Directors and other transactions with KMPs and Directors are disclosed below.</p> <table border="1"> <thead> <tr> <th>Category of KMP</th> <th colspan="2">Balance as at 31 December 2021 (LKR Mn.)</th> <th>Remuneration fees paid during the year (LKR Mn.)</th> </tr> <tr> <td></td> <th>Deposits</th> <th>Loan outstanding</th> <td></td> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>-</td> <td>-</td> <td>30.42</td> </tr> <tr> <td>"Corporate management (AGM grade and above)"</td> <td>19.95</td> <td>37.41</td> <td>134.20</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	-	-	30.42	"Corporate management (AGM grade and above)"	19.95	37.41	134.20	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	-	-	30.42																
"Corporate management (AGM grade and above)"	19.95	37.41	134.20																
	(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 148 to 171 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 bank's Extent of Compliance in 2022
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 fulfilment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended Subcommittee meetings and also have made decisions via circular resolution where necessary. Papers relating to the Board meetings are sent well in advance allowing sufficient time for preparation."

Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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 bank. 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 Chairperson and the Chief Executive Officer have been segregated, ensuring an appropriate balance of power.
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A.3 Chairman's role

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

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

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

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

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

1. Presence of Non-Executive Directors	A.5.1	The Board should include at least two Non-Executive Directors or a number equalling to 1/3 of all Directors whichever is higher and in the event of CEO and Chairman is same the majority should be consistent with Non-Executives.	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2022.
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Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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.
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 2022.
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 Chairperson 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 Chairperson and the CEO are segregated.
9. Meeting of Non-Executive Directors	A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Directors are Non-Executive Directors and meet on a monthly basis.
10. Recording of concerns in Board minutes	A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes.	Concerns of Directors have been duly recorded in Board minutes.

Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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 Chairperson ensured that all Directors were briefed on issues arising at Board meetings.
2. Adequate time for effective Board meetings	A.6.2	The minutes, agenda and papers required for a Board meeting should ordinarily be provided to Directors at least seven days before.	The Board papers were circulated to the Directors at least a week before the respective Board meetings by giving an adequate time for Directors to study the papers and prepare for a meaningful discussion at the meeting.
A.7 Appointments to the Board			
There should be a formal and transparent procedure for the appointment of new Directors to the Board.			
1. Nomination Committee	A.7.1	A Nomination Committee should be established to make recommendations to the Board on selection of New Directors. The Chairman and members of the Committee should be disclosed in the Annual Report.	The Nomination Committee made recommendations to the Board on all new Board appointments. The Terms of Reference of the Committee was formally approved by the Board and Chairman and members are disclosed in the Annual Report under "Report of the Board Selection and Nomination Committee (BS & NC)".
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.

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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 2022.
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.

Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
2. Evaluation of the performance of the MD/CEO	A.11.2	The performance of CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets have been achieved.	Bank has a process to review and evaluate the performance of the CEO at the Board Human Resources and Remuneration Committee.

B. DIRECTORS' REMUNERATION

B.1. Remuneration procedures

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

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

B.2 Level and make up of remuneration

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

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

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
3. Comparison of remuneration with other companies in the Group	B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions.	Please refer the above comment under B.2.2.
4. Performance – related payment to Executive Directors	B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	The Bank does not have Executive Directors.
5. Executive share options	B.2.5	Executive share options should not be offered at a discount.	Such a share option scheme is not in practice in the Bank.
6. Deciding the Executive Directors' remuneration	B.2.6	In designing schemes for performance-related remuneration, Remuneration Committee should follow the relevant SEC regulations.	The Bank does not have Executive Directors.
7. Early termination of Directors	B.2.7	Remuneration Committee should consider what compensation commitments, their Directors' contracts of service, if any, entail in the event of early termination.	Compensation on early termination will be discussed on a case by case basis considering the relevant facts.
8. Early termination not included in the initial contract	B.2.8	Where the initial contract does not explicitly provide for compensation commitments, remuneration committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	Compensation on early termination will be discussed on a case by case basis by the Remuneration Committee.
9. Remuneration of the Non-Executive Directors	B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	The level of remuneration of Non-Executive Directors reflect the time commitment and responsibility of their role taking into consideration market practices.

B.3 Disclosure of remuneration

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

1. Disclosure of Remuneration	B.3.1	The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Directors.	Refer Note 41 to the Financial Statements relating to Related Party Transactions included in the Annual Report for remuneration of Directors, and "Report of the Board Human Resources and Remuneration Committee" for composition of the Remuneration Committee with names.
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Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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 Facebook page and Bank Website.
3. Implementation of communication Policy and Methodology	C.2.3	The Company should disclose how they implement the above policy and methodology.	A Board-approved communication policy is in place.
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication.	Following is the contact number of person to be contacted - The Company Secretary - 011 2832 590

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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. More over 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 2022, 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 2022 and at the end of each month of 2022. 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

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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.	<p>The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls was evaluated by the Audit Committee in the year 2022. Risk has been reviewed by BIRMC quarterly.</p> <p>The Board of Directors was satisfied with the effectiveness of the system of internal controls, which is evidenced through the "Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC" given in the Annual Report under "Directors' Statement on Internal Control over Financial Reporting".</p>
2. Need for internal audit function	D.2.2	Companies should have an internal audit function.	The Bank has a separate Internal Audit Department. The Board of Directors reviews the internal control function once a year.

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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.
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Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
2. Affirmation by the Chairperson that there is no violation of the Code of Conduct and Ethics	D.4.2	The Chairperson must affirm in the Company's Annual Report that she is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.	Please refer the "Chairman's Statement on Corporate Governance" for details.

D.5 Corporate Governance Disclosures

The Bank should disclose the extent of adoption of best practice in Corporate Governance.

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

E.1 Shareholders' Voting

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

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

1. Evaluation of Governance Disclosures	E.2.1	When evaluating 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.
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F. OTHER INVESTORS

F.1 Investing/Divesting Decision

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

2. Individual shareholders' voting	F.2.1	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	All individual shareholders are given the opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and newspaper notices.
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Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2022
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.
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 providing oversight for risk management, defining the risk appetite of the Bank and ensuring that the 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:

1. Prof Sampath Amaratunge - Chairman (BIRMC), Independent, Non-Executive Director
2. Ms Dinithi Ratnayake - Chairperson - Independent, Non - Executive Director (Appointed to the BIRMC w.e.f 24.06.2022)
3. Mr Chaaminda Kumarasiri - Independent, Non-Executive Director
4. Mr Conrad Dias - Non-Independent, Non- Executive Director
5. Mr Chandana Dissanayake - Non-Independent, Non- Executive Director (Appointed to BIRMC w.e.f 28.10.2022)

Mr Lakshman Abeysekera, Independent, Non-Executive Director served as a member of the BIRMC until retirement from the Board on 29.04.2022 and Mr B R A Bandara, Non-Independent, Non-Executive Director served as a member of the BIRMC and resigned from the committee on 24.06.2022 We take this opportunity to place on record the committee's appreciation for the valuable service rendered by them.

The Chief Executive Officer and Chief Risk Officer are members of the committee and Chief Risk Officer 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 including IT and Cyber Security 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 and the uncertainties in the macro economy 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 157. 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

12 April 2023
Colombo, Sri Lanka

Report of the Board Audit Committee

Composition of the BAC

The Board Audit Committee appointed by and responsible to the Board of Directors ("the Board") comprises two (02) Independent, Non-Executive 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 Naveendra Sooriyarachchi – Non-Independent, Non-Executive Director (Appointed to the BAC w.e.f. 24 June 2022)

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 28 to 31 in the Annual Report.

Mr J. A Lalith G Jayasinghe – Non –Independent, Non - Executive Director served as member of the BAC until he retired from the Board on 30 May 2022. We take this opportunity to place on record the appreciation for the valuable service rendered by Mr J. A Lalith G Jayasinghe as a member of the BAC.

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

Terms of Reference

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

Regulatory Compliance

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

- Ensure that the Bank adopts and adheres to high standards of Corporate Governance Practices.
- 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-four (24) times during the year. Attendance of the Committee members of each of these meetings is given in the table in page 157 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/

Report of the Board Audit Committee

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 Banks External Auditors, Messrs Ernst & Young attended for seven (7) Committee meetings during the year. In seven (7) Out of twenty four (24) 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 Seven (7) occasions during the year and in which two (02) occasions were without the presence of the CEO and the Management to ensure that there were 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 Financial Reporting standards – SLFRS 9 “Financial Instruments” issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1 January 2018. During the year, existing impairment calculation models were revalidated through an independent party to incorporate the potential implications of COVID 19 pandemic, macro-economic situation of the country and the moratorium schemes introduced to support the recovery of economy, based on stress testing the exposures to risk elevated sectors and adjustments have been made to economic factors 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 (ICOFR)

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 2022.

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 2022, 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 162 and 163 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 164 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 2022 is provided on pages 95 to 128 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 95 to 128.

External Audit

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

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

The BAC has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed for the financial year ending 31 December 2023 subject to the approval of shareholders at the Annual General Meeting.

Internal Audit

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

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

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

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

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

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.

Report of the Board Audit Committee

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.

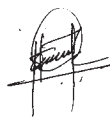
Professional Advice

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)

12 April 2023

Colombo, Sri Lanka

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 Six (06) Non-Executive Directors appended below:

- Mr Thusantha Wijemanna - Chairman (BHRRC), Independent, Non-Executive Director
- Professor Sampath Amaratunge - Independent, Non-Executive Director (Appointed to the BHRRC w.e.f.24.06.2022)
- Mr Chaaminda Kumarasiri - Independent, Non-Executive Director
- Mr Prasanna Premaratna - Independent, Non-Executive Director
- Mr Naveendra Sooriyarachchi - Non- Independent, Non-Executive Director
- Mr Chandana Dissanayake - Non- Independent, Non-Executive Director (Appointed to the BHRRC w.e.f.28.10.2022)

Mr J A Lalith G Jayasinghe, Non- Independent, Non-Executive Director served as a member of the BHRRC until retired from the Board on 30.05.2022. We take this opportunity to place on record the Committees appreciation for the valuable services rendered by Mr J A Lalith G Jayasinghe as a member of the Committee.

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

Committee Meetings of BHRRC

The Committee held ten (10) 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

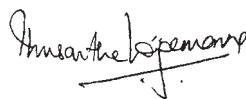
During the year, the Committee comprehensively reviewed the performance of the Key Management Personnel (KMP) of the Bank for the year 2021 against the set goals and targets. BHRRC also set goals and targets for KMPs for 2022 in line with the strategic vision and direction of the Bank in 2022.

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 currently 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. The committee also provided its approval to the Annual Training Plan.

On the direction of BHRRC the Disciplinary Code of the Bank was reviewed by the corporate management and amendments were recommended. Adhering to the Human Resources and Remuneration Policy the committee approved the promotions and recommended recruitment of Key Management Personnel during the year.

Further, the amendments recommended by BHRRC on the HR Policy and Procedure Manual of the Bank were adopted.

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



Thusantha Wijemanna

Chairman

Board Human Resources and Remuneration Committee

12 April 2023

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 Specialized Banks in Sri Lanka (as amended) and the Code of Best Practices on Corporate Governance (2017) jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Composition of the BS & NC

The Board Selection and Nomination Committee comprises four (04) Non- Executive, Independent Directors appointed by the Board of Directors of the Bank. During the year, 2022 the following Directors served on the BS & NC:

- Ms Dinithi Ratnayake – Chairperson (BS & NC), Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director
- Mr Thusantha Wijemanna - Independent, Non-Executive Director

Mr Lakshman Abeyssekera – Independent, Non-Executive Director served as the Chairman of the BS&NC until retired from the Board on 29.04.2022.

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 ensuring 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 the 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 a suitable recommendation to the Board, to mobilize such skills and expertise.
- To put in place a proper succession plan for retiring Directors and Key Management Personnel with a view to ensuring 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 2022.

Meetings of the BS & NC and Its Effectiveness

The Committee met twelve (12) times during the year under review and it focused mainly on the following:

- Board composition – Identified the skills required and recommended the appointment of three new Directors with expertise in Finance, Banking, Credit, , IT, and Management 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.
- Recruitments/ Service confirmation - During the period under review, BS&NC made recommendation to the Board to recruit, DGM-Finance & Planning /CFO and CEO and also service confirmations of DCEO, CIO and CISO.

- Succession Plan - BS&NC proposed the Management to identify on Critical Role and Succession Plan. During the year under review BS&NC examined and made recommendation to the Board on Critical Role & Succession Plan.
- Job grading - Parallel to the job evaluation and grading exercise carried out, the Board Selection and Nomination Committee reviewed position of Head of Recoveries and made recommendations to the Board that Head of Recoveries be promoted to the grade of Chief Manager. BS&NC made recommendation to the Board, for Head of Branch Operation be promoted AGM grade and designate him as Head of Branch Banking.

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



Dinithi Ratnayake

Chairperson

Board Selection and Nomination Committee

12 April 2023

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 2022, the Committee consisted of four 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
- Mr Thushantha Wijemanna – Independent, Non-Executive Director (Appointed to the BRPTRC w.e.f.28.10.2022)

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

Terms of Reference of the Committee

The Terms of Reference (TOR) of the BRPTRC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the TOR in March 2023. 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 the Central Bank of Sri Lanka the and Securities and Exchange Commission of Sri Lanka;
- Ensure that the interests of Shareholders as a whole are taken into account by the Bank 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 157 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; Loan proposal of Rs.500,000,000/- to LOLC Development Finance PLC and few other related party transactions with SANASA Federation Ltd, SANASA Printers & Publishers Ltd. etc.

The Committee observed that no favorable treatment given for those Related Party Transactions.

The Committee noted that the Bank has not entered into any transactions as contemplated in Section 9.1.1 and Section 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 2022 to 31 December 2022 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

12 April 2023
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 in effectively undertaking 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 responsible manner.

Composition of the BSPC

BSPC comprises four (04) Non-Executive Directors, appointed by the Board of Directors. During the year, 2022 the following Directors served on BSPC.

- Ms Dinithi Ratnayake – Chairperson (BSPC) 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

Mr.Lakshman Abeysekera – Independent, Non-Executive Director served as a member of the Committee until he retired from the Board on 29.04.2022 and Mr.Prabhash Subasinghe Non-Independent, Non-Executive Director served as a member of BSPC until he resigned from the Board on 31.12.2022. We take this opportunity to place on record the Committees appreciation for the valuable services rendered by Mr.Lakshman Abeysekera and Mr.Prabhash Subasinghe as member of the Committee.

The Company Secretary of the Bank serves as secretary to the Committee based on the approved TOR for the Committee. DGM – Finance & Planning/CFO was appointed as Secretary to the Committee with effect from 16th December 2022.

Meetings of BSPC

The Committee met three (03) times during the year. Committee reviewed the SDB bank Strategies 2022 and developed the bank's strategy for 2023 – 2026.

During the period under review BSPC, due to the evolving operating environment on the back of the unprecedented economic crisis, decided to prepare a high level 3 year Strategy framework for the period 2023-2025. The Strategy framework was based on innovative perspective rather than one derived out of analysis perspective. The outline of the framework;

- each of the Strategic Segments/Horizons is based on core, growth and explore perspectives.
- the position of Bank's identity & positioning – to be focus on Banking the progressive masses.

- Co-operative Strategy
- Retail / SME Strategy
- ESG Strategy
- Data & Digital Strategy
- Communication Strategy were drawn

The finalisation of the Strategy for 2023-2025 encompassing the implementation, cascading of the goals, KPI setting is an ongoing exercise.

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, review of strategic and technical plans developed by the Management to achieve the 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

12 April 2023
 Colombo, Sri Lanka

Report of the Board Credit Committee

The main income generation activity of the Bank is its lending operation. It has employed the capital funds of its shareholders as well as deposits mobilized 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 five (05) Non- Executive Directors who meet at least 10 times annually to deliberate on issues under its purview:

Composition of the BCC

During the year 2022, the following Directors served on the BCC:

- Mr Prasanna Premaratna - Chairman (BCC), Independent, Non-Executive Director
- Mr Thusantha Wijemanna - Independent, Non-Executive Director
- Mr Naveendra Sooriyarachchi - Non- Independent, Non-Executive Director
- Mr B.R.A.Bandara - Non Independent, Non Executive Director (appointed to the BCC w.e.f. 24.06.2022)
- Mr Romani De Silva - Non - Independent , Non -Executive Director (appointed to the BCC w.e.f 24.06.2022)

Ms.Dinithi Ratnayake , Chairperson served as a member of the BCC till 24.06.2022. Mr.Lionel Thilakarathne Non-Independent , Non-Executive Director served as a member of the BCC until he retired from the Board on 30.05.2022, and Mr.Prabhash Subasinghe Non-Independent , Non-Executive Director served as a member of the BCC until he resigned from the Committee w.e.f.21.01.2022. We take this opportunity to place on record the committees appreciation for the valuable services rendered by Ms.Dinithi Ratnayake, Mr.S.Lionel Thilakarathne and Mr.Prabhash Subasinghe as members of the committee.

Company Secretary is functioning as the Secretary of the Committee. Chief Executive Officer, Deputy Chief Executive Officer, Head of Credit, Head of Collection and Recoveries, 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 Unit 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 the previous year performance
- Analytically appraise credit proposals and recommend to the Board of Directors for approval
- Evaluate the market potential due to the prevailing economic crisis in the country together with inherent risks attached and provide appropriate guidelines
- Monitor the interest rate behavior 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 Thirteen (13) 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 2022 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 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 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
- Reviewed the Top 25 loan customer details and advised the Management
- Reviewed ALCO meeting minutes and giving special focus on the changes in the lending rates.
- Establishment of the Remedial Management and Revival Unit within the bank and approved the process and the procedure manual of the unit and reviewed the progress of that unit on a monthly basis.
- Reviewed the proposed transfer pricing policy and recommended improvements.
- Reviewed the Banks tariff structure
- Quarterly review the Auction properties but possession to be taken and advised the management on the steps to be taken.
- Strengthen the Screening process of accepting the guarantors especially for the personal loans.
- Revised existing supply chain projects and advised for the necessary improvement.
- Reviewed the impact of tax increase in the Bank's loan portfolio.

For and on behalf of the Board Credit Committee,



Prasanna Premaratna
Chairman
Board Credit Committee

12 April 2023
Colombo, Sri Lanka





SDB Bank is on a mission of creating financial inclusivity for young and old, helping Sri Lankans across the island to achieve more through prudent planning and saving for the future.

Building vibrant communities with hope



Financial Statements

Financial Calendar	147
Annual Report of the Board of Directors on the Affairs of the Bank	148
Directors' Statement on Internal Control over Financial Reporting	162
Independent Assurance Report	164
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	166
Statement of Directors' Responsibility for Financial Reporting	167
Independent Auditors' Report	169
Statement of Comprehensive Income	172
Statement of Financial Position	173
Statement of Changes in Equity	174
Statement of Cash Flows	175
Notes to the Financial Statements	176

Financial Calendar

Financial Calendar - 2022		
Annual General Meeting		
26th Annual General Meeting		To be held on 19 May 2023
25th Annual General Meeting		Held on 30 May 2022
Annual Financial Statements*		
Annual Financial Statements 2022		Signed on 12 April 2023
Annual Financial Statements 2021		Signed on 11 April 2022
Interim Financial Statements**	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
4th Quarter 2021	31 March 2022 (Audited)	31 March 2022
1st Quarter 2022	13 May 2022	30 May 2022
2nd Quarter 2022	15 August 2022	29 August 2022
3rd Quarter 2022	15 November 2022	28 November 2022
4th Quarter 2022	31 March 2023 (Audited)	31 March 2023
Proposed Financial Calendar - 2023		
Annual General Meeting		
27th Annual General Meeting		To be held on or before 31 May 2024
Annual Financial Statements*		
Annual Financial Statements 2023		To be signed in March 2024
Interim Financial Statements**	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
1st Quarter 2023	15 May 2023	31 May 2023
2nd Quarter 2023	15 August 2023	31 August 2023
3rd Quarter 2023	15 November 2023	30 November 2023
4th Quarter 2023	28 February 2024	31 March 2024

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

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

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

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

General

The Directors have pleasure in presenting to the shareholders the Annual Report of the SANASA Development Bank PLC together with the Audited Financial Statements for the year ended 31 December 2022 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 2022, including the comparatives for 2021 were approved and authorized for issue by the Board of Directors on 12th April 2023 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 specialized 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 reregistration 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 Bank has been assigned a National Long-Term Rating of BB+(lka) by Fitch Ratings Lanka Ltd.

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

Principal Business Activities

The principal activities of the Bank include accepting deposits at competitive rates of interest and the investment of these deposits in community-based lending programs, with a special focus on Cooperative Societies, their members, and other micro-enterprises, and issuing 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 2022, the Bank has established 94 delivery points (2021 - 94) across all districts of the country.

Review of Operations

The "Chairperson's Review" on pages 18 to 21 the "Chief Executive Officer's Review" on pages 22 to 25, and the "How we create value" on pages 50 and 51, 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 to expand its network of delivery channels by employing a client-focused strategy with effective management of capital, liquidity, and risks. Please refer to sections on "Chairperson's Review", "Chief Executive Officer's Review" on pages 18 to 25, and "How we create value" on pages 50 and 51 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 2022 duly signed by the Chief Financial Officer and Chief Executive Officer, two Directors of the Bank, and the Company Secretary are given on pages 172 to 271, 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 172 to 271 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 167 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 2022 and their report on these Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given on page 169 of this Annual Report. The Auditors' remuneration details are stated in Note 16 to the Financial Statements on page 202. 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.

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 176 to 193 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 are 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 2022 was LKR 24.03 Bn (2021: LKR 15.48 Bn). An analysis of the gross income is given in Note 06 to the Financial Statements on pages 194.

Profits and Appropriations

The net profit before tax of the Bank amounted to LKR 96.96 Mn. in 2022 (2021: LKR 1,329.8 Mn) and this has reduced by 92.7% when compared to 2021. Further, the net profit after tax of the Bank amounted to LKR 61.17 Mn. in 2022 (2021: LKR 883.28 Mn.) and this was a decrease of 93% when compared to 2021. A detailed breakup of profits and appropriations of the Bank is given below:

Description	2022 LKR	2021 LKR
Profit before Tax	96,957,126	1,329,807,786
Less: Taxation	(35,790,791)	(446,529,614)
Net profit after tax	61,166,335	883,278,172
Other Comprehensive Income (OCI)		
Actuarial Gain/(losses) on defined benefit plans	(39,667,970)	34,300,730
Deferred tax relating to defined benefit plans	11,644,579	(8,232,175)
Revaluation surplus on property plant & Equipment	259,036,868	
Total comprehensive income for the year	292,179,813	909,346,727
Unappropriated profit brought forward from the previous year	2,481,101,312	1,871,568,880
Balance available before adjustment	2,773,281,125	2,780,915,607
Appropriations		
Transfer to the statutory reserve fund	(3,058,317)	(44,163,909)
Dividend		
Final cash dividend	(241,048,248)	(206,046,072)
Other transactions- SPO share issue cost		(49,761,369)
Other transaction	(521,613,182)	157,055
Unappropriated balance carried forward as of 31 December	2,007,561,378	2,481,101,312

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

Taxation

The Bank applied the revised rate of 30% and other amendments in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the income tax and deferred tax assets/liabilities as of 31st December 2022. An increased tax rate was applicable for six months of the year of assessment.

First six months of the year of assessment commencing on April 1, 2022, the rate was 24% and for the second six months of the same year of assessment the rate was 30%.

Bank applied the revised rate of 30% to compute the deferred tax as of 31st December 2022.

Surcharge tax relevant for the year of assessment 2020/2021 paid during the financial year 2022 amounting to Rs. 521.6Mn adjusted to retained earnings.

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 given below:

As at 31 December	2022 LKR	2021 LKR
Statutory reserve fund	317,231,342	314,173,025
Other reserves	286,642,217	27,605,349
Retained profits	1,767,576,134	2,500,152,936

Information on the movement of reserves is given in the Statement of Changes in Equity on page 174 and in Notes 36 to 38 to the Financial Statements on page 231.

CAPITAL EXPENDITURE

The total capital expenditure on the acquisition of property plant and equipment of the Bank amounted to LKR 137,227,904 (2022) LKR 495,986,096 (2021). 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 39 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 page 216. Particulars of intangible assets are given in Note 28 to the Financial Statements on page 221.

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 page 221.

Stated Capital

The stated capital of the Bank as at 31 December 2022 amounted to LKR 11,287,765,221 consisting of 160,698,832 ordinary voting shares.

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.

Distribution Schedule of Shareholdings

Shareholder	As at 31 December 2022		As at 31 December 2021	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	35,344	27,853,380	35,340	25,838,048
Institution				
Foreign	6	36,750,921	5	37,040,674
Local and other institutions	64	74,386,564	73	76,112,080
SANASA Federation				
Acc 1	1	780,970	1	780,970
Acc 2		30,846		30,846
SANASA Societies	3,401	10,182,488	3,403	10,183,736
SANASA Unions	35	3,321,619	35	3,321,619
MPCCS	24	1,242,737	24	1,242,737
Trust companies	105	6,149,307	105	6,148,122
Total	38,980	160,698,832	38,986	160,698,832

	31 December 2022				31 December 2021			
	Number of Shareholders	%	Number of Shares	%	Number of Shareholders	%	Number of Shares	%
1 - 1,000	36,545	93.75	4,887,545	3.04	36,602	93.88	4,909,114	3.06
1,001 - 10,000	1,857	4.76	5,832,092	3.63	1,798	4.61	5,626,142	3.50
10,001 - 100,000	500	1.29	15,730,744	9.79	494	1.27	15,471,176	9.63
100,001 - 1,000,000	62	0.16	16,522,108	10.28	74	0.19	20,864,228	12.98
1,000,001 - and above	16	0.04	117,726,343	73.26	18	0.05	113,828,172	70.83
	38,980	100.00	160,698,832	100.00	38,986	100.00	160,698,832	100.00

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

Substantial Shareholdings

Names of the twenty largest shareholders, with their respective shareholdings and percentage holdings as at 31 December 2022 with their Comparative Shareholding as at 31 December 2021 are as follows:

No. Shareholder name	31 December 2022 (Amalgamated)		31 December 2021 (Amalgamated)	
	Number of shares	%	Number of shares	%
01. ICONIC Property Twenty Three (Private) Limited	24,104,800	15.0000	24,104,800	15.0000
02. Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V.	17,609,503	10.9581	17,609,503	10.9581
03. Ayenka Holdings (Private) Ltd.	17,604,953	10.9553	17,604,953	10.9553
04. Senthilverl Holdings (Pvt) Ltd	16,458,256	10.2417	14,413,060	8.9690
05. Belgian Investment Company for Developing Countries SA/NV	16,069,800	9.9999	16,069,800	9.9999
06. SANASA Life Insurance Company Ltd	4,715,996	2.9347	4,624,426	2.8777
07. Alliance Finance Company PLC	3,516,310	2.1881	3,516,310	2.1881
08. Dr T Senthilverl	3,484,112	2.1681	1,793,823	1.1163
09. SBI Emerging Asia Financial Sector Fund PTE.LTD	2,885,618	1.7957	2,885,618	1.7957
10. Peoples Leasing & Finance PLC/ L.P.Hapangama	2,627,722	1.6352	2,627,722	1.6352
11. People's Leasing & Finance PLC	2,271,260	1.4134	2,271,260	1.4134
12. Bank of Ceylon A/C Ceybank Unit Trust	1,539,241	0.9578	1,539,241	0.9578
13. Hatton National Bank PLC/ Sarravanan Neelakandan	1,440,010	0.8961	653,931	0.4069
14. Kegalle SANASA Shareholders Trust Company Limited	1,260,246	0.7842	1,260,246	0.7842
15. SANASA General Insurance Company Limited	1,124,418	0.6997	1,124,418	0.6997
16. Polgahawela SANASA Societies Union Ltd	1,014,098	0.6311	1,014,098	0.6311
17. Nikawaratiya Thrift & Credit Co-operative Society Union Ltd	992,849	0.6178	992,849	0.6178
18. DFCC Bank PLC / J N Lanka Holdings Company (Pvt) Ltd	982,521	0.6114	959,788	0.5973
19. Bingiriya Multi-Purpose Co-operative Society Ltd	970,900	0.6042	970,900	0.6042
20. SANASA Federation Limited	811,816	0.5052	811,816	0.5052

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 (31/12/2022) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31 December 2022 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 28 to 31 of the Annual Report.

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

No:	Name of the Director	Executive/ Non-Executive Status	Independent/ Non-Independent Status
1.	Ms Dinithi Ratnayake	Non-Executive	Independent
2.	Prof Sampath Amaratunge	Non-Executive	Independent
3.	Mr Prabhash Subasinghe (Resigned)	Non-Executive	Non-Independent
4.	Mr Chaaminda Kumarasiri	Non-Executive	Independent
5.	Mr Prasanna Premaratna	Non-Executive	Independent
6.	Mr B R A Bandara	Non-Executive	Non-Independent
7.	Mr Thusantha Wijemanna	Non-Executive	Independent
8.	Mr S H Sarath Nandasiri	Non-Executive	Non-Independent
9.	Mr Conrad Dias	Non-Executive	Non-Independent
10.	Mr Naveendra Sooriyarachchi	Non-Executive	Non-Independent
11.	Mr Romani De Silva	Non-Executive	Non-Independent
12.	Mr S Senth Aathavan	Non-Executive	Non-Independent
13.	Mr Chandana Dissanayake	Non-Executive	Non-Independent

New appointments made during 2022

1.	Ms Dinithi Ratnayake (became a Non-Executive, Independent Director and appointed as the Chairperson to the Board w.e.f. 29 April 2022)	Non-Executive	Independent
2.	Mr Romani De Silva (Appointed to the Board w.e.f. 24 June 2022)	Non-Executive	Non-Independent
3.	Mr S Senth Aathavan (Appointed to the Board w.e.f. 24 June 2022)	Non-Executive	Non-Independent
4.	Mr Chandana Dissanayake (Appointed to the Board w.e.f. 26 July 2022)	Non-Executive	Non-Independent

Resignations/Retirements during 2022

1.	Mr Lakshman Abeyssekera (Retired from the Board w.e.f. 29 April 2022)	Non-Executive	Independent
2.	Mr Lionel Thilakarathne (Retired from the Board w.e.f. 30 May 2022)	Non-Executive	Non-Independent
3.	Mr Lalith G Jayasinghe (Retired from the Board w.e.f. 30 May 2022)	Non-Executive	Non-Independent
4.	Mr Prabhash Subasinghe (Resigned from the Board w.e.f. 31 December 2022)	Non-Executive	Non-Independent

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

Further, at the 25th AGM held on 30 May 2022 Director Mr B R A Bandara who represented the Polgahawela Sanasa Societies Union Ltd and Director Mr Conrd Dias who represented LOLC Investment Holdings One (Private) Limited were re-elected and Director Mr Romani De Silva who represented the Alliance Finance Company PLC and Director Mr Senthil Aathavan who represented the Senthilverl Holdings Private Limited were elected as Non- Executive, Non- Independent Directors.

Retirement by Rotation and Re-Election / Re-Appointment of Directors

- i. In terms of Article 6(4) (i) and (ii) the following Directors shall retire by rotation at the 26th AGM, and the Board recommended their re-election.
 - I. Mr Sarath Nandasiri
 - II. Dr Mahesha Ranasoma
 - III. Mr Romani De Silva
- ii. Dr Mahesha Ranasoma was appointed to the Board on 28th April 2023 to fill a casual vacancy arisen during the year 2022. He shall resign at the 26th Annual General Meeting and is eligible for re-election in terms of the Article 6(4) (ii).

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 seven 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 2022 and the details of the attendance by Directors at meetings are tabulated on pages 157 while the reports of these subcommittees are found on pages 132 to 143 in this Report.

Committee	Mandate	Composition
Board Integrated Risk Management Committee	Quarterly	Prof S Amaratunge (Chairman - BIRMC) Ms D Ratnayake (Chairperson) Mr C Kumarasiri Mr C Dias Mr C Dissanayake
Board Audit Committee	Monthly	Mr C Kumarasiri (Chairman - BAC) Prof S Amaratunge Mr N Sooriyarachchi
Board Human Resources and Remuneration Committee	At least 6 times annually	Mr T Wijemanna (Chairman - BHRRC) Prof S Amaratunge Mr C Kumarasiri Mr P Premaratna Mr N Sooriyarachchi Mr C Dissanayake
Board Selection and Nomination Committee	If and when it is required	Ms D Ratnayake (Chairperson - BS & NC / Chairperson) Prof S Amaratunge Mr C Kumarasiri Mr T Wijemanna
Board Related Party Transactions Review Committee	Quarterly	Mr C Kumarasiri (Chairman - BRPTRC) Prof S Amaratunge Mr P Premaratna Mr T Wijemanna
Board Credit Committee	At least 10 times annually	Mr P Premaratna (Chairman - BCC) Mr T Wijemanna Mr N Sooriyarachchi Mr B R A Bandara Mr R De Silva
Board Strategic Planning Committee	Quarterly	Ms D Ratnayake (Chairperson - BSPC) Mr P Subasinghe (Resigned w.e.f. 31 December 2022) 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, Rural enterprise and Livelihood Development Committee	Quarterly	Mr B R A Bandara (Chairman - BCRELDC) Prof S Amaratunge Mr P Premaratna Mr S H S Nandasiri Mr R De Silva
Board IT Steering Committee	Quarterly	Mr C Dias (Chairman - BITSC) Ms D Ratnayake Mr C Kumarasiri Mr S Aathavan
Board Sub Committee on Sustainability	Quarterly	Ms D Ratnayake (Chairperson - BSCS) Mr C Kumarasiri Mr R De Silva Mr C Dissanayake
Board Procurement and Assets Disposal Committee	If and when it is required	Mr T Wijemanna (Chairman - BP & ADC) Mr P Premaratna Mr N Sooriyarachchi Mr C Dissanayake

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 Rural Enterprise and Livelihood Development Committee Meetings, Board Subcommittee on Sustainability Meetings, Board IT Steering Committee Meetings and Board Procurement and Assets Disposal Committee 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 Rural Enterprise and Livelihood Development Committee (BCRELDC)	Board Subcommittee on Sustainability (BSCS)	Board IT Steering Committee (BITSC)	Board Procurement and Assets Disposal Committee (BP & ADC)*	Total
Mr L Abeysekera	09/20				05/12	01/03		03/05			18/40
Ms D Ratnayake	20/20	07/13			11/12	03/03		05/05	06/06		52/59
Prof S Amaratunge	20/20		24/24	04/10	12/12		05/06				65/72
Mr P Subasinghe	12/20	00/13				00/03					12/36
Mr L Thilakarathne	10/20	05/13					02/06				17/39
Mr C Kumarasiri	20/20		24/24	10/10	12/12	03/03		05/05	06/06		80/80
Mr P Premaratna	20/20	13/13		10/10		03/03	06/06	05/05		02/02	59/59
Mr B R A Bandara	20/20	06/13					06/06				32/39
Mr J A L G Jayasinghe	11/20		10/24	04/10			02/06				27/60
Mr T Wijemanna	20/20	13/13		10/10	10/12					02/02	55/57
Mr S Nandasiri	19/20						06/06				25/26
Mr C Dias	16/20					03/03			06/06		25/29
Mr N Sooriyarachchi	20/20	13/13	14/24	10/10					03/06	02/02	62/75
Mr R De Silva	08/20	06/13					03/06	01/05			18/44
Mr S S Aathavan	07/20										07/20
Mr C Dissanayake	08/20			01/10						02/02	11/32

* BP & ADC was formally constituted w.e.f 27/09/2022

Name of member	Board Integrated Risk Management Committee								Total	
	Dates of Meetings									
	03.03.2022	02.06.2022	26.07.2022	23.09.2022	27.10.2022	14.12.2022	21.12.2022	28.12.2022		
Prof S Amaratunge (Chairman - BIRMC)	P	P	P	P	P	P	P	P	P	8/8
Mr L Abeysekera	P	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1/8
Mr C Kumarasiri	P	P	P	P	P	P	P	P	P	8/8
Mr B R A Bandara	P	P	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2/8
Mr C Dias	P	P	P	P	P	P	P	P	Ex	7/8
Ms D Ratnayake	N/A	N/A	P	P	P	P	P	P	P	6/8
Mr C Dissanayake	N/A	N/A	N/A	N/A	N/A	P	P	P	Ex	2/8

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

Name of member	Board Related Party Transactions Review Committee				Total
	Dates of meetings				
	14.03.2022	07.06.2022	13.09.2022	14.12.2022	
Mr C Kumarasiri (Chairman - BRPTRC)	P	P	P	P	04/04
Prof S Amaratunge	P	P	P	P	04/04
Mr P Premaratna	P	P	P	P	04/04
Mr T Wijemanna	N/A	N/A	N/A	P	01/04

*P - Present *Ex - Excused *N/A - Not Applicable

Mr L Abeysekera

Retired from the Board, BIRMC, BS & NC, BSPC and BSCS w.e.f. 29.04.2022

Ms D Ratnayake

Appointed as Chairperson of the Board and BS & NC w.e.f. 29.04.2022

Appointed to the BIRMC w.e.f. 24.06.2022

Resigned from the BCC w.e.f. 24.06.2022

Resigned from the Chairmanship of the BITSC w.e.f. 28.10.2022

Prof S Amaratunge

Appointed to the BHRRRC w.e.f. 24.06.2022

Mr P Subasinghe

Resigned from the Board and BSPC w.e.f. 31.12.2022

Resigned from the BCC w.e.f. 18.02.2022

Mr L Thilakarathne

Retired from the Board, BCC and BCRELDC w.e.f. 30.05.2022

Mr P Premaratna

Appointed to the BP & ADC w.e.f. 29.08.2022

Mr B R A Bandara

Appointed as the Chairman of BCRELDC and Member of BCC w.e.f. 24.06.2022

Resigned from the BIRMC w.e.f. 24.06.2022

Mr J A L G Jayasinghe

Retired from the Board, BAC and BHRRRC w.e.f. 30.05.2022

Retired from the Chairmanship of BCRELDC w.e.f. 30.05.2022

Mr T Wijemanna

Appointed to the BP & ADC w.e.f. 29.08.2022 and appointed as the Chairman of BP & ADC w.e.f. 27.12.2022

Appointed to the BRPTRC w.e.f. 28.10.2022

Mr C Dias

Appointed as the Chairman of BITSC w.e.f. 28.10.2022

Mr N Sooriyarachchi

Appointed to the BAC w.e.f. 24.06.2022

Appointed to the BP & ADC w.e.f. 29.08.2022

Resigned from the BITSC w.e.f. 24.06.2022

Mr R De Silva

Appointed to the Board, BCC, BCRELDC and BSCS w.e.f. 24.06.2022

Mr S Aathavan

Appointed to the Board w.e.f. 24.06.2022

Appointed to the BITSC w.e.f. 28.10.2022

Mr C Dissanayake

Appointed to the Board w.e.f. 26.07.2022

Appointed to the BP & ADC w.e.f. 29.08.2022

Appointed to the BHRRRC, BIRMC and BSCS w.e.f. 28.10.2022

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 2022	As at 31 December 2021
Mr L Abeysekera (Retired w.e.f 29 April 2022)	-	-
Ms D Ratnayake (Appointed as a Chairperson w.e.f 29 April 2022)	-	-
Prof S Amaratunge	-	-
Mr P Subasinghe (Resigned w.e.f 31 December 2022)	112,815	112,815
Mr L Thilakarathne (Retired w.e.f 30 May 2022)	-	-
Mr C Kumarasiri	-	-
Mr P Premaratna	1,500	1,500
Mr B R A Bandara	11,000	11,000
Mr J A L G Jayasinghe (Retired w.e.f 30 May 2022)	2,038	2,038
Mr T Wijemanna	-	-
Mr S H S Nandasiri	-	-
Mr C Dias	-	-
Mr N Sooriarachchi	-	-
Mr S S Aathavan (Appointed w.e.f 24 June 2022)	-	-
Mr R De Silva (Appointed w.e.f 24 June 2022)	104,650	-
Mr C Dissanayake (Appointed w.e.f 26 July 2022)	-	-

Directors' Shareholding Percentage

	As at 31 December 2022 %	As at 31 December 2021 %
Directors	0.14	0.08
Public	59.30	88.68
CEO and related parties	40.60	11.24

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 2022 are given in Note 15 to the Financial Statements on page 202.

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 41 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.

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

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 234.

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 1,970,000 (2021: LKR 2,464,000). Further LKR 1,933,451 (2021: LKR 921,334) 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 16 to the Financial Statements on page 202.

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 277 to 289.

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 84 to 94 and in Note 41 to 47 to the Financial Statements on pages 244 to 260.

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 171.

The Board has obtained an assurance report from the External Auditors on Directors' Statement on Internal Control which is given on page 164 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 39.2 of the Financial Statements given on pages 232 and 233 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 100 to 131.

Annual General Meeting and the Notice of Meeting

The 26th 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 19 May 2023 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,



Dinithi Ratnayake

Chairperson



Tamarika Rodrigo

Company Secretary

12 April 2023

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 the 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 by 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 the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies and annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies 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. 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 review 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) 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 enhanced using 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.

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 2022 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control 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)



Dinithi Rathnayake

Chairperson - SANASA Development Bank PLC.

12 April 2023
Colombo, Sri Lanka

Independent Assurance Report



Ernst & Young
Chartered Accountants
201, De Saram Place
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Email: eysl@lk.ey.com
ey.com

SPF/TP

INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF SANASA DEVELOPMENT BANK PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of SANASA Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2022.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

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

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

Our responsibilities and compliance with SLSAE 3050 (Revised)

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

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

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

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

Summary of Work Performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G S S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sejeevani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

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

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

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

A handwritten signature in black ink, appearing to read 'Emmanuel + Jany', is written over a light blue horizontal line.

12 April 2023
Colombo

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 2022 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 recognized 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 148 to 160 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 162 to 163. 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 169 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 169 to 171 of this Annual Report.

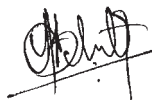
The Audit Committee of the Bank meets periodically with the Internal Auditors and the Independent External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss issues relating to auditing, internal controls and financial reporting issues.

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 133 to 136.

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 39.2 to the Financial Statements in the Annual Report.



Priyantha Talwatte
Chief Executive Officer



Shanka Abeywardene
Chief Financial Officer

12 April 2023
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 169 to 171 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 2022; and
2. The financial performance of the Bank for the financial year ended 31 December 2022.

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 Specialized 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 2022 are given in pages 162 and 163 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 pages 164 and 165 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 133 to 136 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.

Statement of Directors' Responsibility for Financial Reporting

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, Chief Executive Officer and Company Secretary of the Bank on 12th April, 2023 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

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

12 April 2023
Colombo, Sri Lanka

Independent Auditors' Report



Ernst & Young
Chartered Accountants
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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 2022, 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the

financial statements section of our report. We are independent of the 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 is determined by management in accordance with the accounting policies described in Note 3.2.</p> <p>This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets.</p>	<p>In addressing the adequacy of the provision for credit impairment on financial assets carried at amortised cost, our audit procedures included the following key procedures.</p> <p>We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.</p> <ul style="list-style-type: none"> We evaluated the internal controls over estimation of credit 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. In addition to the above, the following procedures were performed:

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajjewanani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCA FCCA

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Independent Auditors' Report



Key audit matter	How our audit addressed the key audit matter
<p>Key areas of significant judgements estimates and assumptions used by 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 current economic contraction. - the incorporation of forwardlooking information such that expected cashflows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios. 	<p>For loans and advances assessed on an individual basis for impairment:</p> <ul style="list-style-type: none"> - We evaluated the reasonableness of credit quality assessments. - We checked the arithmetical accuracy of the underlying individual impairment calculations. - We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on current economic contraction. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals. <p>For financial assets assessed on a collective basis for impairment:</p> <ul style="list-style-type: none"> - We tested the key inputs and the calculations used in the provision for credit impairment. - We assessed whether judgements, assumptions and estimates used by the Management when estimating future cashflows, in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used based on available market data, 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 & 48
<p>Information Technology (IT) systems and controls over financial reporting</p> <p>Bank's financial reporting process is significantly 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>Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.</p>	<p>Our audit procedures included the following key procedures:</p> <ul style="list-style-type: none"> • We obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures. • We identified and test checked relevant controls of IT systems related to the Bank's financial reporting process. • We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management. • 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. • We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

Other Information Included in the Bank's 2022 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.

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.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.



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.

12 April 2023
Colombo

Statement of Comprehensive Income

Year ended 31 December	Note	2022 LKR	2021 LKR
Gross Income	6	24,034,136,119	15,477,595,919
Interest income		23,101,048,459	14,792,068,260
Less: Interest expenses		(16,261,994,676)	(8,018,419,381)
Net interest income	7	6,839,053,783	6,773,648,879
Fee and commission income		504,650,370	413,674,505
Less: Fee and commission expenses		(26,705,960)	(23,327,270)
Net fee and commission income	8	477,944,409	390,347,235
Net gain/(loss) from trading	9	(1,077,912)	4,143,851
Net fair value gain/(loss) of financial assets at fair value through profit or loss	10	166,508,518	234,933,928
Net other operating income	11	263,006,686	32,775,375
Total operating income		7,745,435,484	7,435,849,268
Less: Impairment for loans and other losses	12	(1,898,476,112)	(643,708,493)
Net operating income		5,846,959,371	6,792,140,775
Less: Operating expenses			
Personnel expenses	13	(2,940,242,957)	(2,542,695,499)
Depreciation and amortisation expenses	14	(488,515,195)	(528,446,574)
Other expenses	15	(1,936,941,896)	(1,848,265,092)
Operating profit before Value Added Tax (VAT) on financial services		481,259,323	1,872,733,610
Less: Value Added Tax (VAT) on financial services		(366,401,606)	(542,925,824)
Less: Social Security Contribution Levy		(17,900,589)	-
Operating profit/(loss) after VAT on financial services		96,957,128	1,329,807,786
Profit before tax		96,957,128	1,329,807,786
Less: Tax expenses	16	(35,790,792)	(446,529,613)
Profit for the year		61,166,336	883,278,172
Other Comprehensive Income			
Other Comprehensive Income/(Expenses) not to be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit plans	33.1.2	(39,667,970)	34,300,730
Deferred tax relating to defined benefit plans	16.2.1	11,644,579	(8,232,175)
Revaluation Surplus on Property, Plant and Equipment	25.1	259,036,868	-
Other Comprehensive Income for the year net of tax		231,013,477	26,068,555
Total Comprehensive Income for the year		292,179,813	909,346,728
Earnings per share on profit			
Basic/diluted earnings per share - (LKR).	17	0.38	7.63
Dividend per share: Gross (LKR)		-	-

The Accounting Policies and Notes on pages 176 through 261 from an integral part of the Financial Statements.

Statement of Financial Position

Year ended 31 December	Note	2022 LKR	2021 LKR
Assets			
Cash and cash equivalents	18	3,072,845,490	3,117,485,469
Placements with banks	19	18,205,195,883	15,108,410,169
Financial assets fair value through profit or loss	20	1,905,738,326	727,786,716
Financial assets at amortised cost			
- Loans and receivables to other customers	21	110,525,450,192	111,891,255,620
- Debt and other instruments	22	19,819,735,716	12,031,301,910
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	1,093,190,534	952,103,710
Right of use assets	26	609,201,449	565,476,533
Investment properties	27	-	19,166,540
Non-current assets held for sale	27.4	43,566,177	-
Intangible assets	28	538,831,109	338,933,246
Deferred tax assets	16.2	600,628,286	299,448,116
Other assets	29	3,043,547,103	2,704,446,431
Total assets		159,521,031,879	147,818,916,074
Liabilities			
Due to other customers	30	107,533,001,772	93,902,939,217
Other borrowings	31	30,704,547,675	33,569,838,263
Subordinated term debts	32	5,055,590,136	3,752,578,405
Retirement benefit obligation	33	714,077,498	571,664,850
Current tax liabilities		182,244,769	293,249,746
Other liabilities	34	1,672,355,116	1,598,949,062
Total liabilities		145,861,816,966	133,689,219,543
Equity			
Stated capital	35	11,287,765,221	11,287,765,221
Statutory reserve fund	36	317,231,342	314,173,025
Retained earnings	37	1,767,576,134	2,500,152,936
Other reserves	38	286,642,217	27,605,349
Total equity		13,659,214,913	14,129,696,531
Total equity and liabilities		159,521,031,879	147,818,916,074
Contingent liabilities and commitments		728,284,912	910,136,981

Certification

I certify these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Shanka Abeywardene

DGM-Finance & Planning / CFO

The Board of Directors is responsible for these Financial Statements.

Signed for and on behalf of the Board by:



Dinithi Ratnayake

Chairperson



Chaaminda Kumarasiri

Director



Priyantha Talwatte

Chief Executive Officer



Tamarika Rodrigo

Company Secretary

The Accounting Policies and Notes on pages 176 through 261 from an integral part of the Financial Statements.

12 April 2023

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	Revaluation reserve	General reserves	
	LKR	LKR	LKR	LKR	LKR	LKR	
Opening balance as at 31 December 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	-	-	909,346,727	-	-	-	909,346,727
Transactions with equity holders, recognised directly in equity							
Rights issue	3,559,824,200	-	-	-	-	-	3,559,824,200
Dividends 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
Total transaction with equity holders	3,559,824,200	44,163,909	(299,814,294)	-	-	-	3,304,173,813
Closing balance as at 31 December 2021	11,287,765,221	314,173,025	2,500,152,936	(19,051,624)	-	46,656,973	14,129,696,530
Opening balance as at 1 January 2022	11,287,765,221	314,173,025	2,500,152,936	(19,051,624)	-	46,656,973	14,129,696,530
Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022	-	-	(521,613,182)	-	-	-	(521,613,182)
Adjusted balance as at 1st January 2022	11,287,765,221	314,173,025	1,978,539,754	(19,051,624)	-	46,656,973	13,608,083,348
Profit for the year	-	-	61,166,336	-	-	-	61,166,336
Other comprehensive income (net of tax)	-	-	(28,023,391)	-	259,036,868	-	231,013,477
Total comprehensive income for the year	-	-	33,142,944	-	259,036,868	-	292,179,812
Transactions with equity holders, recognised directly in equity							
Share issue	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	-	-
Cash dividend - 2021	-	-	(241,048,248)	-	-	-	(241,048,248)
Transfer to statutory reserve fund	-	3,058,317	(3,058,317)	-	-	-	-
	-	3,058,317	(244,106,565)	-	-	-	(241,048,248)
Closing balance as at 31 December 2022	11,287,765,221	317,231,342	1,767,576,134	(19,051,624)	259,036,868	46,656,973	13,659,214,913

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 176 through 261 from an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 December	Note	2022 LKR	2021 LKR
Cash flows from/(used in) operating activities			
Interest received		20,479,390,995	14,761,484,144
Fee and commission received		550,849,469	395,622,852
Receipts from other operating activities*		78,098,388	24,959,170
Interest payment		(12,674,240,643)	(8,250,076,980)
Cash payment to employees		(2,706,852,334)	(2,486,618,208)
Payments to suppliers and other operating activities**		(2,011,564,019)	(1,784,985,520)
Fee and commission expenses		(26,705,960)	(23,327,270)
Operating profit before changes in operating assets		3,688,975,894	2,637,058,188
(Increase)/decrease in operating assets			
Funds advanced to customers		1,840,314,281	(10,042,760,437)
Net (increase)/ decrease in other short term securities		(1,381,528)	204,596,351
Net (increase)/ decrease in other assets*		(465,741,090)	(851,801,460)
Increase/(decrease) in operating liabilities			
Deposits from customers		10,207,858,228	865,404,384
Net increase/ (decrease) in other liabilities**		229,897,594	(101,978,235)
Net cash from operating activities before taxes		15,499,923,380	(7,289,481,209)
VAT on financial services paid ***		(420,603,385)	(569,797,396)
Income tax paid		(819,454,906)	(503,497,967)
Net cash from operating activities		14,259,865,088	(8,362,776,572)
Cash flows from/(used in) investing activities			
Dividend received	11	586,129	7,816,205
(Increase)/decrease in dealing securities		(1,012,521,004)	4,111,748,993
(Increase)/decrease in treasury bonds and other investments		(16,358,572,150)	(16,411,467,172)
Proceeds from sale of property, plant and equipment		2,736,631	413,267
Purchase of property, plant and equipment	25	(137,227,904)	(495,986,096)
Purchase of intangible assets	28	(307,823,709)	(16,916,563)
Net cash flow from acquisition of investment in subsidiaries		-	-
Net cash from/(used in) investing activities		(17,812,822,006)	(12,804,391,364)
Cash flows from/(used in) financing activities			
Proceeds from Issuance/allotment of shares		-	3,510,062,831
Dividend paid	38	(241,048,248)	(206,046,072)
Repayment of long term borrowing		(33,299,847,778)	(27,091,975,807)
Repayment of subordinated debt		-	-
Interest paid on subordinated debt		(566,005,168)	(356,089,167)
Increase/(decrease) in borrowing		32,140,526,095	41,654,949,198
Funds received/(utilized) during the period		-	(1,955,584)
Net cash flow from/(used in) financing activities		(1,966,375,099)	17,508,945,399
Net increase/(decrease) in cash and cash equivalents		(5,519,332,016)	(3,658,222,537)
Cash and cash equivalents at the beginning of the year	18.3	8,867,677,592	12,525,900,129
Cash and cash equivalents at the end of the year	18.3	3,348,345,576	8,867,677,592

*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 176 through 261 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 2022 were authorized for issue in accordance with a resolution of the Directors on 12 April 2023.

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 33)

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 46 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. The Directors have considered the impact of the current adverse macro-economic conditions on the business operations of the Bank. 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. The management has also conducted stress tests to evaluate the robustness of the financial resources of the Bank. This has been reviewed and approved by the Board.

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

Notes to the Financial Statements

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 adverse macroeconomic conditions and post-COVID-19 pandemic and the Bank's expectations of economic impacts, key assumptions used in the Bank's calculation of ECL have been revised with complete model validation done through an independent audit team. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 3.2.6.6, while the impact of changing the weights of different macroeconomic scenarios during the year is given in Note 48.2.1. (f). As of the reporting date, the expected impacts of adverse macro-economic conditions and post-COVID-19 have been captured via the model outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of adverse macro-economic conditions and COVID-19. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the adverse macroeconomic conditions and 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 2022. 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 has 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 of 31st December 2021 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 47.2.1. (g). The sensitivity of the individually significant loan impairment to recovery cash flows is given in Note 47.2.1. (c) while the sensitivity of collective impairment provision to the staging of the loans and advances is disclosed in Note 47.2.1. (d).

2.13 Impairment of Other Financial Assets

The Bank reviews its debt securities classified as FVOCI/ amortized cost at each reporting date. Objective evidence that debt security held at FVOCI/amortized cost is impaired/having an increased credit risk includes, among other things, the significant financial difficulty of the issuer, a breach of contract such as a default or delinquency in interest or principal payments, etc. Management judgment has been involved in determining whether there is a significant increase in the credit risk of these instruments or whether these instruments are impaired as of 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 44.

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'.

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 are 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 the expected future inflation rate and expected future salary increase rates of the Bank.

2.18 Property, Plant and Equipment

The freehold land of the bank is reflected at fair value at each reporting date for Other assets bank applies the cost model to Property, Plant, and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

The details of freehold land and buildings, including methods of valuation, are given in Notes 25.1 and 25.4 to the Financial Statements. The Bank revalued its freehold lands and buildings(remove) as of 31st December 2022 and necessary adjustments were included in the Financial Statements

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, and 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 recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 39.

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 is 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 does not directly generate cash flows as a standalone asset is 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 leased asset, over a similar term and with similar security in a similar economic environment. Further, the Bank applies judgment 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 gains or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 recognized 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 recognized 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 marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes 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 recognizes 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 that is not observable, the difference between the transaction price and model value is only recognized in the Statement of Profit or Loss when the inputs become observable, or when the instrument is derecognized.

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortized 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:

- Amortized cost, as explained in Note 3.2.3.1
- FVOCI as explained in Notes 3.2.3.5 and 3.2.3.6
- FVTPL

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 amortized 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 amortized 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 realized 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 amortization 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 contracts with all two 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 variables, 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.

The Bank does not have any derivative instruments as of reporting date.

Notes to the Financial Statements

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 cause 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 variables, provided that, in the case of a non-financial 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 recognized 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).

The bank does not have any embedded derivatives as of reporting date.

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 recognized 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 of 31st December 2022.

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 is 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 recognizing gains or losses on them on a different basis, Or
- The liabilities are part of a group of financial liabilities that 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 into 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 recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost.

The ECL calculation for debt instruments at FVOCI is explained in Note 3.2.6.5. On de-recognition, cumulative gains or losses previously recognized 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 recognized 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 amortized cost. Amortized cost is calculated by taking into account any discount or premium on the issue of funds and costs that are an integral part of the EIR. The Bank does not have compound financial instruments which contain both liability and equity components and require separation as of 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 recognized gains, losses (including impairment gains or losses), or interest. Financial liabilities are never reclassified.

When a financial asset is reclassified out of the amortized cost measurement category and into the fair value through the 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 amortized cost of the financial asset and fair value is recognized in profit or loss.

When a financial asset is reclassified out of the fair value through the profit or loss measurement category and into the amortized 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 amortized cost measurement category and into the fair value through another comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized 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 another comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized 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 amortized cost. 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 the profit or loss measurement category and into the fair value through other comprehensive income measurement categories, 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 categories and into fair value through the profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized 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 2022.

Notes to the Financial Statements

3.2.5 Derecognition of Financial Assets and Liabilities

3.2.5.1 Derecognition due to Substantial Modification of Terms and Conditions

The Bank derecognizes 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 recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized 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 derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in the 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 de-recognition. 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 derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition.

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 de-recognition 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 recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes 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 derecognized when the obligation under the liability is discharged, canceled, 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 de-recognition 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 recognized 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 12m ECL 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 assessments 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 categorizes its loans into 'stage 1', 'stage 2', 'stage 3' and 'originated credit impaired', as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an impairment based on 12m ECLs. 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 recognized based on a credit-adjusted EIR. ECLs are only recognized 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 of 31st December 2022 and 2021.

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) de-recognition 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 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 the collateral is significantly reduced and/or the reliability of collateral is doubtful.
- The borrower is subject to litigation that significantly affects the performance of the credit facility.

Notes to the Financial Statements

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 recognized 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 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 Rescheduling 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 a significant increase in credit risk as opposed to the 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 moved to the 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 which 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 the next bucket based on the industry risk of the underlying borrowers. The Bank has identified industries such as tourism, import businesses, construction (including condominiums), and agriculture including agrochemicals, transport, and store, 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 47.

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 incorporate 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 derecognized 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 realization 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 recognized 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 into 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 it. This normally encompasses a 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 recognized through the unwinding of the discount. When ECLs are determined for individually significant financial assets, the 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 realizable value of the security (or other credit mitigants) and the 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 amortized cost/ FVOCI)

For all other asset classes, the Bank calculates ECL on a collective basis. The Bank categorizes 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 categorized 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

The movement of the customers into adverse DPD categories is 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 amortized 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 the 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 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 modeling the range of possible exposure outcomes at various points in time, corresponding to the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of the 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 realized from any collateral held.

Notes to the Financial Statements

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, a 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 added to this data set. Virtually closed contracts are active loans that 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 amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de-recognition of the assets.

3.2.6.6 Forward-looking Information

The economic environment remains uncertain and future impairment charges may be impacted depending on the longevity of the pandemic and related containment measures. The COVID-19 pandemic no longer significantly impacted the local and global economies.

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 2022, 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, weightages are assigned for multiple economic scenarios during the year. Weights assigned for each scenario is given below along with the weightages used in 2021.

	Base case	Best case	Worst case
2021	30%	30%	40%
2022	10%	5%	85%

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 are 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 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 2022 and 2021.

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. Re-schedulement/restructuring 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 reschedules/restructures 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 if 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, the loss allowance reverts to being measured at an amount equal to lifetime expected credit losses. Details of restructured/rescheduled loans are disclosed in Note 47.2.1 (i). If modifications are substantial, the loan is derecognized, 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 is actively involved in providing assistance to affected customers under these moratorium schemes. As per the 4th wave of the CBSL moratorium, capital and interest repayments were deferred until 30th June 2022. The Bank concluded that these modifications were not substantial to derecognize the original loans and therefore it continued to recognize the original loans in its financial statements. The Bank

continued to recognize interest at the rate of a one-year treasury bill rate + 1% on the deferred capital during the period of deferment. Accordingly, the Bank did not require to recognize 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 the next bucket on a prudent basis. Furthermore, a case-by-case analysis has been conducted on the most significant exposures which have been classified as stage 2 or stage 3 when the circumstances demand so. Further, an additional provision has been recognized in the Financial Statements as at 31st December 2022 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.

Notes to the Financial Statements

The Bank did not designate any derivative as a hedging instrument during the years ended 31st December 2022 and 2021.

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.

The Bank presents right of use assets under Note 26 to the financial statements while the corresponding lease liability is presented in Note 34, '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.

Notes to the Financial Statements

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.

3.8.2 Social Security Contribution Levy

As per the Social Security Contribution Levy (SSCL) Act No. 25 of 2022, effective from October 01, 2022, Bank is liable to pay SSCL on Financial Services at the rate of 2.5% on the value addition attributable to the supply of financial services. Further Non-Financial Services are made liable on the turnover at the rate of 2.5%.

3.8.3 Surcharge Tax

As per the Provisions of the Surcharge Tax Act No. 14 of 2022 if the aggregate of the taxable income of the holding company and all subsidiaries in a group of companies, for the Year of Assessment 2020/21, exceed LKR 2,000 Mn, each company in the group of companies is liable to pay Surcharge Tax calculated at 25% on the taxable income (after deducting profit from dividends received from subsidiaries included in the taxable income)

3.9 Regulatory Provisions

3.9.1 Deposit Insurance and Liquidity Support Scheme

All Licensed Commercial Banks and specialized 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 2022 exceed 14% and accordingly the Bank paid a premium of 0.1% of the eligible deposits as deposit insurance premium, during the year ended 31st December 2022.

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 2022

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.

5. ACCOUNTING STANDARDS/CBSL DIRECTIVES ISSUED BUT NOT YET EFFECTIVE AS AT 31ST DECEMBER 2022

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 2023.

5.1.1 Amendments to LKAS 12- Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

5.1.2 Amendments to “Accounting Policies, Changes in Accounting Estimates and Errors” (LKAS 8): Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after January 01, 2023. The bank does not expect this will result in a material impact on its Financial Statements

5.1.3 Amendments to “Presentation of Financial Statements” (LKAS 1) and “Making Materiality Judgements” (IFRS Practice Statement 2): Disclosure of Accounting Policies

Amendments to LKAS 1 and IFRS Practice Statement 2, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by,

- Replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies.
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after January 01, 2023. The Group is in the process of revisiting its accounting policy information disclosures to ensure consistency with the amended requirements.

5.1.4 SLFRS 17 - Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025. The Bank expects that the implementation of this standard may not have a material impact on the financial statements of the Bank.

Notes to the Financial Statements

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.	

Year ended 31 December	Note	2022 LKR	2021 LKR
Interest income	7.	23,101,048,459	14,792,068,260
Fee and commission income	8.	504,650,370	413,674,505
Net Gain/(Loss) from Trading	9.	(1,077,912)	4,143,851
Net Fair Value Gain/(Loss) from Financial Assets at Fair Value through Profit or Loss	10.	166,508,518	234,933,928
Net Other Operating Income	11.	263,006,686	32,775,375
		24,034,136,119	15,477,595,919

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.	

Year ended 31 December	2022 LKR	2021 LKR
Interest income		
Cash and cash equivalents	279,312,110	353,266,188
Placements with banks	1,612,656,134	388,596,398
Financial assets at amortised cost:		
- Loans and receivables to other customers	18,427,842,602	13,601,107,574
- Debt and other instruments	2,780,624,363	438,243,852
Financial assets - fair value through profit or loss	613,250	10,854,248
Total interest income	23,101,048,459	14,792,068,260
Interest expenses		
Financial liabilities at amortised cost:		
- Due to other customers	11,109,235,368	6,037,659,774
- Due to debt securities holders	-	-
- Other borrowers	4,496,118,385	1,586,497,396
- Subordinated term debt	659,020,921	364,958,782
- Finance cost of lease liability	-2,379,998	29,303,429
Total interest expenses	16,261,994,676	8,018,419,381
Net interest income	6,839,053,783	6,773,648,879

7.1 Net Interest Income from Sri Lanka Government Securities

Year ended 31 December	2022 LKR	2021 LKR
Net interest income from Sri Lanka Government securities	2,743,612,889	422,102,364
	2,743,612,889	422,102,364

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

	2022 LKR	2021 LKR
Fee and commission income	504,650,370	413,674,505
Fee and commission expenses	(26,705,960)	(23,327,270)
Net fee and commission income	477,944,410	390,347,235

8.1 Net fee and Commission Earned from

	2022 LKR	2021 LKR
Loans	292,702,148	206,889,270
Deposits	1,996,351	1,579,818
Guarantees	1,204,313	1,179,123
Commission earned from insurance	26,409,342	82,006,283
Commission earned from ATM	87,909,148	57,995,068
Others	67,723,107	40,697,673
Net fee and commission income	477,944,409	390,347,235

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.

	2022 LKR	2021 LKR
Equity securities	(3,395,662)	3,154,695
Sri Lanka Government securities - Treasury bills and treasury bonds	2,317,750	989,156
	(1,077,912)	4,143,851

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.	

	2022 LKR	2021 LKR
Sri Lanka Government securities - Treasury bills and treasury bonds	245,000	(199,254)
Unit trust	165,381,942	236,201,322
Quoted Equities	881,576	(1,068,140)
Total	166,508,518	234,933,928

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.	

	2022 LKR	2021 LKR
Gain on sale of property, plant and equipment	209,716	285,630
Dividend income	586,129	7,816,205
Other income	262,210,841	24,673,540
Other operating income	263,006,686	32,775,375

Notes to the Financial Statements

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

	2022 LKR	2021 LKR
Stage 1	(1,348,188)	(3,424,250)
Total	(1,348,188)	(3,424,250)

12.2 Placements with Banks

	2022 LKR	2021 LKR
Stage 1	152,089	384,565
Total	152,089	384,565

12.3 Financial Assets at Amorisied Cost - Loans and Receivables to Customers

	2022 LKR	2021 LKR
Stage 1	152,992,400	22,453,866
Stage 2	500,324,761	314,674,950
Stage 3	1,246,352,833	309,689,723
Total	1,899,669,994	646,818,539

12.4 Debt and other Instruments

	2022 LKR	2021 LKR
Stage 1	2,217	(70,362)
Total	2,217	(70,362)
Total	1,898,476,112	643,708,493

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 Employees' Provident Fund of the Bank was considered as the defined benefit plan 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 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 2022 (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

	2022 LKR	2021 LKR
Salary and bonus	1,985,638,734	1,773,485,334
Contributions to defined contribution plans - EPF	277,588,829	248,959,789
- ETF	59,484,820	53,355,401
Contributions to defined benefit plans	121,200,723	62,744,973
Overtime	5,723,222	7,558,820
Staff welfare	38,351,405	37,528,650
Staff allowances	184,305,882	146,939,683
Others	267,949,342	212,122,849
Total	2,940,242,957	2,542,695,499

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 (%)	
	2022	2021	2022	2021
Buildings	20	20	5	5
Computer hardware	5	5	20	20
Machinery and equipment	5	5	20	20
Motor vehicles	4	4	25	25
Furniture and fitting	5	5	20	20
Digital Equipment	5	5	20	20

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 (%)	
	2022	2021	2022	2021
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 are initially recognized at cost. Up to December 2021, After initial recognition the Bank uses the cost method to measure all of its investment property in accordance with requirements in LKAS 40 "Investment Property". However Bank has changed the Measurement subsequent to initial recognition from cost model to fair value model. Standard permitted to only if this results in a more appropriate presentation

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.

Bank has changed Measurement subsequent to initial recognition from cost model to fair value model. Standard permitted to only if this results in a more appropriate presentation.

Depreciation for the up to year 2022 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 (%)	
	2022	2021	2022	2021
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 2022, the Bank conducted an operational efficiency review and estimates were not changed.

Notes to the Financial Statements

	2022 LKR	2021 LKR
Depreciation of property, plant and equipment	228,292,031	204,035,234
Amortisation of Right of use assets	151,241,287	250,248,661
Depreciation of investment property	1,056,030	1,056,030
Amortisation of intangible assets	107,925,847	73,106,649
Total	488,515,195	528,446,574

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.

	2022 LKR	2021 LKR
Directors' emoluments	40,371,137	32,680,000
Auditors' remunerations	9,639,946	4,800,000
Professional and legal expenses	16,218,461	5,948,423
Office administration and establishment expenses	1,870,712,352	1,804,836,669
Total	1,936,941,896	1,848,265,092

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 deferred tax liabilities/(assets) is given in Note 16.2 to the Financial Statements respectively.

Notes to the Financial Statements

	2022 LKR	2021 LKR
Current tax expense		
Income tax for the year	305,978,108	544,649,022
Adjustment in respect of current income tax of prior periods	19,348,276	(21,111,641)
Deferred taxation charge /(reversal)	(289,535,592)	(76,007,767)
Total	35,790,792	447,529,614

16.1 Reconciliation of Tax Expenses

	2022 LKR	2021 LKR
Profit before tax	96,957,128	1,329,807,786
Income tax for the period (Accounting profit at 2022-24%, 2022-28%- 30%)	26,178,425	319,153,869
Income exempt from tax /or not taxable	82,058	(2,185,340)
Add: Tax effect of expenses that are not deductible for tax purposes	1,025,802,248	436,650,769
Less: Tax effect of expenses that are deductible for tax purposes	(497,588,235)	(323,293,554)
Add: Tax impact on leasing loss	(248,496,387)	114,323,280
Tax expense for the year	305,978,108	544,649,022
Adjustment in respect of current income tax of prior period	19,348,276	-
Adjustment in respect of current income tax of prior period - 2020	-	(59,261,206)
Adjustment in respect of current income tax of prior periods - 2016/2017	-	37,149,565
Deferred taxation charge	(250,453,331)	(76,007,767)
Amount of Deferred Tax Expense /(Income) relating to changes in tax rates	(39,082,260)	-
At the effective income tax rate of 36.91% (2021 : 33.42%)	35,790,792	446,529,614

16.2 Deferred Tax Assets, Liabilities and Income Tax Relates to the Followings:

	Statement of financial position		Statement of comprehensive income	
	2022 LKR	2021 LKR	2022 LKR	2021 LKR
Deferred tax liability				
Capital allowances for property, plant and equipment	106,187,111	55,688,942	50,498,169	10,369,440
Capital allowances for leased assets	21,328,813	54,585,795	(33,256,982)	(57,413,077)
	127,515,924	110,274,737	17,241,187	(47,043,637)
Deferred tax assets				
Defined benefit plans	219,296,645	130,440,753	(88,855,892)	26,724,375
Impairment allowance	499,279,264	259,367,074	(239,912,190)	(43,686,337)
Right to use assets	9,568,302	19,915,026	10,346,724	(3,769,992)
	728,144,211	409,722,853	(318,421,358)	(20,731,955)
Deferred taxation charge/(reversal)			(301,180,170)	(67,775,592)
Net deferred tax liability /(asset)	(600,628,286)	(299,448,116)		

16.2.1 Composition of Deferred Tax Charge

Impact on income tax expense	(289,535,592)	(76,007,767)
Impact on other comprehensive income	(11,644,579)	8,232,175
Impact on comprehensive income	(301,180,171)	(67,775,592)

16.3 Change of the Income Tax Rate from 24% to 30% and Other Amendments

The Bank applied the revised rate of 24% and other amendments in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the income tax and deferred tax assets/liabilities as at 31st December 2022. Increased tax rate was applicable for a six month of the year of assesment.

first six months of the year of assessment commencing on April 1,2022, the rate was 24% and for second six months of the same year of assessment at the rate was 30%

16.4 Bank applied the revised rate of 30% to compute the deferred tax as at 31st December 2022 which resulted in Rs. 39 Mn impact (reversal) on total comprehensive income.

Notes to the Financial Statements

16.5 Surcharge tax

The Government of Sri Lanka in its Budget for 2022 has proposed a one-time tax, referred to as a surcharge tax of 25% to be imposed on companies that have earned a taxable income in excess of LK Rs. 2,000 million for the year of assessment 2020/2021. Since the Bank's taxable income is exceeded Rs. 2,000 Mn, the proposed tax should be deemed an expenditure in the financial statements relating to the year of assessment 2020/2021. The Bill introducing the proposed tax was published after the reporting period and it has not been placed on the Order Paper of the Parliament for its first reading before the date these financial statements were authorized for issue. The proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the financial statements as of 31 December 2021 have not been adjusted to reflect the consequences of this proposal.

According to the Surcharge Tax Act No. 14 of 2022, the Surcharge tax shall be deemed to be an expenditure in the financial statements commenced on 1st January 2020. Based on the Surcharge Tax Act requirements and the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Bank has recognised the total liability to the Surcharge Tax as an adjustment to the opening retained earnings as at 1st January 2022. The Bank paid the 1st installment out of two equal installments amounting to Rs. 260.8 Mn. on April 20, 2022, and second installment amounting Rs.260.8 Mn. paid on 20th July 2022.

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.		
	2022	2021
	LKR	LKR
Net profit for the year	61,166,336	883,278,171
Profit attributable to ordinary shareholders	61,166,336	883,278,171
	2022	2021
	Number	Number
Weighted average number of ordinary shares in issue	160,698,832	115,816,356
	160,698,832	115,816,356
Basic/diluted earnings per ordinary share	0.38	7.63

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).

	2022 LKR	2021 LKR
Cash in hand	559,905,360	416,944,204
Balances with banks	2,513,056,774	2,702,006,096
Less : Impairment	(116,644)	(1,464,831)
Carrying value after impairment	3,072,845,490	3,117,485,469

18.1 Analysis of Cash and Cash Equivalents Based on Exposure to Credit Risk

	Stage 1	
	2022 LKR	2021 LKR
Cash and cash equivalents	3,072,962,134	3,118,950,300
Less : Impairment	(116,644)	(1,464,831)
Carrying value after impairment	3,072,845,490	3,117,485,469

18.2 Stage Wise Classification of Impairment Allowances of Cash and Cash Equivalents

	Stage 1	
	2022 LKR	2021 LKR
Opening balance as at 1 January	1,464,831	4,889,081
Charges/(write back) to income statement	(1,348,188)	(3,424,250)
Closing balance as at 31 December	116,643	1,464,831

18.3 Cash and Cash Equivalents for Cash Flow Statement

	2022 LKR	2021 LKR
Cash and cash equivalents for cash flow statement		
Cash and cash equivalents	3,072,845,490	3,117,485,469
Repurchase agreement	-	500,191,781
Fixed deposits less than 3 months	275,500,000	5,250,000,342
	3,348,345,490	8,867,677,592

Notes to the Financial Statements

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.		

	2022 LKR	2021 LKR
Placements with banks	18,205,902,365	15,108,964,561
Less: Impairment	(706,482)	(554,393)
Carrying value after impairment	18,205,195,883	15,108,410,169

19.1 Analysis of Placements with Banks Based on Exposure to Credit Risk

	Stage 1	
	2022 LKR	2021 LKR
Placements with banks	18,205,902,365	15,108,964,561
Less : Impairment allowance for placement	(706,482)	(554,393)
Carrying value after impairment	18,205,195,883	15,108,410,169

19.2 Stage Wise Classification of Impairment Allowances of Placements with Banks

	Stage 1	
	2022 LKR	2021 LKR
Opening balance as at 1 January	554,393	169,828
Charges/(write back) to income statement	152,089	384,565
Closing balance as at 31 December	706,482	554,393

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.		

	2022 LKR	2021 LKR
Sri Lanka Government securities - Treasury bills and Treasury bonds	-	199,369,000
Unit trust	1,905,738,326	511,471,916
Quoted Equities (Note 20.1)	-	16,945,800
Total	1,905,738,326	727,786,716

20.1 Quoted Equities

	2022		2021	
	No. of Shares	Market Value LKR	No. of Shares	Market Value LKR
Commercial Bank of Ceylon PLC			7,671	608,310
Sampath Bank PLC			60,000	3,126,000
Hatton National Bank PLC			6,154	830,790
DFCC Bank PLC			-	-
John Keels Holdings PLC			20,200	3,030,000
Richard Pieris and Company PLC			-	-
Access Engineering PLC			-	-
Tokyo Cement Company (Lanka) PLC			21,000	1,043,700
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

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.	

	2022 LKR	2021 LKR
Gross loans and receivables (Note 21.1)	116,319,763,769	115,786,982,202
Less: Individual impairment	(1,922,093,650)	(1,419,421,300)
Collective impairment	(3,872,219,927)	(2,476,305,282)
Net loans and receivables	110,525,450,192	111,891,255,620

Notes to the Financial Statements

21.1 Analysis of Loans and Receivables to Other Customers Based on Exposure to Credit Risk

	2022			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Individual impairment loans				
Term loan	-	-	4,649,685,660	4,649,685,660
Leasing	-	-	914,415,302	914,415,302
Collective impairment loans				
Pawning	5,597,532,261	44,482,452	32,026,299	5,674,041,012
Cash margin	11,442,454,252	232,905,771	2,893,140	11,678,253,163
Staff loans	2,038,236,239	4,820,712	3,428,637	2,046,485,588
Term loans				
Business	1,676,023,469	260,738,727	568,842,535	2,505,604,731
Co-operative	1,246,585,113	114,165,002	208,191,271	1,568,941,386
Housing	1,616,740,803	560,711,372	307,821,009	2,485,273,184
Personal	299,575,082	57,290,459	380,508,686	737,374,227
Fixed and floating	23,354,640,021	869,166,824	2,186,792,013	26,410,598,858
SME	7,779,786,642	2,457,177,037	2,338,161,212	12,575,124,891
Upahara	37,287,013,291	355,522,155	109,454,086	37,751,989,533
Lease rentals receivables	4,467,847,947	2,063,476,877	790,651,412	7,321,976,236
Gross loans and receivables	96,806,435,119	7,020,457,389	12,492,871,262	116,319,763,769
Less : Impairment allowance	(837,536,211)	(969,078,318)	(3,987,699,048)	(5,794,313,577)
Net loans and receivables	95,968,898,909	6,051,379,069	8,505,172,214	110,525,450,192
2021				
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total 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

21.2 Gross Loans and Receivables Analysis by Product

	2022 LKR	2021 LKR
Loans and receivables		
Pawning	5,820,217,507	3,016,066,362
Cash margin	11,770,371,489	5,463,781,929
Staff loans	2,046,485,588	1,849,080,347
Term loans		
Business	3,247,584,599	3,106,066,902
Co-operative	2,074,008,738	2,921,501,412
Housing	2,788,477,058	3,240,516,454
Personal	804,843,323	929,694,563
Fixed and floating	26,549,542,016	28,570,581,370
SME	14,400,557,200	16,176,786,759
Upahara	38,581,284,713	40,175,188,895
Lease rentals receivable (Note 21.2.1)	8,236,391,538	10,337,717,209
Gross total	116,319,763,769	115,786,982,202

21.2.1 Lease Rentals Receivable

	2022 LKR	2021 LKR
Gross lease receivable within one year	1,828,647,093	2,314,819,306
Unearned income on rentals receivable	(797,262,017)	(1,393,925,835)
Gross lease receivable within one year	1,031,385,076	920,893,471
Gross lease receivable after one year	8,497,992,591	11,221,970,243
Unearned income on rentals receivable	(1,292,986,128)	(1,805,146,505)
Gross lease receivable after one year	7,205,006,463	9,416,823,738
Gross lease receivable total	8,236,391,539	10,337,717,208

21.3 Gross Loans and Receivables Analysis by Currency

	2022 LKR	2021 LKR
Sri Lankan Rupee	116,319,763,769	115,786,982,202
Gross total	116,319,763,769	115,786,982,202

Notes to the Financial Statements

21.4 Gross Loans and Receivables Analysis Industry

	2022		2021	
	LKR	%	LKR	%
Agriculture, Forestry & Fishing	14,534,431,325	12.50%	13,382,265,090	11.56%
Manufacturing	96,370,916	0.08%	90,661,668	0.08%
Tourism	400,133,713	0.34%	419,991,071	0.36%
Construction and Infrastructure Development	20,928,093,925	17.99%	24,409,409,708	21.08%
- Real Estate & Property Development	269,580,087	4.05%	989,376,952	4.05%
- House & Land Purchasing	901,311,270	1.94%	473,352,233	1.94%
- Housing Repairs & Renovations	9,337,803,101	38.02%	9,281,601,343	38.02%
- Housing Constructions	6,631,042,229	48.32%	11,795,502,779	48.32%
- Business Premises Purchasing	444,510,442	0.00%	1,137,832	0.00%
- Business Premises Repairs & Renovations	1,403,285,895	6.90%	1,684,946,369	6.90%
- Commercial Constructions	213,885,022	0.00%	75,715	0.00%
- Others	1,585,070,455	0.06%	15,479,175	0.06%
- Leasing	141,605,425	0.69%	167,937,310	0.69%
Wholesale and Retail Trade	14,649,447,156	12.59%	17,466,056,352	15.08%
Financial Services	9,635,276,513	8.28%	6,821,145,076	5.89%
Consumption	49,973,573,832	42.96%	49,154,043,724	42.45%
Transportation and Storage	4,115,625,166	3.54%	2,639,693,298	2.28%
Information Technology and Communication	78,675,844	0.07%	32,398,001	0.03%
Professional, Scientific and Technical Activities	23,576,706	0.02%	23,179,151	0.02%
Arts, Entertainment and Recreation	1,323,563	0.00%	86,677	0.00%
Education	104,574,032	0.09%	114,683,894	0.10%
Healthcare, Social Services and Support services	1,778,661,079	1.53%	1,233,368,491	1.07%
	116,319,763,769	100.00%	115,786,982,202	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 2022 and 31st December 2021.

21.5 Movement in individual and collective impairment based on exposure to credit risk

	2022	2021
	LKR	LKR
Stage 1		
Opening balance as at 1 January	684,543,810	662,089,944
Charges/(write back) to income statement	152,992,400	22,453,866
Closing balance as at 31 December	837,536,210	684,543,810
Stage 2		
Opening balance as at 1 January	468,753,557	154,078,607
Charges/(write back) to income statement	500,324,761	314,674,950
Closing balance as at 31 December	969,078,318	468,753,557

	2022 LKR	2021 LKR
Stage 3		
Opening balance as at 1 January	2,742,429,214	2,496,846,083
Charges/(write back) to income statement	1,246,352,833	309,689,723
Write - off during the year	(1,083,000)	(64,106,591)
Closing balance as at 31 December	3,987,699,047	2,742,429,214

21.6 Movement in individual and collective impairment

	Individual impairment LKR	Collective impairment LKR	Total impairment LKR
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	1,419,421,301	2,476,305,282	3,895,726,583
Opening balance as at 1 January 2022	1,419,421,301	2,476,305,282	3,895,726,583
Charge/(write back) to income statement	502,672,348	1,396,997,645	1,899,669,993
Recovery/(write-off) during the year	-	(1,083,000)	(1,083,000)
Closing balance as at 31 December 2022	1,922,093,649	3,872,219,927	5,794,313,576

21.7 Based on the impairment model revalidation, product segmentation has been re-classified 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 2022 and 2021, after validating the impairment model. The Bank estimated Expected Credit Loss (ECL) as at December 31, 2022, based on the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at December 31, 2022, after validating the impairment model.

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.

	2022 LKR	2021 LKR
Debentures	102,624,999	101,283,629
Repurchase agreement	0	500,191,781
Treasury bill	19,166,885,942	11,186,344,146
Commercial papers	-	-
Treasury bonds	550,268,525	243,523,886
Less: Impairment	(43,750)	(41,532)
Carrying value after impairment	19,819,735,716	12,031,301,910

Notes to the Financial Statements

22.1 Analysis of Debt and Other Instruments Based on Exposure to Credit Risk

	Stage 1	
	2022	2021
	LKR	LKR
Debentures	102,624,999	101,283,629
Repurchase agreement	-	500,191,781
Treasury bill	19,166,885,942	11,186,344,146
Commercial papers	-	-
Treasury bonds	550,268,525	243,523,886
Less : Impairment allowance	(43,750)	(41,532)
Carrying value after impairment	19,819,735,716	12,031,301,910

22.2 Stage Wise Classification of Impairment Allowances of Debt and Other Instruments

	Stage 1	
	2022	2021
	LKR	LKR
Opening balance as at 1 January	41,532	111,894
Charges/(write back) to income statement	2,217	(70,362)
Closing balance as at 31 December	43,749	41,532

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.

	2022	2021
	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

	2022		2021	
	Number of shares	Amount LKR	Number of shares	Amount LKR
SANASA Insurance Company Limited	7,590,494	75,829,751	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		(18,976,430)		(19,051,624)
		56,938,515		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.

	2022 LKR	2021 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 do 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 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 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.

Rates of depreciation for each category of property, plant and equipment are given in Note 14, 'Depreciation and Amortisation Expenses'.

2022	Land and buildings LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Digital Equipment LKR	Total LKR
Cost							
Opening balance as at 1 January	251,979,214	1,157,452,813	571,816,787	424,821,888	158,915,227	273,553,285	2,838,539,214
Additions	-	52,328,452	11,957,545	18,486,688	-	54,455,220	137,227,904
Surplus on revaluation of property	259,036,868	-	-	-	-	-	259,036,868
Transfer to Non current asset held for sale	(26,289,000)	-	-	-	-	-	-
Disposals	-	(19,902,071)	(9,038,433)	(9,232,718)	(59,100)	-	(38,232,322)
Closing balance as at 31 December	484,727,082	1,189,879,194	574,735,899	434,075,857	158,856,127	328,008,505	3,196,571,664

Less: Accumulated depreciation

Opening balance as at 1 January	40,362,951	830,470,337	498,033,657	338,778,631	149,964,097	28,825,832	1,886,435,504
Charge for the year	3,088,450	86,819,694	29,689,047	38,583,218	7,528,863	62,582,759	228,292,031
Transfer to Non current asset held for sale	(833,333)	-	-	-	-	-	-
Disposals	-	(20,524,936)	(8,959,553)	(7,258,483)	(59,100)	-	(36,802,072)
Closing balance as at 31 December	42,618,067	896,765,096	518,763,151	370,103,366	157,433,860	91,408,591	2,077,092,130

2021	Land and buildings LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Digital Equipment LKR	Total LKR
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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

2021	Land and buildings LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Digital Equipment LKR	Total LKR
Cost							
Net book value as at 31 December 2022	442,109,014	293,114,098	55,972,748	63,972,493	1,422,267	236,599,914	1,093,190,534
Net book value as at 31 December 2021	211,616,264	326,982,476	73,783,130	86,043,258	8,951,131	244,727,453	952,103,711

25.1 Freehold land and Buildings

The details of the land and buildings owned by the Bank are as follows:

Location/Address	Land (Porches)	Building (Square feet)	No of buildings	As at 31 December 2022			As at 31 December 2021	
				Cost/ Fairvalue		Cost		
				Land Fair Value LKR	Land Cost LKR	Building Cost LKR	Land Cost LKR	Building Cost LKR
No. 14, Edmonton Road, Kirulapone	17.85	-	-	70,000,000	38,999,000	-	38,999,000	-
No. 12/01, Edmonton Road, Kirulapone	18.05	-	-	90,000,000	46,799,000	-	46,799,000	-
A1, SANASA Housing Project, Toppass, Nuwara Eliya	14	1,200	1	20,000,000	400,000	2,100,000	400,000	2,100,000
No. 145, Rathnapura Road, Horana	13	5,956	1	32,500,000	20,539,000	6,500,000	20,539,000	6,500,000
No. 63A, Matara Road, Akuesssa	14	3,728	1	58,000,000	14,423,820	8,975,180	14,423,820	8,975,180
No. 255, Sunnysaid Garden, Karapitiya	18.50	5,992	1	46,250,000	9,250,000	20,833,360	9,250,000	20,833,360
No. 342, Main Street, Kegalle	13.25	5,580	1	98,461,000	34,760,400	14,118,600	34,760,400	14,118,600
No.6 /176, Walauwatta, Kegalle	20	-	-	-	-	-	16,639,000	-
No.5 /176, Walauwatta, Kegalle	12	1,334	1	-	-	-	8,400,000	1,250,000
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	320	2,600	1	10,000,000	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
				425,211,000	166,174,132	59,516,082	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 137,227,904/- (2021 - LKR 495,986,096/-). Cash payments amounting to LKR 137,227,904/- (2021 - LKR 495,986,096/-) 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 1,734,533,086/- (2021 - LKR 1,620,924,106/-)

25.4 There were no restrictions on the title of the property, plant and equipment as at 31 December 2022.

25.5 There were no idle property, plant and equipment as at 31 December 2022.

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.

	2022 LKR	2021 LKR
Cost		
Opening balance as at 1 January	1,186,912,871	1,060,833,882
Additions and improvements during the year	194,966,202	126,078,989
Closing balance as at 31 December	1,381,879,073	1,186,912,871
Less: Accumulated amortisation		
Opening balance as at 1 January	621,436,337	371,187,676
Amortisation expenses for the year	151,241,287	250,248,661
Closing balance as at 31 December	772,677,624	621,436,337
Net book value as at 31 December	609,201,449	565,476,533

27. INVESTMENT PROPERTIES**Accounting Policy**

The accounting policies for "Investment Properties" are given in Notes 14 to the Financial Statements.

	2022 LKR	2021 LKR
Cost		
Opening balance as at 1 January	35,359,000	35,359,000
Additions	-	-
Disposal/ Transfer	(35,359,000)	-
Closing balance as at 31 December	-	35,359,000
Less: Accumulated depreciation		
Opening balance as at 1 January	16,192,460	15,136,430
Charge for the year	1,056,030	1,056,030
Disposals / Transfer to Non-current asset held for sale	(17,248,490)	-
Closing balance as at 31 December	-	16,192,460
Net book value as at 31 December	-	19,166,540

Notes to the Financial Statements

27.1 The details of the Investment Properties Owned by the Bank are as Follows:

Location/Address	Extent			As at 31 December 2022 Cost		As at 31 December 2021 Cost	
	Land (Porches)	Building (Square feet)	No of Buildings	Land LKR	Building LKR	Land LKR	Building LKR
No.6 A/176, Walauwatta, Kegalle	28	8,233.5	1	-	-	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 75,000,000 /-. Valuation was carried out by E M P A G N I B Ekanayake independence Professional Valuer on 31st December 2022. Market comparable method is used for value the property and rate per perch is Rs. 1,200,000/-.

27.3 Assets previously classified as investment property and Property plant and equipment have been transferred to non-current assets available for sale at the end of 2022 with the intention of selling the property in 2023. All the criteria given by SLRS 05 were satisfied in its transfer to non-current assets held for sale.

27.4 Non-Current Assets Held for Sale

	2022 LKR	2021 LKR
Cost	61,648,000	-
Less: Accumulated depreciation	(18,081,823)	-
Net book value as at 31 December	43,566,177	-

As per the SLRS 05 entity shall measure the Non current asset held for sale at the lower of its carrying amount and fair value less cost of sale. Market value (Level 3) of the above asset is LKR 75,000,000 /-. Valuation was carried out by E M P A G N I B Ekanayake independence Professional Valuer on 31st December 2022. Market comparable method is used for value the property and rate per perch is Rs. 1,200,000/-. Subsequently said asset was sold at Rs. 75,000,000 in February 2023.

28. INTANGIBLE ASSETS

Accounting Policy
<p>Recognition</p> <p>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.</p>
<p>Computer Software</p> <p>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.</p>
<p>Goodwill</p> <p>Goodwill, if any that arises upon the acquisition of subsidiaries is included in intangible assets.</p>
<p>Subsequent Expenditure</p> <p>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.</p>
<p>Derecognition of Intangible Assets</p> <p>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.</p>

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.

Intangible assets of the Bank as at 31st December 2021 only include computer software and cost of licenses. Rates of amortisation for computer software and licenses are given in Note 14, 'Depreciation and Amortisation Expenses'.

	2022 LKR	2021 LKR
Cost		
Opening balance as at 1 January	706,355,933	689,439,370
Additions	307,823,710	16,916,563
Closing balance as at 31 December	1,014,179,642	706,355,933
Less: Accumulated amortisation		
Opening balance as at 1 January	367,422,686	294,316,037
Charge for the year	107,925,847	73,106,649
Disposal		
Closing balance as at 31 December	475,348,533	367,422,686
Net book value as at 31 December	538,831,109	338,933,246

Notes to the Financial Statements

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

	2022 LKR	2021 LKR
Postage legal and other charges receivable	115,373,011	73,147,602
Unamortised staff cost	1,100,189,821	975,005,866
Deposits, prepayments and other receivables	1,764,930,023	1,595,863,409
Inventory	63,054,248	60,429,553
Total	3,043,547,103	2,704,446,431

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.

	2022 LKR	2021 LKR
Total amount due to other customers	107,533,001,772	93,902,939,217
Total	107,533,001,772	93,902,939,217

30.1 Analysis of Due to Other Customers

	2022 LKR	2021 LKR
By product		
Savings deposits	14,542,774,099	22,338,016,473
Fixed deposits	92,990,227,673	71,564,922,744
Total	107,533,001,772	93,902,939,217

	2022 LKR	2021 LKR
By currency		
Sri Lanka Rupee	107,533,001,772	93,902,939,217
Total	107,533,001,772	93,902,939,217

31. OTHER BORROWINGS

Accounting Policy

The accounting policies pertaining to "Other Borrowings" are given in Note 3.2.3.7 to the Financial Statements.

	2022 LKR	2021 LKR
Money market Borrowings (31.1)	-	-
Term loans (Note 31.2)	28,539,196,589	30,797,616,891
Securitised borrowings (Note 31.3)	225,592,400	489,000,000
Refinance borrowing (Note 31.4)	1,939,758,686	2,283,221,372
Total	30,704,547,675	33,569,838,263

31.1 Money Market Borrowings

	2022 Rs.	2021 Rs.
National Development Bank PLC	-	-
Sampath Bank PLC	-	-
	-	-

31.2 Details of Term Loans

Institution	Fixed/Floating	Tenure (Months)	2022	2021
National Savings Bank	Floating	48	-	332,000,000
Sampath Bank PLC	Floating	60	-	16,655,798
Sampath Bank PLC	Floating	60	670,109,954	1,068,406,064
Sampath Bank PLC	Floating	36	1,214,921,895	-
Seylan Bank PLC	Floating	48	-	205,751,589
Seylan Bank PLC	Floating	48	31,403,369	156,479,388
Seylan Bank PLC	Floating	47	42,834,154	298,362,338
Seylan Bank PLC	Floating	60	400,707,684	600,061,863
Seylan Bank PLC	Floating	60	200,715,564	300,201,780
Seylan Bank PLC	Floating	36	83,702,667	417,185,759
Seylan Bank PLC	Fixed	1	-	1,501,047,945
Seylan Bank PLC	Fixed	1	-	1,503,493,151
Seylan Bank PLC	Fixed	1	-	501,164,384
DFCC Bank	Floating	48	-	73,031,961
DFCC Bank	Floating	48	-	114,613,521
HNB Bank PLC	Floating	48	-	343,932,140
HNB Bank PLC	Floating	36	835,527,003	1,500,763,448
HNB Bank PLC	Floating	60	488,724,894	637,811,938
HNB Bank PLC	Floating	48	627,071,152	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	538,215,222	824,782,913
Bank of Ceylon	Floating	12-81	2,521,293,068	4,357,698,206
Bank of Ceylon	Floating	15-81	1,715,107,408	2,845,562,251
Bank of Ceylon	Floating	13-81	2,358,640,312	-
Bank of Ceylon	Floating	23	543,727,203	-
Bank of Ceylon	Floating	14	573,681,103	-
Bank of Ceylon	Floating	17	570,115,714	-
Nations Trust Bank PLC	Floating	48	188,620,005	438,153,205
Cargils Bank	Floating	3	-	803,686,575
The International Finance Corporation (IFC)	Fixed	60	268,634,822	806,172,049
The Netherlands Development Finance Company (FMO)	Floating	52	-	225,264,516
United States International Development Finance Corporation (DFC)	Fixed	81	14,665,443,395	8,043,736,280
			28,539,196,589	30,797,616,890

Notes to the Financial Statements

31.2.1 Movement in Term Loans

	Opening Balance As at 1 January 2022 LKR	Obtained during year/ Revaluation LKR	Repayment LKR	Closing Balance As at 31 December 2022 LKR
Movement in term loans				
National Savings Bank	332,000,000		(332,000,000)	-
Samath Bank PLC	1,083,294,667	1,500,000,000	(708,294,667)	1,875,000,000
Seylan Bank PLC	5,475,348,022	24,511,539,920	(29,250,203,357)	736,684,585
HNB Bank PLC	4,356,320,000	3,000,000,000	(5,410,310,000)	1,946,010,000
NDB Bank PLC	1,000,000,000	3,000,000,000	(4,000,000,000)	-
DFCC Bank	187,499,974		(187,499,974)	-
Bank of Ceylon	8,010,921,373	3,699,800,000	(2,982,799,838)	8,727,921,535
Nations Trust Bank	437,482,000		(250,008,000)	187,474,000
Cargils Bank	800,000,000	800,000,000	(1,600,000,000)	-
FMO	223,837,359		(223,837,359)	-
IFC	777,000,016		(517,999,995)	259,000,021
DFC	8,030,000,000	6,629,412,000		14,659,412,000
Interest payable	83,913,482			147,694,449
	30,797,616,892	43,140,751,920	(45,462,953,189)	28,539,196,589

The Bank complied with all borrowing covenants reported under Note 32.1 as at 31st December 2022, other than the following covenant breaches as at 12th April 2023,

- DFC - NPL Ratio since June 2022 and Open Credit Exposure Ratio (OCER) since September 2022.

The Bank holds dollar denominated FDs to mitigate the foreign currency risk and those are matching the dollar repayment schedule of the lender. The bank has intimated these breaches to the relevant lenders and the consent for waivers were obtained during post balance sheet period.

31.3 Securitised borrowings

	2022 LKR	2021 LKR
Trust	225,592,400	489,000,000
Total	225,592,400	489,000,000

31.4 Refinance Borrowings

	2022 LKR	2021 LKR
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000
Borrowings under Refinance of Jayatha	63,733,349	111,551,528
Borrowing under Saubagya	892,862,783	1,030,583,130
Borrowing - Refinance Smile III	344,802,450	403,806,950
Borrowing - Refinance Sepi	50,000	625,000
Borrowing - Suwashakthi Loan	26,297,005	32,326,586
Borrowing - Athwela (READ)	-	1,175,000
Borrowing - Kapruka Ayojana	14,798,225	16,026,675
Borrowing - SAPP 4P Youth Loan	40,363,467	62,607,777
Borrowing - Saubagya Covid 19	6,926,668	474,112,373
Borrowing - SAPP RF Income Loan	99,1685	3,766,678
Borrowing - SAPP 4P Agri Loan	4,606,304	35,402,841
Borrowing - SAPP RF Youth Loan	145,955,717	57,036,833
Borrowing-SAPP Refinance	34,987,236	-
Borrowing-ADB Tea Refinance	30,778,910	-
Borrowing-ADB SME LOC Refinance	229,533,777	-
Borrowing-CBSL DAD Refinance	38,366,225	-
Borrowing - SAPP Agri Loan Refinance	9,846,011	-
Interest payable	658,873	-
	1,939,758,686	2,283,221,372

Movement in refinance loans

	"Opening Balance As at 1 January 2022" LKR	Obtained during year/ Revaluation LKR	Repayment LKR	"Closing Balance As at 31 December 2022" LKR
SANASA Federation (Refinance of Athwela Loans)	54,200,000		-	54,200,000
Borrowings under Refinance of Jayatha	111,551,528	60,100,000	(107,918,179)	63,733,349
Borrowing under Saubagya	1,030,583,130	273,345,000	(411,065,347)	892,862,783
Borrowing - Refinance Smile III	403,806,950	17,116,000	(76,120,500)	344,802,450
Borrowing - Refinance Sepi	625,000		(575,000)	50,000
Borrowing - Suwashakthi Loan	32,326,586	9,150,000	(15,179,581)	26,297,005
Borrowing - Athwela (READ)	1,175,000		(1,175,000)	-
Borrowing - Kapruka Ayojana	16,026,675	6,468,000	(7,696,450)	14,798,225
Borrowing - SAPP 4P Youth Loan	62,607,777	2,050,000	(24,294,310)	40,363,467
Borrowing - Saubagya Covid 19	474,112,373		(467,185,705)	6,926,668
Borrowing - SAPP RF Income Loan	3,766,678	300,000	(3,074,993)	991,685
Borrowing - SAPP 4P Agri Loan	35,402,841		(30,796,537)	4,606,304
Borrowing - SAPP RF Youth Loan	57,036,833	139,339,000	(50,420,116)	145,955,717
Borrowing-SAPP Refinance	-	59,362,236	(24,375,000)	34,987,236
Borrowing-ADB Tea Refinance	-	30,778,910	0	30,778,910
Borrowing-ADB SME LOC Refinance	-	238,880,358	(9,346,581)	229,533,777
Borrowing-CBSL DAD Refinance	-	43,505,000	(5,138,775)	38,366,225
Borrowing - SAPP Agri Loan Refinance	-	13,092,850	(3,246,838)	9,846,011
Interest payable				658,873
	2,283,221,372	893,487,354	(1,237,608,912)	1,939,758,686

31.4.1 Maturity Analysis of Refinance Borrowings

	2022 LKR	2021 LKR
Due within one year	720,203,399	1,181,561,501
1-5 years	915,785,477	1,093,047,621
After 5 years	303,110,810	8,612,250
	1,939,758,686	2,283,221,372

31.5 Securities and Terms of Borrowings

Interest rate ranging for above borrowings 0% to 39.27% per annum.

Bank has pledged from the lease portfolio sum of LKR 308,013,984.43 (2021 - LKR 655,455,469/-) for the securitised borrowings.

Bank has pledged from the loan portfolios sum of LKR 3,573,204,504.04 (2021 - LKR 2,768,619,114/-) for other borrowings.

Notes to the Financial Statements

32. SUBORDINATED TERM DEBTS

	2022 LKR	2021 LKR
Subordinated term debts	5,055,590,136	3,752,578,405
Total	5,055,590,136	3,752,578,405

32.1 Details of Subordinated Term Debts

Investor/Tenor/Repayment		Interest Rate	2022 LKR	2021 LKR
FMO	Repayment or conversion after 66 months	6-month T-bill rate + 550 basis points Payable per annum	-	
SBI	Repayment or conversion after 66 months	6-month T-bill rate + 450 basis points Payable per annum	265,439,443	371,355,419
DGGF	Repayment or conversion after 60 months	6-month T-bill rate + 700 basis points Payable per annum	1,787,245,431	1,769,143,999
BIO	Repayment or conversion after 60 months	6-month LIBOR + 550 basis points Payable per annum	3,019,400,923	1,637,121,105
Less: Initial transaction cost			(16,495,661)	(25,042,118)
			5,055,590,136	3,752,578,405

The Bank complied with all borrowing covenants reported under Note 32.1 as at 31st December 2022, other than the following covenant breaches as at 12th April 2023

- BIO - Open Credit Exposure Ratio (OCER) since September 2022 and Interest Rate Risk Ratio (IRRR) since March 2022
- DGGF - Return on Assets (ROA) since May 2022 and PAR90+ Rescheduled to Loan Ratio since June 2022.

The Bank holds two-dollar denominated FDs to mitigate the foreign currency risk and those are matching the dollar repayment schedule of the lender. The bank has intimated these breaches to the relevant lenders and the consent for waivers were obtained during post balance sheet period. Further, BIO loan is a Tier II capital instrument and continue to qualify as such.

33. RETIREMENT BENEFIT OBLIGATION

33.1 Defined Benefit Liability

	2022 LKR	2021 LKR
Defined benefit liability (Note 33.1.1)	714,077,498	571,664,850
Total	714,077,498	571,664,850

33.1.1 Movement in Defined Benefit Obligation

	2022 LKR	2021 LKR
Opening balance as at 1 January	571,664,849	571,382,319
Net benefit expense (Note 34.1.2)	160,868,693	28,444,243
Benefit paid	(18,456,045)	(28,161,713)
Closing balance as at 31 December	714,077,497	571,664,849

33.1.2 Net benefit expense

	2022 LKR	2021 LKR
Amounts Recognised in Profit and Loss		
Interest cost	54,315,936	45,139,203
Current service cost	66,884,787	56,392,669
Amendments	-	(38,786,899)
	121,200,723	62,744,973
Amounts Recognised in the Other Comprehensive Income		
Experience (gain)/loss	26,192,136	7,536,093
(Gain) loss due to changes in assumptions	13,475,834	(41,836,823)
	39,667,970	(34,300,730)
Total expense for the year	160,868,693	28,444,243

33.1.3 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:

	2022	2021
Long term interest rate (%)	18.00	11.70
Future salary increase rate (%)	15.50	9.00
Retirement age (years)	60	60

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 11.1 years

The Bank generally uses the 10-year treasury bond rate as the discount rate. The treasury bond rates increased significantly during the year and was around 30% range during the latter part of 2022. As per the "Frequently Asked Questions (FAQs) on Use of Discount rate under the uncertain Economic Conditions" issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) it can be considered an adjusted treasury bond rate as the discount rate for the purpose of the actuarial valuations as at 31st December 2022, on the basis that the current treasury bond rates do not reflect only the time value of money. Accordingly, an adjusted discount rate of 18% was derived by removing a credit spread from the current treasury bond rate.

Notes to the Financial Statements

33.2 Sensitivity analysis on discounting rate and salary increment rate to statement of financial position and comprehensive income.

Assumption	Rate change	2022		2021	
		Impact to financial position	Impact to comprehensive income	Impact to financial position	Impact to comprehensive income
		- Increment/ (reduction) of liability	income - charged/ (reversal)	- Increment/ (reduction) of liability	income - Charged/ (reversal)
Discount rate	1+	(60,997,572)	(60,997,572)	(51,497,395)	(51,497,395)
Discount rate	1-	70,810,539	70,810,539	60,365,275	60,365,275
Salary increment rate	1+	70,156,432	70,156,432	59,987,657	59,987,657
Salary increment rate	1-	(61,430,776)	(61,430,776)	(52,050,935)	(52,050,935)

33.3 The expected Benefit Payout in the Future Years of Retirement Gratuity

	2022 LKR	2021 LKR
Within next 12 months	48,899,372	41,010,563
Between 2 and 5 years	351,297,287	221,789,351
Beyond 5 years	1,001,163,292	544,565,845

34. OTHER LIABILITY

	2022 LKR	2021 LKR
Special purpose project funds	397,510,238	397,500,172
Lease liability (Note 34.1)	504,815,967	576,200,703
Accruals and other payables	770,028,911	625,248,187
Total	1,672,355,116	1,598,949,062

34.1 Movement in Lease Liabilities

	2022 LKR	2021 LKR
Opening balance as at 1 January/Effect of adoption of SLFRS 16 as at 1 January	576,200,703	654,139,519
Additions	159,709,202	98,967,389
Accretion of interest	(2,379,998)	80,782,127
Payments during the year	(228,713,940)	(257,688,331)
Closing balance as at 31 December	504,815,967	576,200,703

34.2 Maturity Analysis of Lease Liabilities

	2022 LKR	2021 LKR
Less than 1 year	27,112,769	22,105,382
Between 1 and 5 years	182,682,564	253,829,303
More than 5 years	295,020,634	300,266,016
Total lease liabilities as at 31 December	504,815,967	576,200,702

35. STATED CAPITAL

	2022 LKR	2021 LKR
Ordinary shares - Issued and fully paid	11,287,765,221	11,287,765,221
Total	11,287,765,221	11,287,765,221

35.1 Details of Ordinary Shares Issued and Fully Paid

	Value		Number of shares	
	2022 LKR	2021 LKR	2022	2021
Opening balance as as 1 January	11,287,765,221	7,727,941,021	160,698,832	91,576,032
Secondary public offering	-	3,559,824,200	-	69,122,800
	11,287,765,221	11,287,765,221	160,698,832	160,698,832

35.2 Information of Rights Issue and Secondary Public Offer of Ordinary Voting Shares**35.2.1 Rights Issue December 2020**

Rights Issue/ Secondary Public Offer	Date of allotment	No. of shares provisionally allotted	Consideration per share (LKR)	Final allotment	Amount raised (LKR)	Proportion	Date issued/listed
				(No. of shares) no. of shares			
Rights Issue	30 November 2020	30,525,344	50	30,525,344	1,526,267,200	1:2	04 December 2020

Notes to the Financial Statements

35.2.1.1 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

35.2.2 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

35.2.2.1 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

36. STATUTORY RESERVE FUND

	2022 LKR	2021 LKR
Opening balance as at 1 January	314,173,025	270,009,116
Transfer during the period	3,058,317	44,163,909
Closing balance as at 31 December	317,231,342	314,173,025

37. RETAINED EARNINGS

	2022 LKR	2021 LKR
Opening balance as at 1 January	2,500,152,936	1,890,620,504
Surcharge Tax	(521,613,182)	-
Adjusted Opening Balance as at 1 January	1,978,539,754	1,890,620,504
Profit for the year	61,166,336	909,346,727
Other comprehensive income, net of tax	(28,023,391)	-
Transfers to other reserves	(3,058,317)	(44,163,909)
Scrip dividend	-	-
Cash dividend	(241,048,248)	(206,046,072)
Other transactions - SPO share issue cost	-	(49,761,369)
Other transactions (Surcharge tax)	-	157,055
Closing balance as at 31 December	1,767,576,134	2,500,152,936
Dividend per share	-	1.50

38. OTHER RESERVES

2022	Opening balance as at 1 January 2021 LKR	Movement/ transfers LKR	Closing balance as at 31 December 2021 LKR
General reserve	46,656,973	-	46,656,973
Revaluation reserve	-	259,036,868	259,036,868
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
Total	27,605,349	259,036,868	286,642,217
2021	Opening balance as at 1 January 2020 LKR	Movement/ transfers LKR	Closing balance as at 31 December 2020 LKR
General reserve	46,656,973	-	46,656,973
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
Total	27,605,349	-	27,605,349

Notes to the Financial Statements

39. CONTINGENT LIABILITIES AND COMMITMENTS

Accounting Policy

“The accounting policies pertaining to “Commitments and Contingencies” are given in Note 2.20 to the Financial Statements.”

39.1 Bank Guarantees and Commitments

	2022 LKR	2021 LKR
Bank guarantees	249,174,889	203,139,397
Undrawn Credit Lines	479,110,023	706,997,584
Total	728,284,912	910,136,981

39.2 Maturity Analysis of Bank Guarantees and Commitments

As at December 2021 (LKR)	On Demand	Below 03 Month	03- 06 Month	06 - 09 Month	09 - 12 Month	Above One Year	Total
Financial Guarantee	14,536,661	71,096,373	19,295,793	51,194,608	42,775,661	4,240,300	203,139,397
Undrawn Credit Lines	706,997,584						706,997,584
Total Commitment and Guarantees	721,534,245	71,096,373	19,295,793	51,194,608	42,775,661	4,240,300	910,136,981

As at December 2022 (LKR)	On Demand	Below 03 Month	03- 06 Month	06 - 09 Month	09 - 12 Month	Above One Year	Total
Financial Guarantee	19,303,792	45,585,487	60,127,510	44,895,000	74,879,800	4,383,300	249,174,889
Undrawn Credit Lines	479,110,023						479,110,023
Total Commitment and Guarantees	498,413,815	45,585,487	60,127,510	44,895,000	74,879,800	4,383,300	728,284,912

39.2 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, DMB/0124/08, M/10238, L/528, L/577, MB/1935, DLM/48/22, 6940/P, 218/L, 7628/T, 798/T, 371/L, P/640, T/1459, 2331/L L/5947/2022
2. Cases filed against the Bank to restraining the payment of Bank Guarantee Bonds - District Court	2440/M
3. Appeals filed by the customers against the court orders delivered favor to Bank - Supreme Court - High Court Civil Appeal - District Court	SC/HC/LA/104/2022 HCCA/82/2017 (F) SP/HCCA/GA/93/2019 WP/HCCA/COL/LA/03/2021 WP/HCCA/COL/01/2019 (F) WP/HCCA/LA/ 58/2022 HCCA/FA/138/2020 DMB /005/16
4. Appeals filed by the Bank against the court orders delivered favor to customers - Supreme Court - High Court Civil Appeal	SC/HC/LA/83/2019 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 - District Court	CHC/629/19/MR, CHC/955/18 CHC/99/21/MR, DSP/275/20, DSP/03/2021, DSP/112/2021, DSP/51/2021, DSP/144/22, SP/3964/22
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 - District Court	207/CL, 17615/M/17, 17613/M/17, 0013/CL/22, 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 - Labour Tribunal	DMR/4015/17, DSP/430/2021 LT/BT/344/2017, LT/JF/163/2020, LT/13/61/2020, LT/PN/25/19/2021, LT/32/RM/05/ 2022, LT/8/51/2022, LT/6R/7958/22
9. Cases filed against the Bank by other parties - District Court	M/10933/20, M/10972/20 Trust/2664/2020, T/27, L/191/22, L/192/22, L/193/22, L/194/22, L/195/22,

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.

40. 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.

41. 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".

41.1 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:

	2022 LKR	2021 LKR
Interest and capital repayment	394,961,458	596,297,953
Reimbursement of expenses	-	1,018,879

41.2 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.

41.2.1 Key Management Personnel Compensation

	2022 LKR	2021 LKR
Short term employee benefits	55,418,577	61,933,651
Post employment benefits	-	-

41.2.2 Other Transactions (Loans and Receivables) with Key Management Personnel - Balance Outstanding

	2022 LKR	2021 LKR
Granting	-	12,600,000
Repayments	974,995	(166,819)
Closing balance as at 31 December	974,995	12,433,181
Interest income	703,635	125,386

41.2.3 Deposits and Investment from Key Management Personnel - Balance Outstanding

	2022 LKR	2021 LKR
Deposits accepted and renewed during the period	50,240	30,870,307
Balance as at 31 December	76,363	7,290,360
Interest Expenses	1,026	483,199

41.2.4 Other Payment to Key Management Personnel

	2022 LKR	2021 LKR
Cash dividend	348,005	876,625

41.2.5 Shareholdings by Key Management Personnel

	2022 Number	2021 Number
Number of shares held by KMP	229,965	585,749

41.2.6 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.

41.2.7 Recurrent and Non-recurrent Related Party Transactions

The Bank does 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.

Notes to the Financial Statements

42. ASSETS PLEDGED

Bank has pledged from the lease portfolio sum of LKR 308,013,984.43 (2021 - LKR 655,455,469/-) for the securitised borrowings.

Bank has pledged from the loan portfolios sum of LKR 3,573,204,504.04 (2021 - LKR 2,768,619,114/-) for other borrowings.

43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2022	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total LKR
Financial assets				
Cash and cash equivalents	3,072,845,490	-	-	3,072,845,490
Placements with banks	18,205,195,883	-	-	18,205,195,883
Financial assets at fair value through profit or loss	-	1,905,738,326	-	1,905,738,326
Financial assets at amortised cost				
- Loans and receivables to other customers	110,525,450,192	-	-	110,525,450,192
- Debt and other instruments	19,819,735,716	-	-	19,819,735,717
Financial assets measured at fair value through other comprehensive income	-	-	56,938,514	56,938,514
Total financial assets	151,623,227,281	1,905,738,326	56,938,514	153,585,904,120
Financial liabilities				
Due to other customers	107,533,001,772	-	-	107,533,001,772
Other borrowings	30,704,547,675	-	-	30,704,547,675
Debt securities issued	-	-	-	-
Subordinated term debts	5,055,590,136	-	-	5,055,590,136
Total financial liabilities	143,293,139,583	-	-	143,293,139,583
<hr/>				
As at 31 December 2021	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total 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	142,148,453,169	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	-	-	-	0
Subordinated term debts	3,752,578,405	-	-	3,752,578,405
Total financial liabilities	131,225,355,885	-	-	131,225,355,885

44. FAIR VALUE OF FINANCIAL INSTRUMENTS**44.1 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.

44.2 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

44.2.1 Analysis of Financial Instruments Recorded at Fair Value by Level Of Fair Value Hierarchy

	As at 31 December 2022			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Financial assets fair value through profit or loss				
Sri Lanka Government securities- Treasury bonds	-	-	-	-
Unit trusts	-	1,905,738,326	-	1,905,738,326
Quoted Equities	-	-	-	-
Fair Value through other comprehensive income				
Unquoted equity securities	-	-	56,938,514	56,938,514
	-	1,905,738,326	56,938,514	1,962,676,840

Notes to the Financial Statements

	As at 31 December 2021			Total LKR
	Level 1 LKR	Level 2 LKR	Level 3 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

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.

	2022 LKR	2021 LKR
Net gain/(loss) from trading	(1,077,912)	4,143,851
Net fair value gain/(loss) of financial assets at fair value through profit or loss		
Sri Lanka Government securities- Treasury bonds	245,000	(199,254)
Unit trusts	165,381,942	236,201,322
Quoted equities	881,576	(1,068,140)
Total gain/(loss)	165,430,607	239,077,780

44.3 Fair value of Financial assets and Liabilities Not Carried at Fair Value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Level	As at 31 December 2022	
		Carrying value LKR	Fair value LKR
Financial assets			
Cash and cash equivalents	Note*	3,072,845,490	3,072,845,490
Placements with banks	Note*	18,205,195,883	18,205,195,883
Financial assets at amortised cost			
- Loans and receivables to other customers	2	110,525,450,192	110,233,997,286
- Debt and other instruments	Note*	19,819,735,716	19,819,735,716
Total financial assets		151,623,227,281	151,331,774,375
Financial liabilities			
Due to other customers	2	107,533,001,772	107,172,793,936
Other borrowings	2	30,704,547,675	30,774,489,068
Subordinated term debts	Note*	5,055,590,136	5,055,590,136
Total financial liabilities		143,293,139,583	143,002,873,140
As at 31 December 2021			
		Carrying value LKR	Fair value 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	111,891,255,620
- Debt and other instruments	Note*	12,031,301,910	12,031,301,910
Total financial assets		142,148,453,168	142,148,453,168
Financial liabilities			
Due to other customers	2	93,902,939,217	93,902,939,217
Other borrowings	2	33,569,838,263	33,569,838,263
Subordinated term debts	Note*	3,752,578,405	3,752,578,405
Total financial liabilities		131,225,355,885	131,225,355,885

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:

Notes to 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.

45. 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 2022 or 2021.

The following table presents income, profit, total assets, total liabilities & cash flows of the Bank's operating segments.

As at 31 December 2022	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	16,257,210,870	1,515,873,307	4,673,205,857	654,758,425	23,101,048,459
Add: Inter-segment interest income	1,895,803,814		4,891,261,733	-	6,787,065,547
Total interest income	18,153,014,685	1,515,873,307	9,564,467,590	654,758,425	29,888,114,005
Interest expenses	(9,564,467,279)	(728,554,596)	(5,398,578,186)	(570,394,614)	(16,261,994,676)
Add: Inter-segment interest expense	(4,891,261,733)		(1,895,803,814)	-	(6,787,065,547)
Total interest expense	(14,455,729,012)	(728,554,596)	(7,294,382,001)	(570,394,614)	(23,049,060,222)
Net interest income	3,697,285,673	787,318,711	2,270,085,589	84,363,811	6,839,053,783
Fee and commission income	488,624,555	16,025,816	-	-	504,650,371
Fee and commission expenses	(24,815,675)	(1,890,286)	-	-	(26,705,960)
Net fee and commission income	463,808,880	14,135,530	-	-	477,944,410
Net gain/(loss) from trading	-	-	(1,077,912)	-	(1,077,912)
Net fair value gain/(loss) of financial assets at fair value through profit or loss	-	-	166,508,518	-	166,508,518
Net other operating income	262,420,557	-	586,129	-	263,006,686
Total operating income	4,423,515,109	801,454,240	2,436,102,323	84,363,810	7,745,435,485
Impairment for loans and other losses	(1,802,361,127)	(89,678,223)	1,193,881	(7,630,643)	(1,898,476,112)
Net operating income	2,621,153,981	711,776,017	2,437,296,204	76,733,166	5,846,959,372
Depreciation and amortisation expenses	(429,878,499)	(32,745,154)	(254,946)	(25,636,596)	(488,515,196)
Segment result	2,191,275,482	679,030,863	2,437,041,258	51,096,571	5,358,444,177
Un-allocated expenses					(4,877,184,852)
Value Added Tax (VAT) on financial services					(366,401,606)
Social Security Contribution Levy					(17,900,589)
Profit before tax					96,957,128
Tax expenses					(35,790,792)
Profit for the year					61,166,336
Other comprehensive income					
Other comprehensive income for the year net of tax					231,013,477
Total comprehensive income for the year					292,179,812
Segment assets	97,309,815,279	7,412,384,936	43,060,453,930	5,803,249,977	153,585,904,121
Un-allocated assets					5,935,127,757
Total assets	97,309,815,279	7,412,384,936	43,060,453,930	5,803,249,977	159,521,031,879
Segment liabilities	96,254,846,176	7,332,024,727	36,534,611,110	5,740,334,952	145,861,816,965
Total equity	-	-	-	-	13,659,214,912
Total liabilities	96,254,846,176	7,332,024,727	36,534,611,110	5,740,334,952	159,521,031,877
Addition to non-current assets	391,836,362	29,847,369	-	23,367,883	445,051,613

Notes to the Financial Statements

As at 31 December 2021	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total 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	,758,935,477	1,223,009,398	1,337,486,154	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	1,340,596,200	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					(446,529,613)
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

* Inter segment interest income and interest expense have been adjusted to net interest income in Treasury and Banking segments and comparative figure in this Financial Statements is amended.

46. 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 2022			As at 31 December 2021		
	Within 12 months LKR	After 12 months LKR	Total LKR	Within 12 months LKR	After 12 months LKR	Total LKR
Assets						
Cash and cash equivalents	3,072,845,490	-	3,072,845,490	3,117,485,468	-	3,117,485,468
Placements with banks	14,887,031,559	3,318,164,324	18,205,195,883	6,201,801,835	8,906,608,333	15,108,410,169
Financial assets fair value through profit or loss	1,905,738,326	-	1,905,738,326	727,786,716	-	727,786,716
Financial assets at amortised cost						
- Loans and receivables to other customers	27,534,306,361	82,991,143,832	110,525,450,193	26,528,999,254	85,362,256,365	111,891,255,619
- Debt and other instruments	19,191,830,010	627,905,707	19,819,735,717	11,693,171,975	338,129,935	12,031,301,910
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	-	1,093,190,533	1,093,190,533	-	952,103,711	952,103,711
Right of use assets	27,112,769	582,088,679	609,201,448	22,636,097	542,840,437	565,476,534
Investment properties	-	-	-	-	19,166,540	19,166,540
Non-current assets held for sale	43,566,177	-	43,566,177	-	-	-
Intangible assets	-	538,831,108	538,831,108	-	338,933,246	338,933,246
Deferred tax assets	-	600,628,286	600,628,286	299,448,116	-	299,448,116
Other assets	2,014,942,153	1,028,604,950	3,043,547,103	2,704,446,430	-	2,704,446,430
Total assets	68,677,372,845	90,843,659,034	159,521,031,878	51,295,775,892	96,523,140,181	147,818,916,073
Liabilities						
Due to other customers	77,422,166,853	30,110,834,919	107,533,001,773	64,584,214,777	29,318,724,439	93,902,939,217
Other borrowings	22,286,601,253	8,417,946,422	30,704,547,675	15,863,818,461	17,706,019,801	33,569,838,262
Debt securities issued	-	-	-	-	-	-
Subordinated term debts	387,026,197	4,668,563,939	5,055,590,136	414,620,523	3,337,957,882	3,752,578,405
Retirement benefit obligation	-	714,077,498	714,077,498	-	571,664,850	571,664,850
Current tax liabilities	182,244,769	-	182,244,769	293,249,746	-	293,249,746
Other liabilities	1,167,539,149	504,815,967	1,672,355,116	1,047,318,537	551,630,528	1,598,949,065
Total liabilities	101,445,578,220	44,416,238,745	145,861,816,965	82,203,222,044	51,485,997,499	133,689,219,543
Net asset/(liability)	(32,768,205,375)	46,427,420,289	13,659,214,914	(30,907,446,152)	45,037,142,682	14,129,696,530

Notes to the Financial Statements

47. RISK MANAGEMENT

47.1 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:

	Page No
47.2 Credit Risk	
47.2.1 Assessment of Expected Credit Losses	246
47.2.2 Risks on Credit-related Commitments	250
47.2.3 Collateral and Other Credit Enhancements	250
47.2.4 Stage-wise movement of loans & advances and commitments & contingencies	252
47.2.5 Analysis of Risk Concentration	253
47.2.5.1 Geographical Distribution	254
47.2.5.2 Industry Analysis	254
47.2.6 Commitments and Contingencies	255
47.3 Liquidity Risk and Funding Management	
47.3.1 Statutory Liquid Assets Ratio (SLAR)	255
47.3.2 Loans & advances to Deposits (due to banks and due to depositors) Ratio	255
47.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities	256
47.4 Market Risk	
47.4.1 Interest Rate Risk	257
47.4.2 Currency Risk	259
47.5 Operational Risk	260
47.6 Capital Management	260

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.

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)

EIRMC consists of executive members of the management team, including the CEO, the CRO and business lines heads, with the main role of coordinating management efforts to implement the RMF. The EIRMC shall include representatives of both the 1st and 2nd line units responsible for material risks, including management of the lending divisions/lines, Treasury, Finance, Operations, as well as Risk Management representatives.

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 unprecedented economic crisis during the year under review. The credit risk of the Bank's loan book increased as the borrowers required remedial actions through restructuring/ rescheduling which impacted the loan repayments. The regulatory restrictions on initiating legal actions for recovery of loans and advances further elevated the credit risk. Similarly, market risk too increased due to significant volatility in financial markets locally as well as globally. The operational risks too increased owing to potentially higher external frauds due to economic reasons, 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 elevated risks caused by the macroeconomic environment 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 Macro Economic conditions
- Set up a special Remediation and Rehabilitation Unit to closely work with the Branches in providing reasonable remediation for distressed accounts and borrowers.
- Used of a range of additional stress tests to assess the impact on Bank's performance and capital.
- Strengthened the remedial activities by allocating specific staff from the Branches, Central Credit Dept. to work with borrowers in providing solutions.
- 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.

47.2 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.

Notes to the Financial Statements

47.2.1 Assessment of Expected Credit Losses

47.2.1 (a) Analysis of the total amortised cost for expected credit losses

As at 31st December	Note	2022			Total LKR	2021 LKR
		Stage 1 LKR	Stage 2 LKR	Stage 3 LKR		
Cash and cash equivalents	18	3,072,962,134	-	-	3,072,962,134	3,118,950,300
Placements with banks	19	18,205,902,365	-	-	18,205,902,365	15,108,964,561
Financial assets at amortised cost						
- Loans and receivables to other customers	21	96,806,435,119	7,020,457,389	12,492,871,262	116,319,763,770	115,786,982,202
- Debt and other instruments	22	19,819,735,716	-	-	19,819,735,716	12,031,301,910
Credit related commitments & contingencies	40	728,284,912	-	-	728,284,912	910,136,981
Total allowance for expected credit losses		138,633,320,246	7,020,457,389	12,492,871,262	158,146,648,896	146,956,335,954

47.2.1 (b) Movement of the total allowance for expected credit losses during the period

	Note	2022 LKR	2021 LKR
Balance as at 1st January		3,895,726,582	3,313,014,634
Net charge for the year		1,899,669,993	646,818,540
Write-off during the year	21.6	(1,083,000)	(64,106,591)
Balance as at 31st December		5,794,313,575	3,895,726,582

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.

47.2.1 (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 166.7 Mn (2021: Rs 253.73 Mn).

47.2.1 (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 2022 would have reduced by approximately 89% (2021 - 66%). The total loans and advances in stage 2 as at 31st December 2022 amounts to Rs 7.02 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 2022 would have further increased by approximately 663% (2021 - 944%). The total loans and advances in stage 1 as at 31st December 2022 amounts to Rs 96 Bn of the Bank. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

47.2.1 (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)

	2022				Sensitivity effect on Income Statement
	Sensitivity effect on Statement on Financial Position Increase/(Decrease) in impairment provision				
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR	LKR
PD 1% increase across all age buckets	198,515,906	22,740,404	-	221,256,311	221,256,311
PD 1% decrease across all age buckets	(198,515,906)	(22,740,404)	-	(221,256,311)	(221,256,311)
LGD 5% increase	165,329,285	187,550,069	311,973,276	664,852,630	664,852,630
LGD 5% decrease	(165,329,285)	(187,550,069)	(311,973,276)	(664,852,630)	(664,852,630)

47.2.1 (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 2022 are disclosed in Note 3.2.6.6 along with the weightages used in 2022. During the year, due to the uncertainties arise current adverse macro-economic conditions on the business operations, 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 13.9 Mn during the year.

A further worst case scenario increase up to 100% with a) weightage on other scenario, would have increased the collective impairment provision of the Bank by approximately Rs 52Mn as at 31st December 2022.

Following table also summarizes the key economic indicators (GDP, Unemployment) used in estimating economic factor adjustment and impact on their changes.

Notes to the Financial Statements

As at 31 December 2022								
Key drivers	ECL scenario	Assigned Weightings %	2023	2024	2025	2026	2027	Long term rate
			%	%	%	%	%	%
GDP growth	Base case	10	1.58	2.69	3.07	3.13	3.05	3.05
	Best case	5	3.53	3.79	4.07	4.32	4.53	4.53
	Worst case	85	-3.97	-3.22	-2.54	-2.40	-2.70	-2.70
Unemployment rate	Base case	10	4.99	4.98	4.97	4.97	4.98	4.98
	Best case	5	4.95	4.93	4.90	4.88	4.86	4.86
	Worst case	85	5.02	5.04	5.06	5.08	5.11	5.11
Inflation	Base case	10	45.86	0.34	0.26	0.24	0.23	0.23
	Best case	5	0.15	0.05	0.04	0.03	0.03	0.03
	Worst case	85	0.67	0.67	0.67	0.67	0.67	0.67
Interest Rate	Base case	10	0.25	0.22	0.20	0.18	0.17	0.17
	Best case	5	0.18	0.13	0.09	0.07	0.05	0.05
	Worst case	85	0.30	0.30	0.30	0.30	0.30	0.30

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.

47.2.1 (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 31st December	2022				2021
	Not Contractually	Contractually Past Due		Total	LKR
	Past Due 0 - 30 Days LKR	31 - 60 Days LKR	61 - 90 Days LKR		
Term Loans	1,249,108,846	1,790,940,766	1,634,721,965	4,674,771,577	3,074,954,915
Pawning	24,257,766	14,107,278	6,117,409	44,482,452	41,202,309
Cash margin	150,977,047	44,850,176	37,078,548	232,905,771	701,595,453
Staff loans	923,366	3,897,346		4,820,712	10,174,432
Lease rentals receivable	129,439,254	1,075,432,061	858,605,563	2,063,476,877	1,633,363,775
	1,554,706,279	2,929,227,626	2,536,523,484	7,020,457,389	5,461,290,885

47.2.1 (h) Overview of Rescheduled/Restructured Loans & Advances

	Amortised Cost			Impairment for ECL		
	Stage 2 LKR	Stage 3 LKR	Total LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
2022	1,311,657,524	3,592,028,064	4,903,685,588	227,624,359	1,178,144,858	1,405,769,217
2021	410,240,920	695,208,115	1,105,449,035	48,197,394	217,615,734	265,813,128

47.2.1 (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 37 Mn as at 31st December 2021 to Rs 8Mn as at 31st December 2022.

Notes to the Financial Statements

47.2.1 (j) 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 tables:

As at 31 December 2022						
LKR						
	Modelled ECL	Modelled ECL Post-model adjustments	Management overlays	Total judgements adjustments	Total ECL	Judgmental adjustments as a % of total ECL
Pawning	10,501,169	-	2,886,407	2,886,407	10,501,169	27%
Cash margin	8,743,662	-	-	-	8,743,662	0%
Term loans						
Business	908,184,058	(6,691,355)	2,653,376	(4,037,979)	904,146,080	0%
Co-operative	209,680,062	86,541,333	1,789,973	88,331,306	298,011,369	30%
Housing	388,391,954	1,745,892	9,594,720	11,340,612	399,732,566	3%
Personal	265,918,200	137,412	2,235,351	2,372,763	268,290,963	1%
Fixed and floating	919,684,364	1,920,104	13,370,837	15,290,941	934,975,305	2%
SME	2,014,947,338	(6,042,737)	30,514,803	24,472,066	2,039,419,404	1%
Upahara	160,495,378	1,957,006	24,758,788	26,715,794	187,211,171	14%
Staff Loans	5,067,864	-	-	-	5,067,864	0%
Lease rentals receivable	726,445,284	4,490,810	8,360,929	-	739,297,024	0%
	5,618,059,334	84,058,465	96,165,184	167,371,909	5,795,396,575	

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.

47.2.2 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.

47.2.3 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 31st December	Note	2022		2021	
		Maximum Exposure to Credit Risk LKR	Net Exposure LKR	Maximum Exposure to Credit Risk LKR	Net Exposure LKR
Cash and cash equivalents	18	3,072,845,490	3,072,845,490	3,117,485,469	3,117,485,469
Placements with banks	19	18,205,195,883	18,205,195,883	15,108,410,169	15,108,410,169
Financial assets fair value through profit or loss	20	1,905,738,326	1,905,738,326	727,786,716	727,786,716
Financial assets at amortised cost					
- Loans and receivables to other customers*	21	110,525,450,192	92,401,167,253	111,891,255,620	81,840,596,571
- Debt and other instruments	22	19,819,735,716	19,819,735,716	12,031,301,910	11,531,110,129
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		5,935,127,758	5,935,127,758	4,885,737,676	4,885,737,676
		159,521,031,879	141,396,748,940	147,818,916,074	117,268,065,245

The loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank approximately 10% each. (2021: 10% and 5%). Further 12% (2021: 11%) of the loans & advances are secured against other securities including movable property, gold, lease receivables, etc. Approximately 31% (2021: 51%) of stage 3 loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank.

Approximately 53% of the loan book consists of Upahara and Uththamachara, 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 Upahara and Uththamachara loan portfolio is 100% backed by insurance coverage.

47.2.3 (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.

Notes to the Financial Statements

47.2.3 (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.

47.2.4 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 Subject to 12-month ECL LKR	Stage 2 Subject to Lifetime ECL but not Credit Impaired LKR	Stage 3 Subject to Lifetime ECL Credit Impaired LKR	Total
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
Balance as at 1st January 2022	102,909,030,320	5,461,290,885	7,416,660,997	115,786,982,201
Current stage of new financial assets originated	26,734,201,990	1,059,217,131	982,412,189	28,775,831,310
Changes in the gross carrying amount				-
- Transfer to stage 1	(5,878,267,086)	(1,359,498,444)	(313,693,492)	(7,551,459,021)
- Transfer to stage 2	(5,558,402,110)	4,436,607,000	(275,041,284)	(1,396,836,394)
- Transfer to stage 3	(4,762,644,955)	(1,533,482,000)	5,338,290,601	(957,836,354)
Financial assets that have been derecognised	(16,637,483,039)	(1,043,677,184)	(654,674,748)	(18,335,834,971)
Write-off during the year	-	-	(1,083,000)	(1,083,000)
Balance as at 31st December 2022	96,806,435,119	7,020,457,388	12,492,871,262	116,319,763,770

47.2.4. (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 tables below

	Stage 1 Subject to 12-month ECL LKR	Stage 2 Subject to Lifetime ECL but not Credit Impaired LKR	Stage 3 Subject to Lifetime ECL Credit Impaired LKR	Total
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
Balance as at 1st January 2022	684,543,810	468,753,557	2,742,429,215	3,895,726,582
Net impairment charge for the year due to:				
New financial assets originated	189,585,685	120,983,207	203,573,487	514,142,379
Changes in the impairment amount				
- Transfer to stage 1	212,413,751	(133,238,247)	(53,937,448)	25,238,056
- Transfer to stage 2	(98,349,735)	711,468,504	(42,661,132)	570,457,637
- Transfer to stage 3	(79,235,122)	(164,603,293)	1,299,326,175	1,055,487,761
Financial assets that have been derecognised	(62,422,179)	(34,285,410)	(168,948,249)	(265,655,839)
Write-off during the year	-	-	(1,083,000)	(1,083,000)
Balance as at 31st December 2022	846,536,210	969,078,318	3,978,699,048	5,794,313,576

47.2.4. (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.

47.2.5 Analysis of Risk Concentration

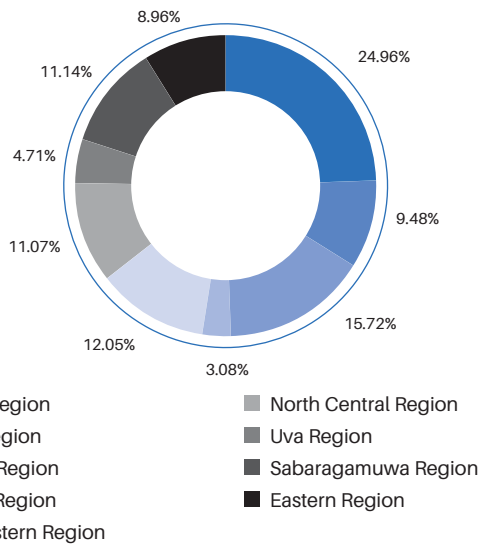
The following tables show the exposure to credit risk for the Financial Assets, including geography of counterparty and industry.

Notes to the Financial Statements

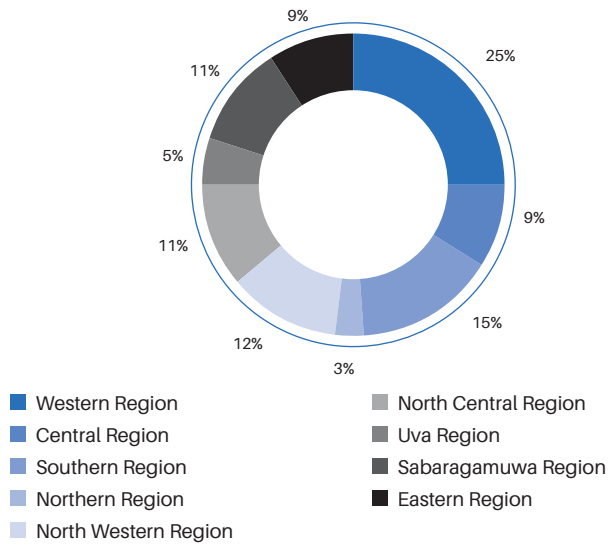
47.2.5.1 Geographical Distribution

Gross advance portfolio - Geographical wise is as follows

2022

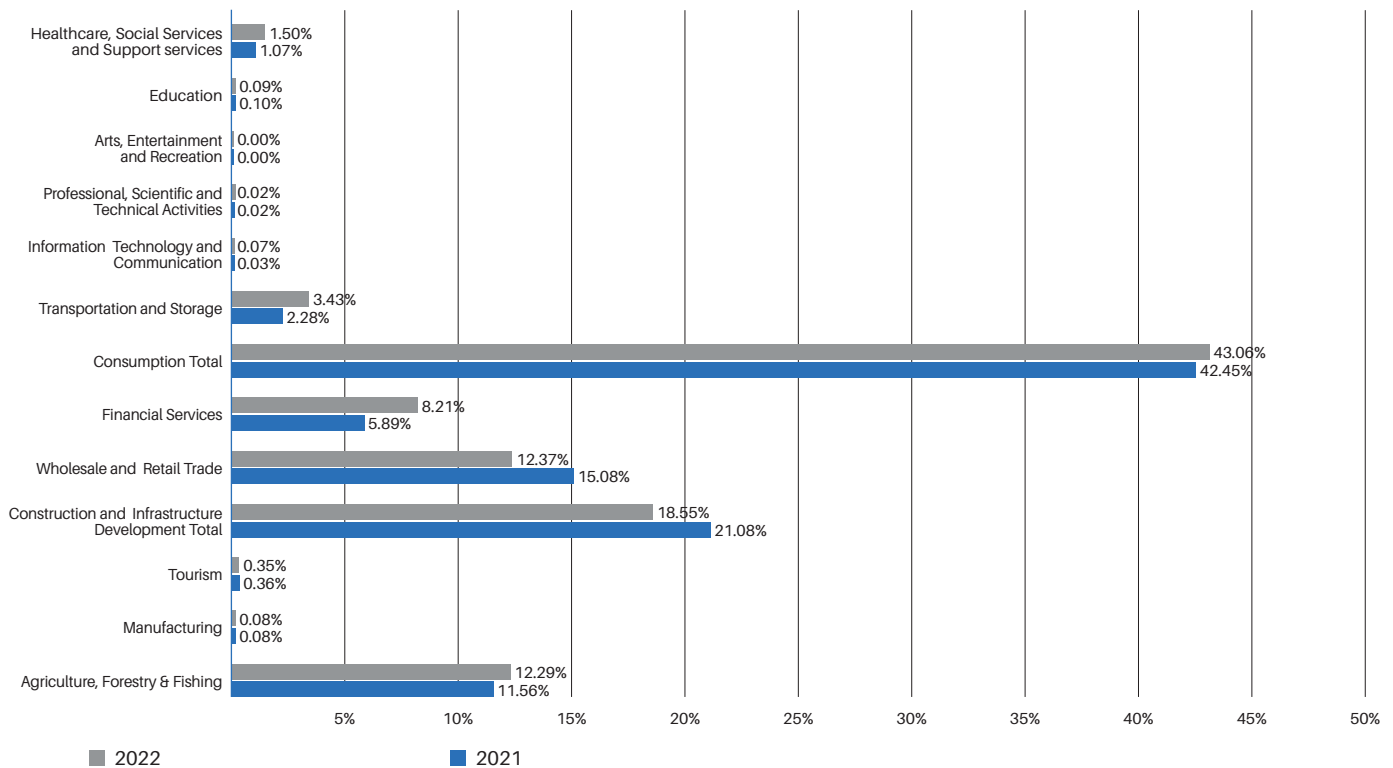


2021



47.2.5.2 Industry Analysis

Gross advance portfolio - Industry wise is as follows



47.2.6 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. 39.

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)

47.3 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 2022 is as follows.

47.3.1 Statutory Liquid Assets Ratio (SLAR)

	2022	2021
Statutory Liquid Assets Ratio (SLAR)	%	%
	23.51	22.37

47.3.2 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 & advances to deposits ratio as at 31st December 2022: 112% (2021: 125%)

Notes to the Financial Statements

47.3.3 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 2022. 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 2022							
	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	3,072,845,490	-	-	-	-	-	-	3,072,845,490
Investments	2,057,492,243	4,308,405,542	7,293,004,926	13,083,065,170	9,566,478,649	7,335,248,910	506,996,539	44,150,691,978
Loans and receivables to other customers	2,424,254,345	3,933,917,651	3,665,695,179	21,882,547,043	15,534,016,083	9,465,392,844	63,405,598,322	120,311,421,467
Total financial assets	7,554,592,078	8,242,323,193	10,958,700,105	34,965,612,212	25,100,494,732	16,800,641,754	63,912,594,861	167,534,958,936
Financial liabilities								
Due to other customers	2,791,264,156	4,705,099,291	14,150,963,082	58,764,378,004	19,940,652,527	6,460,392,739	3,465,633,803	110,278,383,602
Other borrowings	-	5,289,599,022	3,592,854,813	8,163,146,247	11,773,889,720	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	2,791,264,156	9,994,698,313	17,788,966,229	67,639,549,697	35,649,209,488	11,367,404,470	5,835,884,475	151,066,976,827
Net financial assets/(liabilities)	4,763,327,922	(1,752,375,119)	(6,830,266,124)	(32,673,937,483)	(10,548,714,755)	5,433,237,284	58,076,710,386	16,467,982,108
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	11,773,889,720	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	3,385,285,606	11,432,079,380	17,555,294,311	54,227,920,207	34,253,912,787	11,517,494,527	8,425,520,318	140,797,507,135
Net financial assets/(liabilities)	2,423,596,123	(1,814,943,290)	(2,858,305,823)	(32,316,160,504)	2,875,653,662	19,325,910,032	27,557,111,943	15,192,862,147

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.

47.4 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 mange market risk when necessary.

47.4.1 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 2022 and 31st December 2021 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)

	2022 LKR	2021 LKR
Rate Sensitive Assets (RSA)	80,767,473,465	96,099,085,594
Rate Sensitive Liabilities (RSL)	114,690,781,153	108,695,564,206
GAP (RSA - RSL)	(33,923,307,688)	(12,596,478,611)

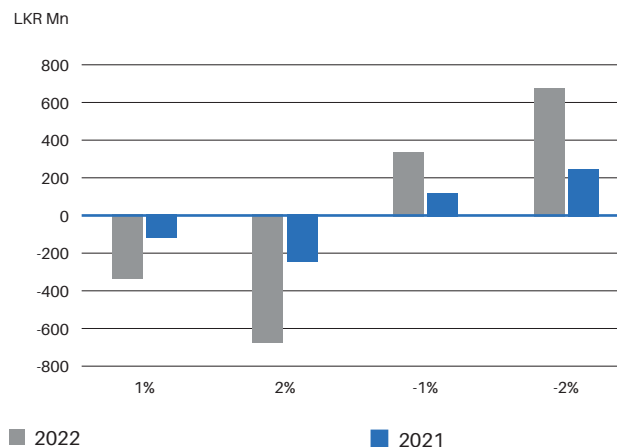
Impact on Statement of Profit or Loss due to Interest Rate Shocks

	2022 LKR	2021 LKR
Interest Rate Shock		
1.00%	(339,233,077)	(125,964,786)
2.00%	(678,466,154)	(251,929,572)
-1.00%	339,233,077	125,964,786
-2.00%	678,466,154	251,929,572

Notes to the Financial Statements

Impact on Statement of Profit or Loss due to interest rate shocks

Net Advance to Customers



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.

Interest rate sensitivity assets and liabilities as at 31 December 2022

Asset or liability	Carrying amount LKR	On demand LKR	1-3 months LKR	3-12 months LKR	Over 1 year LKR	Non interest sensitive LKR	Total LKR
Cash and cash equivalents	3,072,845,490	1,545,567,378	-	-	-	1,527,278,112	3,072,845,490
Placements with banks	18,205,195,883	785,512,417	1,335,574,868	2,285,627,733	13,798,480,865	-	18,205,195,883
Financial assets fair value through profit or loss	1,905,738,326	296,448,184	296,448,184	1,312,841,958	-	-	1,905,738,326
Loans and receivables to other customers	110,525,450,192	5,486,917,284	3,163,388,195	18,884,000,882	82,991,143,832	-	110,525,450,192
Debt and other instruments	19,819,735,716	4,021,065,706	4,850,572,850	10,320,191,454	627,905,707	-	19,819,735,716
Interest bearing assets	153,528,965,609	12,135,510,969	9,645,984,097	32,802,662,027	97,417,530,404	1,527,278,112	153,528,965,609
Due to other customers	107,533,001,772	7,204,797,132	13,585,939,041	56,631,430,681	30,110,834,919	-	107,533,001,772
Other borrowings	30,704,547,675	1,183,076,116	2,799,093,353	7,289,428,088	19,432,950,117	-	30,704,547,675
Debt securities issued	-	-	-	-	-	-	-
Subordinated term debts	5,055,590,136	88,479,814	187,894,232	110,652,151	4,668,563,939	-	5,055,590,136
Interest bearing liabilities	143,293,139,583	8,476,353,062	16,572,926,626	64,031,510,920	54,212,348,975	-	143,293,139,583
Interest rate sensitivity gap	10,235,826,023	3,659,157,907	(6,926,942,529)	(31,228,848,892)	43,205,181,429	1,527,278,112	10,235,826,023

Interest rate sensitivity assets and liabilities as at 31 December 2021							
Asset or liability	Carrying amount LKR	On demand LKR	1-3 months LKR	3-12 months LKR	Over 1 year LKR	Non interest sensitive LKR	Total 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

47.4.2 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 2022. 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.

Notes to the Financial Statements

47.5 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.

47.6 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 2022 LKR	Required 2022 LKR	Actual 2021 LKR	Required 2021 LKR
Common Equity Tier 1 Capital	12,519,754,852	6,255,065,837	13,491,315,167	6,663,647,862
Total Tier 1 Capital	12,519,754,852	8,179,701,479	13,491,315,167	8,201,412,753
Tier 2 Capital Instruments	1,053,784,933	850,924,526	2,682,798,898	2,040,551,434
Total Capital	13,573,539,785	9,030,626,005	16,174,114,065	10,241,964,187
Total Risk Weighted Assets	96,232,247,440		102,517,659,414	
Common Equity Tier 1 Capital Ratio %	12.92%	6.50%	13.16%	6.50%
Total Tier 1 Capital Ratio %	12.92%	8.50%	13.16%	8.00%
Total Capital Ratio %	15.37%	12.50%	15.78%	12.00%

48. COMPARATIVE INFORMATION

The comparative information has been reclassified wherever necessary to conform to the current year's presentation and details are given below.

48.1 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.

48.2 Statement of Financial Position

There were no reclassifications during the year.

48.3 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.



Supplementary Information

Ten Years at a Glance	263
Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III	266
Sources and Utilisation of Income	275
Quarterly Performance of the Bank	276
Investor Relations	277
Abbreviations	290
Glossary of Terms	293
26th Annual General Meeting	299

Ten Years at a Glance

Statement of Comprehensive Income

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
Interest income	23,101,048	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
Interest expenses	(16,261,995)	(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)
Net interest income	6,839,054	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
Fee and commission income	504,650	413,675	390,619	237,656	196,762	278,770	212,540	217,475	164,626	122,423
Fee and commission expenses	(26,706)	(23,327)	(14,334)	(6,507)	(4,397)	(3,511)	(9,596)	(2,966)	(2,283)	(2,272)
Net fee and commission income	477,944	390,347	376,285	231,150	192,365	275,258	202,944	214,510	162,343	120,151
Net gains/(losses) from trading	(1,078)	4,144	5,228	1,265	-	-	-	-	-	-
Net gains/(losses) from financial instruments at fair value through profit or loss	166,509	234,934	268,710	114,889	280,172	211,759	17,351	5,095	53,942	102,444
Other operating income	263,007	32,775	55,227	90,969	20,811	50,845	40,046	52,027	168,428	63,289
Total operating income	7,745,435	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
Impairment for loans and other losses	(1,898,476)	(643,708)	(417,039)	(917,434)	(525,844)	(293,537)	(125,044)	(49,594)	(204,390)	(324,621)
Net operating income	5,846,959	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
Personnel expenses	(2,940,243)	(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)
Depreciation and amortisation expenses	(488,515)	(528,447)	(454,569)	(431,193)	(224,260)	(191,577)	(176,032)	(148,829)	(147,918)	(164,925)
Other expenses	(1,936,942)	(1,848,265)	(1,400,539)	(1,420,073)	(1,526,132)	(1,364,051)	(1,113,816)	(942,628)	(772,510)	(703,625)
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services	481,259	1,872,734	1,983,957	1,250,021	1,113,068	1,102,045	909,680	1,384,199	941,454	415,741
Value added tax (VAT) on financial services*	(384,302)	(542,926)	(571,027)	(386,522)	(362,941)	(300,962)	(292,254)	(273,641)	(190,275)	(82,382)
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	96,957	1,329,808	1,412,930	585,827	644,142	752,601	617,425	1,110,559	751,179	333,359
Profit before tax	96,957	1,329,808	1,412,930	585,827	644,142	752,601	617,425	1,110,559	751,179	333,359
Tax expenses	(35,791)	(446,530)	(576,643)	(332,422)	(287,192)	(244,778)	(213,704)	(389,984)	(246,732)	(85,175)
Profit for the year	61,166	883,278	836,287	253,405	356,950	507,824	403,722	720,575	504,447	248,184
Other comprehensive income										
Actuarial gains/(losses) on defined benefit plans	(39,668)	34,301	(1,855)	(41,588)	(45,995)	2,885	(49,639)	(2,688)	(27,091)	(5,464)
Deferred tax relating to defined benefit plans	11,645	(8,232)	519	11,645	12,879	(808)	13,899	753	7,586	1,530
Gains/(losses) on re-measuring financial assets measured at fair value through other comprehensive income	-	-	-	(3,210)	(3,388)	-	(12,454)	-	-	1,973
Revaluation Surplus on Property, Plant and Equipment	259,037	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year net of tax	231,013	26,069	(1,336)	(33,153)	(36,505)	2,077	(48,194)	(1,935)	(19,506)	(1,961)
Total comprehensive income for the year	292,180	909,347	834,952	220,252	320,445	509,901	355,528	718,639	484,941	246,222
Basic earnings per share on profit (LKR)	0.38	7.63	11.05	4.50	6.34	9.87	9.60	17.90	13.36	9.39

* NBT on financial service expense is included in VAT on financial services expense up to the year 2016 and it is separately recorded after the year 2017 onwards.

Ten Years at a Glance

Statement of Financial Position

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
Assets										
Cash and cash equivalents	3,072,845	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
Placements with banks	18,205,196	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
Financial assets fair value through profit or loss	1,905,738	727,787	4,600,458	3,527,310	146,103	4,473,806	244,911	-	-	1,210,673
Other financial asset classified under loans and receivable						1,479,950	1,503,539	1,926,055	4,164,273	1,701,091
Financial assets at amortised cost - loans and receivables to other customers	110,525,450	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
Financial assets at amortised cost - debt and other instruments	19,819,736	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	56,939	60,148	-	-	-	-	-
Financial investments - available-for-sale						63,536	566,935	79,679	29,734	165,699
Financial investments - held-to-maturity						599,551	492,268	1,192,440	298,545	443,408
Investments in subsidiaries	6,163	6,163	6,163	-	-	-	-	-	-	-
Asset classified as held for sale	43,566					37,175	37,175	37,175	-	-
Property, plant and equipment	1,093,191	565,477	661,695	645,231	704,738	726,473	637,263	549,172	513,592	506,771
Right of use assets	609,201	952,104	689,646	651,271	-	-	-	-	-	-
Investment properties	-	19,167	20,223	21,279	22,335	23,391	24,447	25,503	26,559	27,615
Intangible assets	538,831	338,933	395,123	308,445	3,728	8,148	16,938	47,141	77,344	107,744
Deferred tax assets	600,628	299,448	231,673	232,482	69,415	-	-	-	-	40,081
Other assets	3,043,547	2,704,446	2,026,987	1,460,524	1,198,314	1,070,175	913,030	787,138	517,187	482,895
Total assets	159,521,032	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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
Liabilities										
Due to other customers	107,533,002	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
Other borrowings	30,704,548	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
Debt securities issued	-	-	1,013,899	1,014,034	4,198,548	4,189,812	4,182,653	3,979,111	-	-
Subordinated term debts	5,055,590	3,752,578	4,052,630	4,210,566	1,008,028	1,004,355	-	-	-	-
Retirement benefit obligation	714,077	571,665	571,382	479,575	354,854	257,476	212,494	127,307	108,056	67,706
Current tax liabilities	182,245	293,250	274,215	187,070	143,988	32,153	23,110	260,733	113,192	-
Deferred tax liabilities	-	-	-	-	-	58,000	46,629	66,411	53,513	46,005
Other liabilities	1,672,355	1,598,949	1,869,195	1,491,759	767,833	769,413	873,924	935,350	750,144	765,237
Total liabilities	145,861,817	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
Equity										
Stated capital	11,287,765	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
Statutory reserve fund	317,231	314,173	270,009	228,282	215,611	197,764	172,373	154,596	118,664	94,417
Retained earnings	1,767,576	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
Other reserves	286,642	27,605	27,605	27,605	30,815	34,203	34,203	46,657	46,657	269,943
Total equity	13,659,215	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
Total equity and liabilities	159,521,032	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
Contingent liabilities and commitments	728,285	910,137	194,554	177,752	182,986	166,260	148,030	136,574	129,507	144,378
Other information										
Number of accounts (CIF numbers)			1,442,788	1,384,175	1,310,198	1,230,406	1,131,355	1,068,345	992,782	903,476
Number of customer centers	94	94	94	94	94	91	88	87	82	82
Number of employees	1381	1433	1490	1,475	1,504	1,363	1,248	1,198	1,004	856

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 2022 LKR '000	As at 31 December 2021 LKR '000
Regulatory capital (LKR'000)		
Common Equity Tier 1 (CET I) capital	12,519,755	13,491,315
Tier 1 capital	12,519,755	13,491,315
Total capital	14,895,615	16,174,114
Regulatory capital ratio (%)		
Common Equity Tier 1 capital ratio (Minimum requirement - 2022: 6.50 2021: 6.50%)	12.92	13.16
Tier 1 Capital Ratio (Minimum requirement - 2022: 8.00 2021: 8.00%)	12.92	13.16
Total capital ratio (Minimum requirement - 2022: 12.00%, 2021: 12.00%)	15.37	15.78
Leverage ratio (%) (Minimum requirement - 3%)	7.87	9.11
Regulatory liquidity		
Statutory liquid assets (LKR' 000)	23,309,484	20,694,877
Statutory liquid assets ratio (Minimum requirement - 20%)		
Domestic banking unit (%)	23.51	22.37
Off-shore banking unit (%)	-	-
Total stock of high-quality liquid assets (LKR' 000)	20,100,093	12,782,663
Liquidity coverage ratio (%) (Minimum requirement - 2022: 100%, 2021 - 90%)		
Rupee (%)	191.22	134.82
All currency (%)	191.31	134.82
Net stable funding ratio (%) (Minimum requirement - 100%)	241.61	137.61

Template 2

Basel III computation of capital ratios

Item	As at 31 December 2022 LKR '000	As at 31 December 2021 LKR '000
Common Equity Tier 1 (CET1) capital after adjustments	12,519,755	13,491,315
Common Equity Tier 1 (CET1) capital	13,659,214	14,129,697
Equity capital (stated capital) /assigned capital	11,287,765	11,287,765
Reserve fund	317,231	314,173
Published retained earnings/(accumulated retained losses)	1,767,576	2,500,153
Published accumulated other comprehensive income (OCI)	-	-
General and other disclosed reserves	286,642	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	1,139,459	638,381
Goodwill (net)	-	-
Intangible assets (net)	538,831	338,933
Deferred tax assets (net)	600,628	299,448
Investments in the capital of banking and financial institutions	-	-
Additional Tier 1 (AT1) capital after adjustments	-	-
Additional Tier 1 (AT1) capital	-	-
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	2,375,860	2,682,799
Tier 2 capital	2,375,860	2,682,799
Qualifying Tier 2 capital instruments	1,053,785	1,763,878
Revaluation gains	-	-
Loan loss provisions	1,322,075	918,921
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2	-	-
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	-	-
CET 1 capital	12,519,755	13,491,315
Total Tier 1 capital	12,519,755	13,491,315
Total capital	14,895,615	16,174,114

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

Item	As at 31 December 2022 LKR '000	As at 31 December 2021 LKR '000
Total risk weighted assets (RWA)	96,919,305	102,517,659
RWAs for credit risk (Template 7 and 8)	87,382,372	94,318,069
RWAs for market risk (Template 9)	702,570	25,975
RWAs for operational risk (Template 10)	8,834,363	8,173,615
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	12.92	13.16
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier 1 capital ratio (%)	12.92	13.16
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	15.37	15.78
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-

Template 3

Computation of leverage ratio

Item	As at 31 December 2022 LKR '000	As at 31 December 2021 LKR '000
Tier 1 capital	12,519,755	13,491,315
Total exposures	159,109,857	148,090,672
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	158,381,572	147,180,535
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	728,285	910,137
Basel III leverage ratio (%) (Tier 1/total exposure)	7.87	9.11

Template 4

Basel III computation of liquidity coverage ratio

Item	Amount (LKR' 000)			
	As at 31 December 2022		As at 31 December 2021	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of high-quality liquid assets (HQLA)	20,100,093	20,100,093	12,833,982	12,782,663
Total adjusted level 1 assets	20,100,093	20,100,093	12,520,743	12,520,743
Level 1 assets	20,100,093	20,100,093	12,520,743	12,520,743
Total adjusted level 2A assets	-	-	300,858	255,730
Level 2A assets	-	-	300,858	255,730
Total adjusted level 2B assets	-	-	12,381	6,190
Level 2B assets	-	-	12,381	6,190
Total cash outflows	99,635,041	16,144,959	95,959,343	16,449,004
Deposits	70,931,957	7,093,196	66,115,337	6,611,534
Unsecured wholesale funding	26,888,013	7,933,118	28,163,505	9,019,801
Secured funding transactions	32,592	32,592.40	27,140	27,140
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,782,478	1,086,053	1,653,361	790,530
Additional requirements	-	-	-	-
Total cash inflows	16,182,267	5,633,256	14,580,754	6,967,439
Maturing secured lending transactions backed by collateral	-	-	3,196,417	51,190
Committed facilities	7,600,000	-	2,100,000	-
Other inflows by counterparty which are maturing within 30 days	6,707,807	4,696,027	9,109,337	6,828,748
Operational deposits	-	-	-	-
Other cash inflows	1,874,460	937,230	175,000	87,500
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) * 100		191.22		134.82

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

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 FMO 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	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 2022)	11,287,765	-	497,817	555,968
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

N/A - not applicable

Template 6

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

Overview

A proper “capital management process” is vital in ensuring the long-term stability of the business, the capital adequacy ratio is a measure used to determine whether the Bank has sufficient capital to withstand unexpected losses arising from various risks during the course of the business. Therefore, it acts as a layer of cushion in absorbing potential losses arising from the course of the business and safeguarding the depositors’ funds. At present, capital adequacy position of the banks are computed based on banking Act Direction No. 01 of 2016 and subsequent amendments thereto issued by Central Bank of Sri Lanka. SANASA Development Bank has continued to maintain capital adequacy ratios at healthy levels by keeping a significant margin over and above the regulatory minimum requirements.

Capital Management Process

In order to comply with the new Basel III guidelines, SANASA Development Bank’s capital management process is under supervision of Board Strategic Planning Committee. The three year (2020-2022) capital management plan rolled out has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank’s Strategic Plan. Efforts have taken to comply with the Basel III regulations saw the Bank increases its capital levels by issuing Basel III compliant Tier - II debt instruments. Steps were also taken to 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

Asset class	Amount (LKR' 000) as at 31 December 2022					
	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	19,717,154	-	19,717,154	-	-	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	20,453,751	-	20,453,751	-	4,090,750	20%
Claims on financial institutions	1,905,738	-	1,905,738	-	952,869	50%
Claims on corporates	165,727	-	165,727	-	165,727	100%
Retail claims	100,529,508	-	88,772,445	-	66,184,691	75%
Claims secured by residential property	3,268,586	-	3,268,586	-	2,211,013	68%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	8,219,067	-	8,219,067	-	9,300,040	113%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	4,778,146	728,285	4,778,146	289,390	4,477,281	88%
Total	159,037,678	728,285	147,280,615	289,390	87,382,372	59%

Note:

- NPAs - as per Banking Act Directions on classification of loans and advances, income recognition and provisioning.
- RWA density – Total RWA/exposures post CCF and CRM.

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

Template 8

Credit Risk Under Standardized Approach - Exposures by Asset Classes and Risk Weights

Description	Amount (LKR' 000) as at 31 December 2022 (Post CCF & CRM)										Total credit exposures amount	
	Risk weight	0%	20%	35%	50%	60%	75%	100%	150%	>150%		
Asset classes												
Claims on Central Government and CBSL	19,717,154	-	-	-	-	-	-	-	-	-	-	19,717,154
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	-	20,453,751	-	-	-	-	-	-	-	-	-	20,453,751
Claims on financial institutions	-	-	-	1,905,738	-	-	-	-	-	-	-	1,905,738
Claims on corporates	-	-	-	-	-	-	-	165,727	-	-	-	165,727
Retail claims	318,593	5,064,384	-	-	-	72,870,615	10,518,853	-	-	-	-	88,772,445
Claims secured by residential property	-	-	1,627,035	-	-	-	1,641,551	-	-	-	-	3,268,586
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	-	275,371	-	-	5,506,379	2,437,317	-	-	-	8,219,067
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	-
Cash items and other assets	559,905	37,937	-	-	-	-	4,469,694	-	-	-	-	5,067,536
Total	20,595,653	25,556,072	1,627,036	2,181,109	-	72,870,615	22,302,204	2,437,317	-	-	-	147,570,005

Template 9

Market risk Under Standardised Measurement Method

Item	RWA amount (LKR' 000) As at 31 December 2022
(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	-
(i) General equity risk	-
(ii) Specific equity risk	-
(c) RWA for foreign exchange and gold	87,821
Capital charge for market risk { (a) + (b) + (c) } * CAR	702,570

Template 10

Operational risk Under Basic Indicator Approach

Business lines	Capital charge factor	Gross income (LKR' 000) as at 31 March 2022			Amount (LKR' 000)
		1st Year	2nd Year	3rd Year	
The basic indicator approach	15%	7,781,388	7,458,891	6,845,630	
Capital charges for operational risk (LKR' 000)					
The basic indicator approach					1,104,295
Risk-weighted amount for operational risk (LKR' 000)					
The basic indicator approach					8,834,363

Template 11

Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

Item	Amount (LKR' 000 as at 31 December 2022)				
	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	3,072,845	3,072,845	3,072,845	-	-
Placements with banks	18,205,196	18,205,196	18,205,196	-	-
Financial assets fair value through profit or loss	1,905,738	1,905,738	1,905,738	-	-
Financial assets at amortised cost					
- Loans and receivables to other customers	110,525,450	110,525,450	111,847,526	-	1,322,075
- Debt and other instruments	19,819,736	19,819,736	19,819,736	-	-
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	1,093,191	1,093,191	1,093,191	-	-
Right of use assets	609,201	609,201	609,201	-	-
Investment properties	43,566	43,566	43,566	-	-
Intangible assets	538,831	538,831	538,831	-	538,831
Differed tax assets	600,628	600,628	600,628	-	600,628
Other assets	3,043,547	3,043,547	3,043,547	-	-
Total assets	159,521,032	159,521,032	160,843,107	-	2,461,535

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

Item	Amount (LKR '000 as at 31 December 2022)				
	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
Liabilities					
Due to banks	-	-	-	-	-
Due to other customers	107,533,002	107,533,002	-	-	-
Other borrowings	30,704,548	30,704,548	-	-	-
Subordinated term debts	5,055,590	5,055,590	-	-	-
Retirement benefit obligations	714,077	714,077	-	-	-
Current tax liabilities	182,245	182,245	-	-	-
Other liabilities	1,672,355	1,672,355.12	-	-	-
Total liabilities	145,861,817	145,861,817	-	-	-
Off-balance sheet liabilities					
Guarantees	249,175	249,175	249,175	-	-
Undrawn loan commitments	479,110	479,110	479,110	-	-
	-	-	-	-	-
Shareholders' equity					
Equity capital (stated capital)/ assigned capital	11,287,765	11,287,765	-	-	-
of which amount eligible for CET 1	11,287,765	11,287,765	-	-	-
of which amount eligible for AT 1	-	-	-	-	-
Retained earnings	1,767,576	1,767,576	-	-	-
Accumulated other comprehensive income	317,231	317,231	-	-	-
Other reserves	286,642	286,642	-	-	-
Total shareholders' equity	13,659,215	13,659,215	-	-	-

Sources and Utilisation of Income

Sources of Income

For the year ended 31 December	2022	2021	2020	2019	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Interest	18,427,843	13,601,108	14,485,392	13,839,972	11,985,315	9,757,778
Investments	4,673,206	1,190,961	956,610	1,239,352	1,161,472	1,071,555
Commission and other	906,382	662,200	705,450	438,273	493,349	537,863
Total	24,007,430	15,454,269	16,147,453	15,517,597	13,640,136	11,367,196

Utilisation of Income

For the year ended 31 December	2022	2021	2020	2019	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Employees						
Salaries and other payments to staff	2,940,243	2,542,695	2,576,773	2,116,348	1,827,073	1,474,146
Suppliers						
Interest paid	16,261,995	8,018,419	9,314,576	9,382,529	8,423,758	6,941,841
Other expenses	4,323,933	3,020,420	2,272,146	2,768,699	2,276,236	1,849,165
	20,585,928	11,038,840	11,586,722	12,151,228	10,699,994	8,791,006
Net income before government taxes	481,259	1,872,734	1,983,957	1,250,021	1,113,069	1,102,044

Government

Income tax, VAT on FS, NBT and debt repayment levy	420,093	989,455	1,147,670	996,616	756,118	594,221
Shareholders						
Dividends	-	241,050	206,046	114,020	-	136,947
Retained profit	61,166	642,228	630,241	139,385	356,950	370,876
	61,166	883,278	836,287	253,405	356,950	507,823
Total	24,007,430	15,454,269	16,147,453	15,517,597	13,640,136	11,367,196

Quarterly Performance of the Bank

	2022				2021			
	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 (%)	12.92	13.03	13.42	12.50	13.16	12.41	9.32	9.44
Tier 1 capital ratio (%)	12.92	13.03	13.42	12.50	13.16	12.41	9.32	9.44
Total capital ratio (%)	15.37	15.45	16.23	15.03	15.78	15.15	12.36	12.71
Leverage ratio (%)	7.87	7.74	7.76	8.72	9.11	8.62	6.70	6.83
Regulatory liquidity								
Statutory liquid asset (LKR Mn)	23,309	23,357	24,667	19,511	20,695	21,781	21,644	18,908
Statutory liquid asset ratio (%)	23.51	24.36	26.90	21.20	22.37	22.76	22.53	20.70
Total stock of high quality liquid assets (LKR Mn)	20,100	16,758	15,268	10,232	12,783	9,855.00	11,579.00	6,651.00
Liquidity coverage ratio (%)	191.22	169.98	178.47	116.73	134.82	182.86	131.33	152.36
Net stable funding ratio (%)	241.61	278.00	213.48	138.89	137.61	130.82	130.19	126.47
Asset quality								
Gross non-performing advances ratio (%)	7.36	6.73	5.63	4.52	4.42	4.78	4.77	4.47
Net non-performing advances ratio (%)	2.24	1.85	1.34	0.79	1.49	1.76	1.87	1.71
Impaired Loans (Stage 3) Ratio (%)	7.57	6.16	4.24	4.63	4.13	4.60	-	-
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	31.93	36.60	37.03	35.72	36.98	34.19	-	-
Profitability								
Interest margin (%)	4.90	4.64	4.86	5.64	5.47	5.34	5.44	5.71
Return on assets (%)	0.06	(0.19)	0.18	0.84	0.96	1.02	0.97	1.03
Return on equity (%)	0.44	(2.71)	1.12	5.08	7.35	8.36	9.98	12.00
Share information								
Market value per share (LKR)	22.00	27.80	20.60	29.50	43.00	50.90	50.30	56.80
Highest price per share for the period (LKR)	28.90	32.40	21.50	47.00	55.80	56.00	58.00	68.50
Lowest price per share for the period (LKR)	20.20	18.50	20.40	28.60	42.00	49.80	50.00	53.50
Debenture Information								
Debt to equity ratio (times)	-	-	-	-	-	-	-	-
Interest cover (Times)	-	-	-	-	-	-	-	-
Quick assets ratio (Times)	-	-	-	-	-	-	-	-
Interest rate for comparable government security (%)								
Type A	-	-	-	-	-	-	-	-
Type B	-	-	-	-	-	-	-	-
Type C	-	-	-	-	-	-	-	-
Type D	-	-	-	-	-	-	-	-

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.N0000

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)

Investor Relations

Credit Ratings

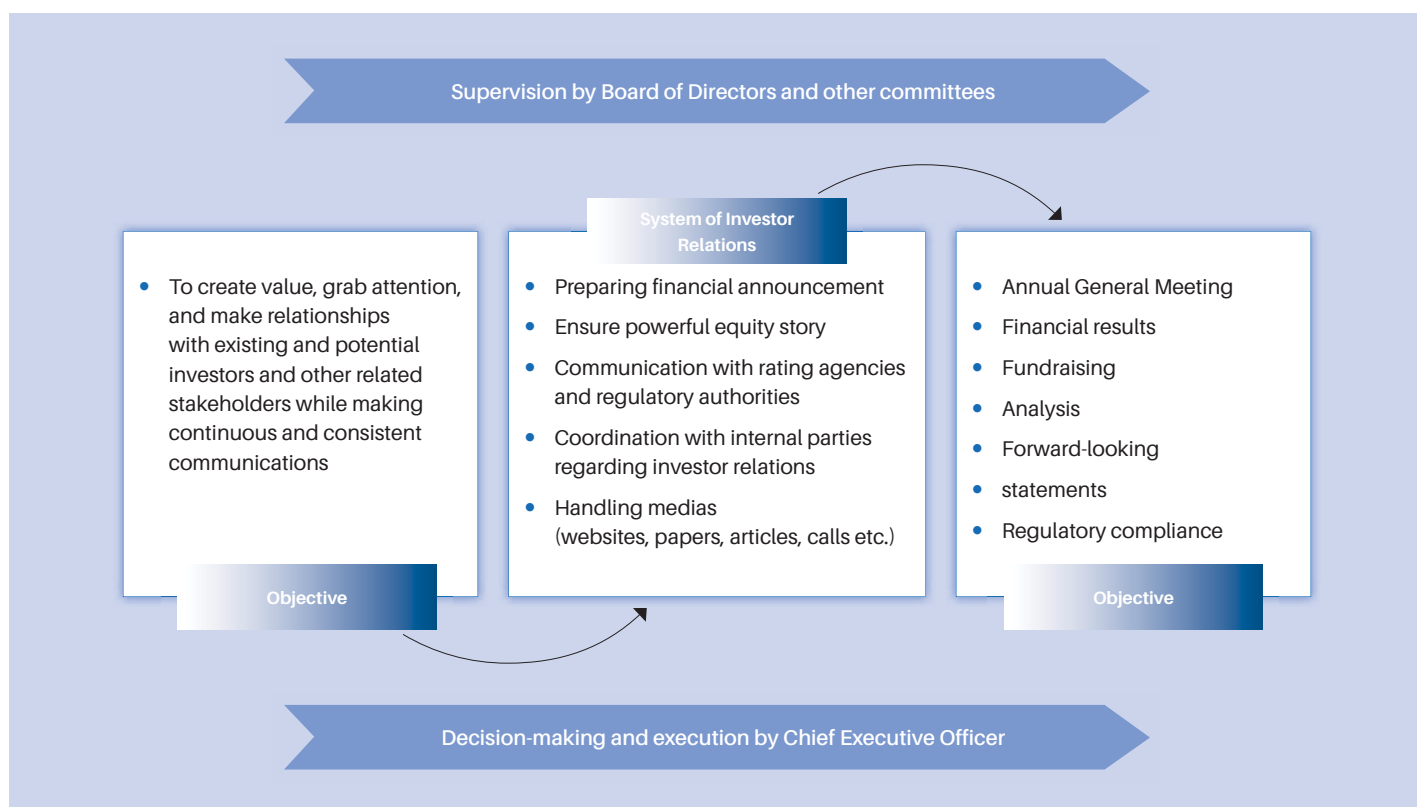
The Bank has obtained credit ratings from Fitch Ratings Lanka Ltd. The ratings take into consideration the Bank’s performance, asset quality, capitalisation, liquidity and market position among others.

Rating entity	Rating
Fitch Ratings Lanka Ltd.	BB+ (lka)

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

How we Create Value to Our Investors



Shares and Shareholders' Analysis

Share Ownership Composition

Share range	31 December 2022				31 December 2021			
	No. of Shareholders	%	No. of shares	%	No. of Shareholders	%	No. of shares	%
1 - 1,000	36,545	93.75	4,887,545	3.04	36,602	93.88	4,909,114	3.06
1,001 - 10,000	1,857	4.76	5,832,092	3.63	1,798	4.61	5,626,142	3.50
10,001 - 100,000	500	1.29	15,730,744	9.79	494	1.27	15,471,176	9.63
100,001 - 1,000,000	62	0.16	16,522,108	10.28	74	0.19	20,864,228	12.98
1,000,001 - and above	16	0.04	117,726,343	73.26	18	0.05	113,828,172	70.83
Total	38,980	100.00	160,698,832	100.00	38,986	100.00	160,698,832	100.00

Analysis of shareholders

Resident/Non-resident

	31 December 2022				31 December 2021			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Resident	38,956	99.94	122,987,365	76.53	38,963	99.94	122,758,572	76.39
Non-resident	24	0.06	37,711,467	23.47	23	0.06	37,940,260	23.61
Total	38,980	100.00	160,698,832	100.00	38,986	100.00	160,698,832	100.00

Individual/Institutional

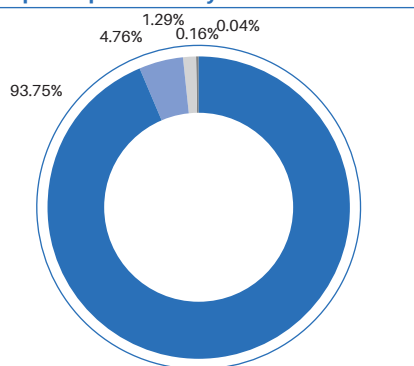
	31 December 2022				31 December 2021			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Individual	35,344	90.67	27,853,380	17.33	35,340	90.65	25,838,048	16.08
Institutional	3,636	9.33	132,845,452	82.67	3,646	9.35	134,860,784	83.92
Total	38,980	100.00	160,698,832	100.00	38,986	100.00	160,698,832	100.00

Investor Relations

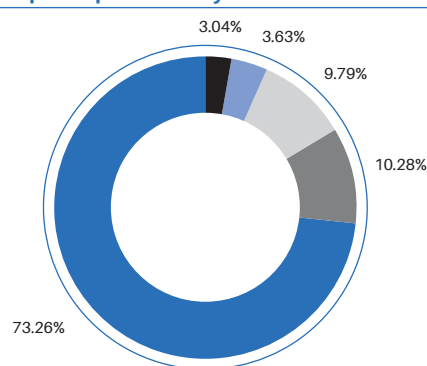
Institutional Sub Analysis

	31 December 2022				31 December 2021			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Foreign	6	0.015	36,750,921	22.87	5	0.013	37,040,674	23.05
Local and other institutions	64	0.164	74,386,564	46.28	73	0.187	76,112,080	47.36
Sanasa federation								
Acc 1			780,970	0.49			780,970	0.49
Acc 2	1	0.003	30,846	0.02	1	0.003	30,846	0.02
Sanasa societies	3,401	8.725	10,182,488	6.34	3,403	8.729	10,183,736	6.34
Sanasa unions	35	0.090	3,321,619	2.07	35	0.090	3,321,619	2.07
MPCCS	24	0.062	1,242,737	0.77	24	0.062	1,242,737	0.77
Trust companies	105	0.269	6,149,307	3.83	105	0.270	6,148,122	3.82
Total	3,636	9.328	132,845,452	82.67	3,646	9.354	134,860,784	83.92

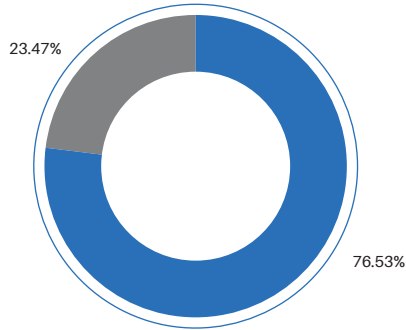
Share ownership composition - by number of shareholders



Share ownership composition - by number of shares

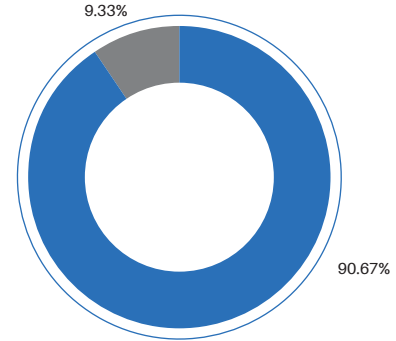


Resident/Non-resident shareholding by number of shares



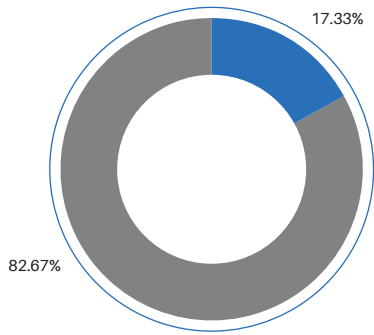
■ Resident ■ Non-Resident

Individual/Institutional shareholding by number of shareholders



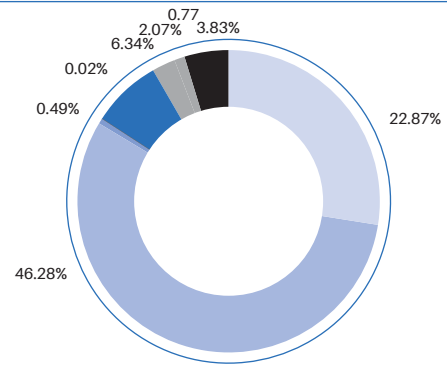
■ Institutional ■ Individual

Individual/Institutional shareholding by number of shares



■ Institutional ■ Individual

Individual shareholding and Institutional sub analysis shareholding by number of shares



■ Foreign ■ Local & other institute
 ■ Sanasa Federation-Acc 1 ■ Sanasa Federation-Acc 2
 ■ Sanasa Societies ■ Sanasa Unions
 ■ MPCSS ■ Trust Companies

Investor Relations

Top Twenty Shareholders (Amalgamated Shareholdings)

No.	Name of the Shareholder	31 December 2022		31 December 2021	
		No.of shares	%	No.of shares	%
1	ICONIC Property Twenty Three (Private) Limited Nederlandse Financierings-Maatschappij Voor	24,104,800	15.0000	24,104,800	15.0000
2	Ontwikkelingslanden N.V.	17,609,503	10.9581	17,609,503	10.9581
3	Ayenka Holdings (Private) Limited	17,604,953	10.9552	17,604,953	10.9553
4	Senthilverl Holdings (Pvt) Ltd	16,458,256	10.2417	14,413,060	8.9690
5	Belgian Investment Company For Developing Countries SA/NV	16,069,800	9.9999	16,069,800	9.9999
6	SANASA Life Insurance Company Ltd	4,715,996	2.9347	4,624,426	2.8777
7	Alliance Finance Company PLC	3,516,310	2.1881	3,516,310	2.1881
8	Dr. T. Senthilverl	3,484,112	2.1681	1,793,823	1.1163
9	SBI Emerging Asia Financial Sector Fund Pte. Ltd	2,885,618	1.7957	2,885,618	1.7957
10	People's Leasing & Finance PLC/L.P.Hapangama	2,627,722	1.6352	2,627,722	1.6352
11	People's Leasing & Finance PLC	2,271,260	1.4134	2,271,260	1.4134
12	Bank Of Ceylon A/C Ceybank Unit Trust	1,539,241	0.9578	1,539,241	0.9578
13	Hatton National Bank PLC/ Sarravanan Neelakandan	1,440,010	0.8961	-	-
14	Kegalle SANASA Shareholders Trust Company Limited	1,260,246	0.7842	1,260,246	0.7842
15	SANASA General Insurance Company Limited	1,124,418	0.6997	1,124,418	0.6997
16	Polgahawela SANASA Societies Union Ltd	1,014,098	0.6311	1,014,098	0.6311
17	Nikawaratiya Thrift & Credit Co-operative Society Union Ltd	992,849	0.6178	992,849	0.6178
18	DFCC Bank PLC / J N Lanka Holdings Company (Pvt) Ltd	982,521	0.6114	959,788	0.5973
19	Bingiriya Multi-Purpose Co-operative Society Ltd	970,900	0.6042	970,900	0.6042
20	SANASA Federation Limited	811,816	0.5052	811,816	0.5052
	Total	121,484,429	75.5977	116,194,631	72.306

Note:

This table contains the amalgamated total shareholding of each shareholder

	31 December 2022		31 December 2021	
	No. of shares	%	No. of shares	%
Total number of shares registered	152,337,612	94.80	152,315,824	94.78
Total number of shares unregistered	8,361,220	5.20	8,383,008	5.22
Total number of shares issued	160,698,832	100.00	160,698,832	100.00
Shares held by Directors and CEO	229,965	0.14	585,749	0.37
Shares held by institutions	132,845,452	82.67	134,860,784	83.92
Balance held by public	27,623,415	17.19	25,252,299	15.71
Total number of shares issued	160,698,832	100.00	160,698,832	100.00
Shares held by public	95,300,436	59.30	142,508,130	88.68
Shares held by Directors, CEO and related parties	65,398,396	40.70	18,190,702	11.32
Total number of shares issued	160,698,832	100.00	160,698,832	100.00

Market Capitalisation and Minimum Public Holding

	31 December 2022
Market capitalisation (LKR)	3,438,955,004.80
Public holding percentage	59.30%
Float adjusted market capitalisation	2,039,429,279
Number of shareholders representing public holding	98,971
Required minimum public holding percentage under option 4 of rule 7.13.1 (a) of the Listing Rules of the CSE	10

The minimum public holding percentage of the Bank as at 31 December 2022 complied with option 4 of rule 7.13.1(a) of the Listing Rules of the CSE.

Directors' and CEO's Shareholding

Name	31 December 2022		31 December 2021	
	No. of Shares	%	No. of Shares	%
Mr P Subasinghe (Director)	112,815	0.0702	112,815	0.0702
Mr Prasanna Premaratna (Director)	1500	0.0009	1500	0.0009
Mr B R A Bandara (Director)	11,000	0.0068	11,000	0.0068
Mr Romani De Silva (Director)	104,650	0.0651	-	-
Total	229,965	0.1430	125,315	0.0779

Share Trading Details

Market Share Trading

	2022	2021	2020	2019	2018
Number of transactions	6,057,233	8,131,508	3,070,021	1,197,205	885,657
Number of shares traded (Mn)	29,047	59,772	21,349	9,855	6,001
Annual turnover (LKR Mn)	687,602	1,173,157.12	396,881.51	171,407.96	200,068.84
Average daily turnover (LKR Mn.)	2,972	4,888.15	3,217.17	711.23	833.62

SDB bank Share Trading

	2022	2021	2020	2019	2018
Number of transactions	7,400	18,546	18,746	3,065	4,392
Number of shares traded	12,814,093	32,484,591	32,129,795	9,548,518	11,169,042
Value of shares traded (LKR Mn.)	369,96	1700.43	1,147.86	579.51	1,199.97
Average daily turnover (LKR Mn.)	1.61	7.08	5.35	2.51	5.06

Investor Relations

Market Capitalisation Details

CSE and Banking Industry Market Capitalisation

	2022	2021	2020	2019	2018
CSE market capitalisation (LKR Bn)	3,847.15	5489.16	2,960.65	2,851.31	2,839.44
S & P SL20 (31/12)	2,635.63	4,233.25	2,638.10	2,936.96	3,135.18
All share price index (31/12)	8,489.66	12,226.01	6,774.22	6,129.21	6,052.37
Banking, and finance and insurance sector market capitalisation (LKR Bn)	219.84	343.5	318.89	757.32	784.24

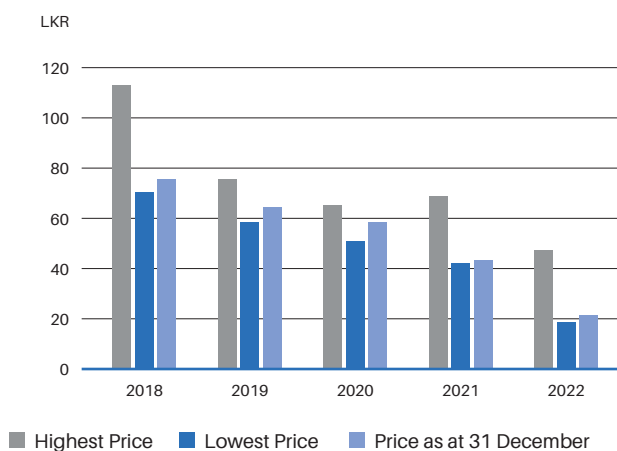
SDB bank Capitalisation

	2022	2021	2020	2019	2018
CSE market capitalisation (LKR Bn)	3,845.15	5489.16	2,960.65	2,851.31	2,839.45
SDB bank market capitalisation (LKR Bn)	3.43	6.91	5.32	3.59	4.22
Increase/decrease in market capitalisation of SDB bank (%)	(50)	29	48	(15)	(24)
SDB bank market capitalisation as a % of CSE market capitalisation (%)	0.09	0.13	0.18	0.13	0.15
Market capitalisation rank of SDB bank	155	115	108	117	91

Share Price Movement

	2022	2021	2020	2019	2018
Highest price (LKR)	47.00	68.50	65.00	75.00	112.90
Lowest price (LKR)	18.50	42.00	43.80	58.00	70.00
Price as at 31 December (LKR)	21.40	43.00	58.10	63.90	75.00

SDB Bank share price movement trend



Dividends

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

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

Year	Profit for the year (LKR Mn.)	Total Cash dividend paid (LKR Mn.)	Total Dividend per share (LKR)	Dividend payout ratio (%)	Dividend yield (%)
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	909.35	241.05	1.50	19.66	3.49
2022	292.18	-	-	-	-

Value Creation to Shareholders

Cse Market

	2022	2021	2020	2019	2018
Market price-earnings ratio (PER) (Times)	5.0	13.63	11.25	10.83	9.65
Market price to book value (PBV) (Times)	0.9	1.67	1.14	1.14	1.18
Market dividend yield (DY) (%)	4.10	2.17	2.17	3.17	3.09

Banking Industry

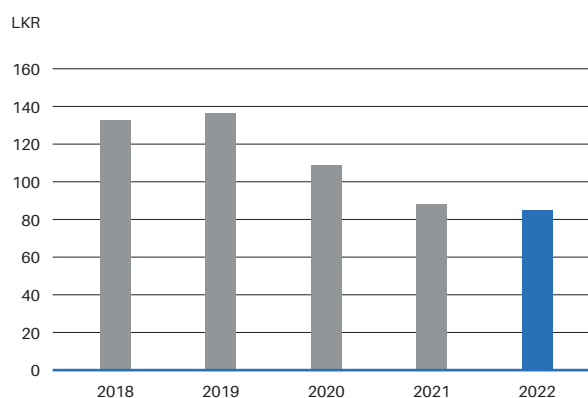
	2022	2021	2020	2019	2018
Market price-earnings ratio (PER) (Times)	3.1	4.19	5.18	5.57	5.38
Market price to book value (PBV) (Times)	0.3	0.47	0.56	0.84	0.92
Market dividend yield (DY) (%)	6.6	3.5	2.30	2.80	2.80

Investor Relations

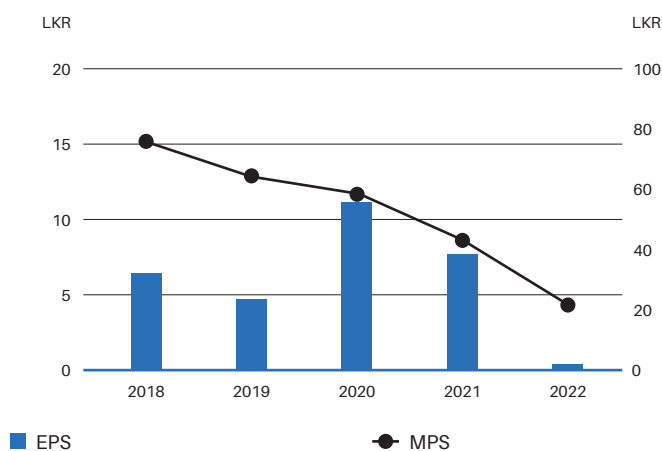
SDB bank

	2022	2021	2020	2019	2018
Net asset value per share (LKR)	85	87.93	108.28	136.20	132.28
Basic earnings per share (LKR)	0.38	7.63	11.05	4.50	6.34
Dividend per share (LKR)	-	1.5	2.25	7	-
Market price per share as at 31 December (LKR)	21.40	43.00	58.10	63.90	75.00
Price-earnings ratio (PER) (Times)	56.31	5.63	5.26	14.20	11.83
Price to book value (PBV) (Times)	0.25	0.49	0.54	0.47	0.57
Dividend yield (DY) (%)	-	3.49	3.87	10.95	-
Dividend payout (%)	-	19.66	20.36	155.55	-
Number of shares (No. Mn.)	160.69	160.69	91.57	56.31	56.31
Number of shareholders	38,980	38,986	38,853	37,506	37,648
Total equity (LKR Mn.)	19,659.21	14,129.70	9,916.17	7,668.98	7,448.73
Stated capital (LKR Mn.)	11,287.76	11,287.76	7,727.94	5,921.54	5,921.54
Debt to equity (Times)	10.40	9.28	11.74	12.77	11.83
Interest cover (Times)	1.47	1.84	1.61	1.06	1.08
Return on equity (%)	0.44	7.35	9.51	3.35	4.83
Quick assets ratio (%)	0.38	0.62	0.64	0.59	0.65

Net assets per Share



Earnings and market price per share



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	05 June 2018
2020	1	11.8140022617	4,742,436	27 July 2020

Record of Right 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

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	1,007,012,880.00	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 Right Issue

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

Investor Relations

Sanasa Development Bank PLC

Information of Rights Issue and Secondary Public Offer of Ordinary Voting Shares

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

Secondary Public Offer (SPO) of Ordinary Shares in August 2021				
Rights Issue/Secondary Public Offer	Consideration per share (LKR)	Final allotment (No. of shares) 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 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

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

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		CO₂e	Carbon Dioxide Equivalent, is a standard unit for measuring carbon footprints
AC	Air Conditioner	CRIB	Credit Information Bureau of Sri Lanka
ACA	Chartered Accountant	CRMU	Credit Risk Management Unit
ADB	Asian Development Bank	CRRF	Credit Risk Review Function
AFS	Available for Sale	CSE	Colombo Stock Exchange
AGM	Assistant General Manager/Annual General Meeting (as appropriate)	CSR	Corporate Social Responsibility
ALCO	Assets and Liability Management Committee	CA	Chartered Accountants
AML	Anti-Money Laundering	CAGR	Compound Annual Growth Rate
AT I	Additional Tier I	D	
ATM	Automated Teller Machine	DFI	Development Financial Institutions
AWPLR	Average Weighted Prime Lending Rate	DGM	Deputy General Manager
B		DMS	Document Management System/Delinquency Monitoring System
BAC	Board Audit Committee	DPS	Dividend per Share
BCP	Business Continuity Plan	DRP	Disaster Recovery Plan
BIA	Business Impact Analysis	DGGF	Dutch Good Growth Fund (Stichting foundsbeheer DGGF lokaal MKB)
BIRMC	Board Integrated Risk Management Committee	DRL	Debt Repayment Levy
BIS	Bank for International Settlements	DFC	US International Development Finance Corporation
BIO	Belgian Investment Company for Developing Countries NV/SA	D-SIB	Domestic systematically important Banks
Bn.	Billions	E	
BNO	Bank Notes Operation	EAR	Earnings at Risk
BOD	Board of Directors	EIR	Effective Interest Rate
BRPTRC	Board Related Party Transaction Review Committee	EPF	Employees' Provident Fund
BRC	Business Registration Certificate	EPS	Earnings per Share
BSS	Baseline Standard	ERM	Enterprise Risk Management
BHRRC	Board Human Resources and Remuneration Committee	ESC	Economic Service Charges
BS and NC	Board Selection and Nomination Committee	ESOP	Employee Share Option Plan
BCC	Board Credit Committee	ESG	Environmental, Social, and Governance
BSP and PI	Board Strategic Plan and Implementation Committee	ETF	Employees' Trust Fund
C		EUR	Euro
CAR	Capital Adequacy Ratio	EVA	Economic Value Addition
CASL	Chartered Accountants of Sri Lanka (ICASL)	EWS	Early Warning Signals
CBSL	Central Bank of Sri Lanka		
CCB	Capital Conservation Buffer		
CEO	Chief Executive Officer		
CET 1	Common Equity Tier I		
CFO	Chief Financial Officer		

F

FSVAT Financial Services Value Added Tax

FMO Financierings – Maatschappij Voor
Ontwikkelingslanden N.V.

G

GDP Gross Domestic Product

GHG Green House Gas

GL General Ledger

GRI Global Reporting Initiative

H

HO Head Office

HQLA High Quality Liquid Assets

HR Human Resources

HRD Human Resources Development

HTM Held to Maturity

I

IBSL Institute of Bankers of Sri Lanka

ICAAP Internal Capital Adequacy Assessment Process

ICASL Institute of Chartered Accountants of Sri Lanka

ICC International Chamber of Commerce

ICOFR Internal Control Over Financial Reporting

ICT Information and Communications Technology

IFA Investment Fund Account

IFRS International Financial Reporting Standards

IIRC International Integrated Reporting Council

IND Independent Director IRMC Integrated Risk
Management Committee

IRMU Integrated Risk Management Unit ISMS Information
Security Management System

ISO International Organization for Standardization

IT Information Technology

K

kg Kilograms

km Kilometre

KMP Key Management Personnel

KPI Key Performance Indicator

KRI Key Risk Indicators

kWh Kilowatt-hour

KYC Know Your Customer

L

LCB Local Commercial Bank

LCR Liquidity Coverage Ratio

LGD Loss Given Default

LKAS Sri Lanka Accounting Standards

LTV Ratio Loan to Value Ratio

LIBOR London Inter Bank offered Rate

M

m³ Cubic meter

MIS Management Information Systems

MoM Month on Month

Mn. Millions

MSME Micro, Small and Medium Scale Entrepreneur

MW Megawatt

N

N/A Not Applicable

NBT Nation Building Tax

NED Non-Executive Director

NIC National Identity Card

NID Non-Independent Director

NII Net Interest Income

NIM Net Interest Margin

NPA Non-Performing Assets

NPL Non-Performing Loans

O

OBS Off-Balance Sheet

OCI Other Comprehensive Income

ORMU Operational Risk Management Unit

OTC Over-the-Counter

Abbreviations

P		SBCP	
p.a.	Per Annum		Specialised Board Subcommittee Capital Planning
P/E	Price Earnings Ratio	SDFR	Standing Deposit Facility Rate
PAT	Profit After Tax	SLFR	Standing Lending Facility Rate
PBT	Profit Before Tax	SRR	Statutory reserve ratio
PD	Probability of Default	SDGs	Sustainable Development Goals
PoS	Point of Sale	SLBA	Sri Lanka Banks' Association
		SEO	Search Engine Optimization
Q		T	
Q&A	Question and Answer	Tn.	Trillion
		ToR	Terms of Reference
R		TRWCR	Total Risk Weighted Capital Ratio
RCSA	Risk and Control Self Assessments	TT	Telegraphic Transfer
RMU	Risk Management Unit		
ROA	Return on Assets	V	
ROCE	Return on Capital Employed	VAR	Value at Risk
ROE	Return on Equity	VAT	Value Added Tax
RPT	Related Party Transaction		
RPTRC	Related Party Transactions Review Committee	W	
RSA	Rate Sensitive Assets	WHT	Withholding Tax
RSL	Rate Sensitive Liabilities		
RWA	Risk Weighted Assets	Y	
RPA	Robotic Process Automation	YoY	Year on Year
S			
SAFA	South Asian Federation of Accountants		
SBU	Strategic Business Unit		
SDF	Standing Deposit Facility		
SEC	Securities and Exchange Commission of Sri Lanka		
SLA	Statutory Liquid Assets		
SLAR	Statutory Liquid Asset Ratio		
SLAS	Sri Lanka Accounting Standards		
SLDB	Sri Lanka Development Bonds		
SLF	Standing Lending Facility		
SLFRS	Sri Lanka Financial Reporting Standards		
SLIBOR	Sri Lanka Inter Bank Offered Rate		
SLIPS	Sri Lanka Interbank Payments System		
SME	Small and Medium Enterprises		
SMS	Short Message Service		
SREP	Supervisory Review Process		
SWIFT	Society for Worldwide Interbank Financial Telecommunication		

Glossary of Terms

A

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACTUARIAL ASSUMPTIONS

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

ACCRUAL BASIS

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

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.

Glossary of Terms

HIGH QUALITY LIQUID ASSETS (HQLA)

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

I

IMPAIRED LOANS

Loans where the Bank does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT ALLOWANCES

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

IMPAIRMENT PROVISIONS

Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

INDIVIDUALLY SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the Bank's Management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the corporate banking business of the Group are assessed individually.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST MARGIN

Net interest income as a percentage of average interest earning assets.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INVESTMENT PROPERTIES

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

K

KEY MANAGEMENT PERSONNEL

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills.

LEVERAGE RATIO

The leverage ratio measures a bank's core capital (Capital measure) to its total assets (Exposure measure). The ratio uses capital to judge how leveraged a bank is in relation to its consolidated assets.

LIQUIDITY COVERAGE RATIO (LCR)

Banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash to meet their liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. LCR is computed by dividing the stock of HQLA by the total net cash outflows over the next 30 calendar days.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

LOANS AND RECEIVABLES

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

N

NET ASSET VALUE PER SHARE

Shareholders' funds divided by the number of ordinary shares in issue.

NET-INTEREST INCOME

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter bank borrowings.

NET STABLE FUNDING RATIO

NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The amount of available and required stable funding are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets.

NON-CONTROLLING INTEREST

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

O

OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

POWER

The Power is the existing rights that give the current ability to direct the relevant activities.

PRICE EARNINGS RATIO (P/E RATIO)

The current market price of the share is divided by the earnings per share of the Bank.

PROBABILITY OF DEFAULT (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

PRUDENCE

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

RELEVANT ACTIVITIES

Relevant activities are activities of the investee that significantly affect the investee's returns.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase Government Securities at a given price on a specified future date.

RETURN ON AVERAGE ASSETS (ROAA)

Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

RETURN ON AVERAGE EQUITY (ROAE)

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

REVENUE RESERVE

Reserves set aside for future distribution and investment.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of Government Securities by a bank or dealer and resale back to the seller at a given price on a specific future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

RISK-WEIGHTED ASSETS

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

Glossary of Terms

S

SEGMENT REPORTING

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically-the different industries and the different geographical areas in which it operates.

SHAREHOLDERS' FUNDS

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

SINGLE BORROWER LIMIT

30% of Tier II Capital.

SPECIFIC IMPAIRMENT PROVISIONS

Impairment is measured individually for loans that are individually significant to the Bank.

STATUTORY RESERVE FUND

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

TIER I CAPITAL

Consists of the sum total of paid up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

TIER II CAPITAL

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

TRANSACTION COSTS

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

TOTAL CAPITAL

Total capital is the sum of Tier I capital and Tier II capital.

U

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

USEFUL LIFE

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YIELD TO MATURITY

Discount rate which the present value of future cash flows would equal the security's current price.

26th Annual General Meeting

AGENDA

DATE

19 May 2023

VENUE

"Board Room" SANASA Development Bank PLC,
No.12, Edmonton Road, Kirulapone, Colombo 06

TIME

10.00am - 10.05am	Twenty-Sixth Annual General Meeting call to order
10.05am - 10.10am	Notice of Meeting - Company Secretary
10.10am - 10.25am	Confirmation of the Minutes of 25th Annual General Meeting held on 30 May 2022
10.25am - 10.50am	To pass General Resolutions
10.50am - 10.55am	Address by the Chairperson
10.55am - 11.00am	Vote of Thanks - Chief Executive Officer

Corporate Information

Name of Company

SANASA Development Bank PLC

Date of Incorporation

06 Aug 1997

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

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

Chief Executive Officer

Mr Priyantha Talwatte

Compliance Officer

Ms S N T Igalagamage

Company Secretary

Ms Tamarika Rodrigo

Auditors

M/S Ernst & Young Chartered Accountants,
No 201, De Seram Place,
P.O.Box 101,Colombo 10

Bankers

People's Bank
Bank of Ceylon
NDB Bank PLC
Nations Trust Bank PLC
Hatton National Bank PLC
Sampath Bank PLC

Board of Directors

Ms Dinithi Ratnayake (Chairperson)
Prof Sampath Amaratunge (Director)
Mr Prabhash Subasinghe (Director)
(Resigned from the Board w.e.f
31.12.2022)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr B R A Bandara (Director)
Mr Thusantha Wijemanna (Director)
Mr Sarath Nandasiri (Director)
Mr Conrad Dias (Director)
Mr Naveendra Sooriyachchi
(Director)
Mr Romani De Silva (Director)
Mr Senthil Aathavan (Director)
Mr Chandana Dissanayake (Director)

Board Sub Committee Directors

Board Audit Committee

Mr Chaaminda Kumarasiri
(Chairman - BAC)
Prof Sampath Amaratunge (Director)
Mr Naveendra Sooriyachchi
(Director)

Board Human Resources and Remuneration Committee

Mr Thusantha Wijemanna
(Chairman - BHRRC)
Prof Sampath Amaratunge (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr Naveendra Sooriyachchi
(Director)
Mr Chandana Dissanayake (Director)

Board Credit Committee

Mr Prasanna Premaratna
(Chairman - BCC)
Mr Thusantha Wijemanna (Director)
Mr Naveendra Sooriyachchi
(Director)
Mr B R A Bandara (Director)
Mr Romani De Silva (Director)

Board Selection and Nomination Committee

Ms Dinithi Ratnayake
(Chairperson - BS & NC)
Prof Sampath Amaratunge (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Thusantha Wijemanna (Director)

Board Integrated Risk Management Committee

Prof Sampath Amaratunge
(Chairman - BIRMC)
Ms Dinithi Ratnayake (Chairperson)
Mr Chaaminda Kumarasiri (Director)
Mr Conrad Dias (Director)
Mr Chandana Dissanayake (Director)

Board Related Party Transactions Review Committee

Mr Chaaminda Kumarasiri
(Chairman - BRPTRC)
Prof Sampath Amaratunge (Director)
Mr Prasanna Premaratna (Director)
Mr Thusantha Wijemanna (Director)

Board Strategic Planning Committee

Ms Dinithi Ratnayake
(Chairperson - BSPC)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr Conrad Dias (Director)
Mr Prabhash Subasinghe (Director)
(Resigned from the Board w.e.f
31.12.2022)

Board Co-operative, Rural Enterprise and Livelihood Development Committee

Mr B R A Bandara
(Chairman - BCRELDC)
Prof Sampath Amaratunge (Director)
Mr Prasanna Premaratna (Director)
Mr Sarath Nandasiri (Director)
Mr Romani De Silva (Director)

Board Sub-Committee on Sustainability

Ms Dinithi Ratnayake
(Chairperson - BSCS)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr Romani De Silva (Director)
Mr Chandana Dissanayake (Director)

Board IT Steering Committee

Mr Conrad Dias (Chairman - BITSC)
Ms Dinithi Ratnayake (Chairperson)
Mr Chaaminda Kumarasiri (Director)
Mr Senthil Aathavan (Director)

Board Procurement & Assets Disposal Committee

Mr Thusantha Wijemanna
(Chairman - BP & ADC)
Mr Prasanna Premaratna (Director)
Mr Naveendra Sooriyachchi
(Director)
Mr Chandana Dissanayake (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

Fitch Ratings Lanka Ltd.
BB+(lka)



SANASA Development Bank PLC

No 12, Edmonton Road, Kirulapone, Colombo 06.

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E mail : comsec@sdb.lk | Web Page : www.sdb.lk