

# THE POSSIBILITIES CONNECTING



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**CONNECTING**  
**THE POSSIBILITIES**

*At Seylan Bank, we power opportunities and possibilities to create a better tomorrow for our customers, our employees and community at large. Driven by a strong sense of purpose we have strived to be ahead in digital innovation thereby delivering a seamless and uninterrupted banking experience. We look forward to the future with optimism to support inclusive growth in 2021 and beyond by affirming our commitment to deliver optimum value to our stakeholders.*

# CONNECTING THE POSSIBILITIES

## ABOUT THIS REPORT



### SCOPE AND BOUNDARY OF REPORTING

#### Reporting Period

The scope of the Annual Report 2020 covers the 12 months period from 1 January to 31 December 2020 and is consistent with the annual reporting cycle for Integrated Reporting. There are no significant changes from previous reporting periods in the scope and aspect boundaries. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

#### Reporting Boundary

The content of this report does not cover the activities of its subsidiary, Seylan Developments PLC, which produces its own Annual Report. This Report presents material information on economic, social and environmental performances of Seylan Bank PLC in respect of the reporting period.

#### Compliance

Both financial and non-financial information contained in this report comply with all applicable rules and guidelines stipulated by the Central Bank of Sri Lanka, the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange, The Inland Revenue Act and all the directions issued by The Inland Revenue Department and The Institute of Chartered Accountants of Sri Lanka.

**Seylan Bank is pleased to present its eighth consecutive Integrated Annual Report for the calendar year of 2020.**

#### Sustainability Reporting Framework

In addition, this Report includes details of the Bank's relationship with its key stakeholders in sustainable value creation which is described in the relevant sustainability sections. The Bank's Report is based on the Consolidated set of Global Reporting Initiative (GRI) Sustainability reporting standards and is prepared in accordance with 'core' criteria.

#### Content of the Report with comparative information and limitations

The Integrated Report of Seylan Bank PLC comprises Financial and Non-Financial information for the period of 12 months ended 31 December 2020. The Financial and Non-Financial milestones of the Bank are illustrated for the benefit of all stakeholders. Key Performance Indicators are presented with comparative data relating to the previous year.

GRI implications not applicable to the Bank's operation are excluded in this report.

#### Forward Looking Narrative



The Bank intends to provide its stakeholders a holistic picture of its operations, business model, strategy and risk management, together with its performance across financial and non-financial parameters. The report also strives to articulate the inter-connectedness between various stakeholders in the short, medium and long term. The continuing financial viability of the Bank is a fundamental principle of the model and promotes the creation of value for all its stakeholders.

(refer <https://www.seylan.lk/about-us/investor-relation>)



#### Independent Assurance

The Bank engaged Messrs KPMG to obtain an independent assurance in respect of sustainability indicators, report which appears on pages 64 to 65 in this Annual Report. Further, Messrs KPMG has given their audit opinion on the financials given on pages 146 to 150 of this Annual Report.

#### Improvements to this Report



Structured to demonstrate our priorities

#### QUERIES

We welcome your comments or inquiries on this Report, which can be addressed to:

**Ms Champika Dodanwela**  
 Chief Financial Officer  
**Seylan Bank PLC**  
 Tel: (94)-(11)-2456358  
 Fax: (94)-(11)-2452612  
 Email: [champikad@seylan.lk](mailto:champikad@seylan.lk)

# SEYLAN BANK AT A GLANCE

**SEYLAN BANK PLC**  
The Bank with A Heart



Seylan Bank is a licensed commercial bank and a public limited liability company incorporated in Sri Lanka and listed on the Colombo Stock Exchange. The Bank offers a comprehensive suite of products and services to its highly diverse clientele. The Bank is taking confident strides into the future by blending its wide physical reach with digital capabilities to provide differentiated offerings. There were no significant changes in the size, structure, ownership or supply chain of the Bank during 2020.

## VISION

**TO BE SRI LANKA'S LEADING FINANCIAL SERVICES PROVIDER AS RECOGNISED BY ALL OUR STAKEHOLDERS.**

## MISSION

WE PROVIDE OUR CUSTOMERS WITH FINANCIAL SERVICES THAT MEET THEIR NEEDS IN TERMS OF VALUE, PRICING, DELIVERY AND SERVICES.

WE WILL DO SO THROUGH A TEAM OF SEYLAN BANKERS WHO ARE RECOGNISED AND REWARDED FOR RESULTS ORIENTATION.

WE WILL ENSURE THAT OUR EFFORTS TRANSLATE TO MEETING THE EXPECTATIONS OF OUR SHAREHOLDERS, WHILST ALWAYS ACTING AS RESPONSIBLE CORPORATE CITIZENS.



Our suite of banking services mainly consists of Branch Banking, Retail Banking, Corporate, Foreign Currency Banking, International Trade Finance and Treasury, etc.,

The core business operators are supported by the functions of Marketing, Information Technology, Branch Credit, Human Resource, Credit Administration and Risk Management etc.,

## A (Ika)

Fitch Ratings  
Lanka Limited



## NO. 1 IN CUSTOMER SERVICE

by LMD for the second consecutive year in 2020

**RANKED SECOND AMONG PUBLIC LISTED COMPANIES FOR TRANSPARENCY IN CORPORATE REPORTING BY TRANSPARENCY GLOBAL**

Part of the S&P Dow Jones  
SL 20 Index.



## GROUP COMPANY

**Seylan Developments PLC (SDP)** is a public liability company established in Sri Lanka on 3 September 1992, quoted in the Colombo Stock Exchange on the same day and re-registered under the Companies Act No 07 of 2007 on 22 May 2008. Seylan Bank PLC is the parent company which holds 70.51% as at 31 December 2020. SDP reported profit after tax of LKR 260 Mn during 2020.

*(For more details please refer note 28.1)*

# KEY FINANCIAL HIGHLIGHTS

	Bank			Group		
	2020 LKR '000	2019 LKR '000	Change %	2020 LKR '000	2019 LKR '000	Change %
<b>For The Year</b>						
Gross Income	58,439,838	61,369,654	(4.77)	58,443,392	61,356,249	(4.75)
Profit before Income Tax	4,111,247	5,098,640	(19.37)	4,295,636	5,267,110	(18.44)
Income Tax Expense	1,099,947	1,418,378	(22.45)	1,197,578	1,468,858	(18.47)
Profit Attributable to Equity Holders of the Bank	3,011,300	3,680,262	(18.18)	3,038,629	3,732,691	(18.59)
Other Comprehensive Income for the Year, net of Tax	1,832,025	2,233,532	(17.98)	1,865,107	2,322,388	(19.69)
Total Comprehensive Income Attributable to Equity Holders of the Bank	4,843,325	5,913,794	(18.10)	4,893,981	6,028,876	(18.82)
Revenue to Government	2,628,243	4,185,521	(37.21)	2,725,874	4,236,001	(35.65)
Gross Dividend *	775,534	1,007,247	(23.00)	775,534	1,007,247	(23.00)
<b>At The Year End</b>						
Total Equity Attributable to Equity Holders of the Bank	48,966,975	44,627,274	9.72	50,769,823	46,379,466	9.47
Retained Earnings	24,683,224	22,823,239	8.15	25,381,609	23,494,184	8.03
Customer Deposits	440,303,126	400,731,358	9.87	440,303,126	400,731,358	9.87
Customer Loans and Advances	393,766,147	379,259,064	3.83	393,766,147	379,259,064	3.83
Total Assets	557,707,420	516,294,187	8.02	558,005,932	516,531,269	8.03
<b>Information Per Ordinary Share</b>						
Basic/Diluted Earnings per Share (LKR) **	5.82	8.70	(33.10)	5.88	8.83	(33.41)
Dividend per Share (LKR) *	1.50	2.00	(25.00)	1.50	2.00	(25.00)
Net Assets Value per Share (LKR)	94.71	88.61	6.88	98.20	92.09	6.63
Market Value (LKR)						
As at End of the Year - Voting Shares	46.00	52.50	(12.38)	-	-	-
- Non-Voting Shares	34.00	33.80	0.59	-	-	-
<b>Statutory Ratios (%)</b>						
<b>Capital Adequacy</b>						
Common Equity Tier 1 Capital Ratio (%) (Minimum Requirement - 7.00 %)	11.46	11.27	1.69	11.70	11.49	1.83
Total Tier 1 Capital Ratio (%) (Minimum Requirement - 8.50 %)	11.46	11.27	1.69	11.70	11.49	1.83
Total Capital Ratio (%) (Minimum Requirement - 12.50 %)	14.30	14.84	(3.64)	14.49	15.02	(3.53)
<b>Liquidity</b>						
Statutory Liquid Assets Ratio - Domestic Banking Unit (%) (Minimum Requirement - 20 %)	31.31	21.40	46.31	-	-	-
Statutory Liquid Assets Ratio - Foreign Currency Banking Unit (%) (Minimum Requirement - 20 %)	22.47	21.81	3.03	-	-	-
Liquidity Coverage Ratio - Rupee (%) (Minimum Requirement - 2020 - 90 %, 2019 -100 %)	176.95	169.60	4.33	-	-	-
Liquidity Coverage Ratio - All Currency (%) (Minimum Requirement - 2020 - 90 %, 2019 - 100 %)	142.75	116.01	23.05	-	-	-
<b>Other Ratios</b>						
Price Earnings Ratio - Voting (Times)	7.90	5.84	35.27	-	-	-
- Non-Voting (Times)	5.84	3.76	55.32	-	-	-
Dividend Cover (Times) *	3.88	3.65	6.30	-	-	-

\* Dividends are accounted for as per the Sri Lanka Accounting Standard - LKAS 10.

\*\* Earnings per share has been restated as per Sri Lanka Accounting Standard - LKAS 33.



# LEADERSHIP INSIGHTS

## CHAIRMAN'S MESSAGE

**“In the year under review the performance in the context of extreme operating conditions demonstrates the resilience and the strength of our overall business model...”**

Dear Stakeholders,

The year under review proved to be a year replete with unprecedented challenges wrought by the outbreak of the COVID-19 global pandemic, creating an insurmountable impact on lives and livelihoods. Amidst one of the most extraordinary and challenging years, Seylan Bank remained steadfast and focused.

We moved forward to deliver customer-centric, uninterrupted, seamless service levels demonstrating our unwavering commitment to serve our customers, whilst strengthening bonds developed over the years. Looking back on the year, I am immensely proud of our Seylan team who demonstrated resilience, determination and professionalism in an extremely volatile and challenging environment.

### CONTEXT TO PERFORMANCE

Sri Lanka faced renewed challenges in the year 2020 with the pandemic. The lockdown measures, airport closures and weakened economic activity contributed to yet another period of low growth due to the

contraction in the local economy. The financial services sector, which mirrors the state of the economy, grew modestly due to low credit demand and rising non-performing loans. Economic growth was subdued as sectors such as tourism and related businesses, manufacturing and SMEs were severely impacted. The Central Bank of Sri Lanka (CBSL) responded by implementing relief measures, large-scale policy stimuli and debt moratoria to boost business recovery. A series of monetary easing measures, including multiple reductions of the policy rates and the Statutory Reserve Ratio (SRR), were introduced injecting liquidity into the market and lowering borrowing costs significantly.

### A RESILIENT PERFORMANCE

In the year under review the performance in the context of extreme operating conditions demonstrates the resilience and the strength of our overall business model. The demand for lending was subdued during the height of the pandemic, but we observed a gradual pickup in credit demand which was visible by the year end is expected to continue to year 2021.

Having understood the magnitude of the economic impact of the pandemic on livelihoods and business earnings we initiated a host of financial relief measures in compliance with regulations imposed by the CBSL following the pandemic to ensure the financial health of our institutional and retail customers.

Sectors that have adversely affected were granted a six month debt moratorium in accordance with the CBSL directions. Concessionary working capital loans were granted under the CBSL backed 'Saubagya Renaissance Facility' to COVID-19 affected enterprises and individuals.

### GOVERNANCE

During the year, we continued to focus on strengthening our corporate governance structure by adopting high ethical standards and practices by supporting and complying with regulatory policy directions. The Bank's stable financial fundamentals helped us meet all regulatory obligations through the year under review.

## FINANCIAL MANAGEMENT

The debenture issue which we planned to launch in 2020 was held back as the Bank was well positioned with its capital requirements which would support the expected business growth levels in the medium term. We closely review the capital augmentation plan of the Bank to be well in line with future capital requirements.

We closely monitored the stress on our credit portfolio due to the current macro-economic variables and the ongoing pandemic. The required risk management strategies were introduced as an ongoing process. The Bank is also well placed in complying with regulatory requirements in terms of BASEL III requirements and impairment provisioning obligations under Sri Lanka Financial Reporting Standards - SLFRS 9.

## LEVERAGING IT

Over the years, we have invested in our IT infrastructure by enhancing customer service platforms through digitisation. This high level of digital preparedness enabled us to pivot to digital banking and remote working platforms swiftly during the pandemic and the consequent lockdown of the country. Our online payments ecosystem continued to focus on leveraging its digital capabilities to make banking a simple, secure and convenient offering that enhance customer convenience and efficiency. Resultantly, the adoption rate of digital platforms by our customers gained momentum in 2020. This is an encouraging trend which augurs well for the future where we hope to introduce a range of digitally driven banking facilities for both the retail and corporate customer segments that we serve.

## SERVING OUR COMMUNITY AND ENVIRONMENT

It is our firm belief that our success is defined by the long-term wellbeing of the people we

engage with, the places in which we operate and the planet that we leave to our future generations. Hence, Environmental and Social Governance (ESG) standards form the core of our business strategy whereby we place importance on social equity and environmental stewardship simultaneously with financial performance. We have over the years engaged in impactful projects under the key pillar of education to uplift under-privileged students across the country.

During the year under review, we supported the nation's endeavours to combat the pandemic by contributing to the COVID-19 Fund and initiating construction of a fully equipped ICU unit at the Colombo East Base Hospital and certain other CSR activities to support the frontline health and police staff.

## WAY FORWARD

As we move forward embracing the new normal, we aspire to be a Bank which is contemporary and agile. We are continuously motivated to deliver value to our stakeholders whilst upholding the highest standards of integrity and transparency. The pandemic is an uncharted territory and we adopt a prudent and cautiously optimistic stance. I believe that following the initial learnings, businesses and banks are very much better positioned to navigate through the new normal business landscape.

We aspire to remain flexible and agile to adapt and evolve to the evolving business dynamics. Seylan Bank remains focused on mining any emerging opportunities and green shoots of growth by tailoring our lending services, digital banking services and extending support to SMEs, exporters, import substitution industries, etc., to spur fast recovery.

I am confident that an adaptive and responsive business model that harnesses digitalisation and customer convenience will collectively drive positive outcomes. The Bank hopes to leverage new-age digital technologies to optimise reach



We are continuously motivated to deliver value to our stakeholders whilst upholding the highest standards of integrity and transparency.

and offer differentiated services through a prudent blend of traditional and digital channels, to serve to an optimal mix of SME and corporate sectors. Despite headwinds that may arise, we have immense confidence in the strong, stable platform we have built over three decades which would be a strong foundation.

## A NOTE OF APPRECIATION

I take this opportunity to extend my heartfelt appreciation to the entire Seylan team ably led by Director/Chief Executive Officer Mr Kapila Ariyaratne and the Management for their professionalism and commitment in serving our customers and delivering results in a challenging environment. I wish to extend my sincere appreciation to my colleagues on the Board for their wise counsel and strategic insights.

I wish to extend my deep gratitude to our valued customers, shareholders and all other stakeholders for their enduring trust and faith placed in us. I would also like to thank the regulator for their support and guidance through the year.

We enter 2021 with strength and momentum to serve our customers.

My best wishes to every one of you.

**W M R S Dias**  
Chairman

22 February 2021

# REFLECTING ON 2020 AND LOOKING AHEAD

## MESSAGE FROM DIRECTOR/ CHIEF EXECUTIVE OFFICER

“The efforts and resources that we had put into enhancing our digital banking channels, strengthening IT infrastructure, simplifying systems and processes and upskilling the employees paid off as these systems and processes were well integrated, enabling us to swiftly move to an efficient new normal.”



During Seylan Bank's dynamic journey of over three decades it has navigated a variety of economic headwinds. However operating amidst a global pandemic was an unprecedented challenge. Despite the turbulent socio-economic climate, Seylan Bank remained on a strong footing by the end of 2020.

The financial year 2020 posed severe challenges to the nation as the Sri Lankan economy was adversely affected by the measures imposed to limit the spread of the COVID-19 pandemic during the first wave, triggering a steep contraction in GDP during the first two quarters of the year under review. A notable recovery in economic activity in the third quarter of 2020 was yet again stymied by the second wave where the number of COVID-19 infected patients rapidly increased.

### SEYLAN BANK'S ROBUST RESPONSE

The uncertainty created by the pandemic tested the resilience and preparedness of the Bank to face the unparalleled challenges that arose through the year and I am pleased to state that Seylan Bank passed this test with finesse. The Bank continued to support the economy throughout 2020,

despite the instability in the external environment. It was a steep learning curve not just for the Bank but for the entire banking industry. However, our motivated and dedicated team stood up to the challenge while ensuring the betterment of our community as well as the organisation. The efforts and resources that we had put into enhancing our digital banking channels, strengthening IT infrastructure, simplifying systems and processes and upskilling the employees paid off as these factors were well integrated enabling us to swiftly move to an efficient new normal.

One of our priorities was to establish health and safety protocols to ensure the safety and wellbeing of our staff members and customers while delivering our usual service excellence. Operating amidst a lockdown and mobility restrictions, the Bank's critical operations such as payment processing and trade operations continued uninterrupted while upholding our signature customer care standards. Going beyond that, the core support functions of the Bank were re-engineered to facilitate employees to work from home, thereby delivering the right assurance sought by our customers amidst an uncertain environment.

Despite adverse market conditions, Seylan Bank succeeded in delivering a reasonable profit after tax of LKR 3.0 Bn for FY 2020, which deteriorated from LKR 3.7 Bn (18.2%) compared to the FY 2019. Deposits increased by 9.9% and Advances increased by 3.8% whereas the CASA Ratio stood at 33.0%. An increase in Non-Performing Loans (NPLs) was witnessed in-line with the industry.

Even though an unabating pandemic continues to cast a long shadow on economic stability in year 2021, Seylan Bank has the right skills, expertise and experience to overcome any hurdles that we have to face. The combined knowledge, commitment and confidence of our Seylan team, direction of the Board of Directors, the support of the shareholders and the loyalty of our customers have been our great strengths as we prepare to surmount future challenges.

### STRATEGIC DIRECTION

The Bank will continue to focus on providing customer-centric banking solutions by enhancing digital channels, introducing innovative products and being a growth partner for our customers. Flexibility is a key pivot in the Bank's new strategy to face highly

volatile market conditions. Our four-pillar strategy, consisting of Employees, Customers, Financial Stability and Operation Excellence will boost our growth prospects sufficiently for the period ahead.

Our internal campaign 'Heroes of the Heart' was able to stimulate the branch network to attract new low cost deposits, enhance usage of digital channel and manage costs better. Growth in CASA by 28% compared to 2019 has been a milestone while improving the CASA ratio to 33% as of December 2020. It is also worth mentioning the positive impact that we created on the brand by delivering quality customer service and customer convenience, especially during the lockdown period. Seylan Bank being anointed the No. 1 Bank in Customer Service for 2020 by LMD affirms that it leads the sector in Customer Service and has retained the top spot in consecutive years. It was heartening to see customers satisfied and well served during 2020 despite a number of operational constraints caused by the pandemic.

Simultaneously, we recognised our responsibility of sustaining and nurturing businesses of our customers, who have been affected by the pandemic. Seylan Bank has fully complied with the regulatory directions on supporting businesses during the pandemic. As a result, we have disbursed more than LKR 10 Bn as Saubagya COVID-19 renaissance loans at the stipulated rate and adhered to moratoria while absorbing the impact to the bottom line of the Bank supporting its customers, who were thus nurtured and motivated to sustain their business operations.

## FOCUS ON SUSTAINABILITY

Despite the challenges and multiple constraints that abounded in the year under consideration, we have continued our corporate social responsibility with gratification. Our signature project, 'Seylan Pahasara' continued and successfully expanded number of libraries by nine, which increased the number of libraries donated to 209.



**Our internal campaign 'Heroes of the Heart' was able to stimulate the branch network to attract new low cost deposits, enhance usage of digital channel and manage costs better. Growth in CASA by 28% compared to 2019 has been a milestone while improving the CASA ratio to 33% as of December 2020.**

Though the closure of schools throughout the year hampered further expansion of our library network, we remain committed to accelerating our efforts once normalcy is restored.

The Bank extended its social responsibility to the entire community that got impacted through numerous measures. As the 'Bank with a Heart', Seylan Bank recognised the need of the hour and distributed more than 8,500 face shields for Police personnel and Public Health Inspectors across the country. Expanding the Bank's positive impact further, Seylan Bank took on the construction of the Intensive Care Unit at the Colombo East Base Hospital. Last but not least, we also extended our contribution to the COVID-19 Health Care and Social Security Fund. It is also important to note that our employees were selflessly involved in all these projects by contributing a day's salary which renders these projects more meaningful and satisfying.

## DRIVING IT-BACKED SOLUTIONS

The digital awareness of the Bank was amply evident as the operational excellence was rightly reflected in our frontline services. Readiness and agility of back-end systems managed by our digitally-savvy and top-notch IT team made the process seamless. Well-established Disaster Recovery plans and Business and Operational level strategies integrated together enabled the Bank to continue business as usual at all times.

Our desire to digitise and automate processes has played a significant role in managing hardships in the crisis. Business Process Reengineering has enhanced the efficiency and effectiveness of the internal processes that helped cost containment initiatives and allowed frontline staff to better serve our customers. Our IT systems and infrastructure are robust, yet we are committed to keep improving capacity and cyber security of the Bank. As we enhance our digital footprint, our newly expanded digital banking platforms, including our newly improved corporate website and mobile app, will drive greater digital adoption amongst customers, thereby offering alternate channels to connect with us in ways that suit their convenience.

## LOOKING AHEAD

As we look to the future, the Bank has to remain agile to cope with the evolving new normal. All our strategies at the corporate level have been updated with a positive outlook for 2021-2023 and aligned with national strategies for rebuilding the economy. The national initiatives to support the recovery of critical sectors such as Tourism, International Trade, Construction and Real Estate, etc. as well as building the Export sector and in general reviving the fortunes of our populace have been fully embraced by the Bank.

As a Bank we will always be there to support and nurture our community and businesses as

## MESSAGE FROM DIRECTOR/CHIEF EXECUTIVE OFFICER



As a Bank we will always be there to support and nurture our community and businesses as we have been doing throughout the past 33 years and to deliver the support that our economy needs to turn around the current situation and capitalise on opportunities in both local and global markets. Therefore, the year ahead will be one of further consolidation and of connecting vistas of possibility, while guiding our customers towards their true potential for growth and expansion.

we have been doing throughout the past 33 years and to deliver the support that our economy needs to turn around the current situation and capitalise on opportunities in both local and global markets. Therefore, the year ahead will be one of further consolidation and of connecting vistas of possibility while guiding our customers towards their true potential for growth and expansion.

### ACKNOWLEDGEMENTS

The team spirit embedded in Seylan Bank truly came to the fore during this financial year in which we successfully defended our business and supported our stakeholders amidst a global pandemic. I would like to commend our Seylan team for demonstrating enormous courage and commitment through this crisis. With banks designated as an essential service, employees willingly reported to work despite the difficulties in travelling and the danger of exposure to the virus. The team spirit and commitment they have shown has been exemplary and I express my gratitude to the corporate and executive management

and the members of staff for their exceptional dedication and willingness to serve the Bank and its customers despite difficult conditions.

I also take this opportunity to express my appreciation to the Chairman and the Board of Directors, for their wise counsel and guidance.

I wish to thank the shareholders and customers for the confidence placed in us and the continuous support provided by all internal and external stakeholders, which has been a source of invaluable strength to us. I urge you all to look ahead collectively with optimism and to join us in rebuilding our economy and improving the livelihood of all Sri Lankans while staying healthy and safe in the year ahead!

**Kapila Ariyaratne**

Director/Chief Executive Officer

22 February 2021

# TACKLING THE COVID-19 CHALLENGES AND OUR RESPONSE

## IMPACT OF COVID-19 PANDEMIC

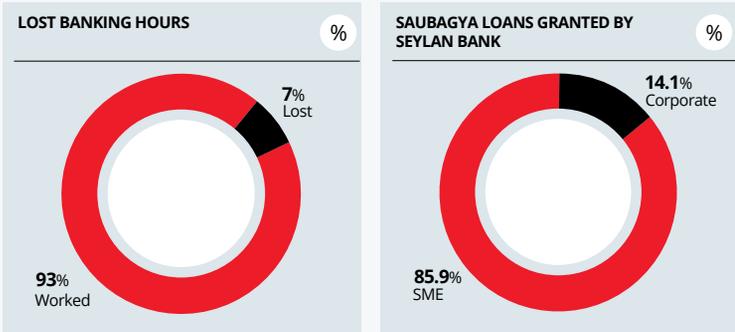
- Requirement of sound cashflow management and related liquidity management
- Operational and workflow development required to provide a multitude of concessions including working capital facilities at concessionary rates and debt Moratoria within a quick turnaround time
- Volatility in interest rates, foreign exchange rates and limited international trading activities generate additional stress to the Bank
- Increased financial cost, impact on credit lines



## UNINTERRUPTED SERVICE DURING LOCK DOWN



## OUR RESPONSE IN REVIVING THE ECONOMY



### HEALTH AND SAFETY OF STAKEHOLDERS FIRST

The Following Measures Were Implemented:

- Daily temperature monitoring
- Increased and convenient access to digital and mobile banking facilities
- Use of hand sanitisers regularly
- Social distancing requirements
- Compulsory use of facemasks
- Work from home facility for employees
- Donation of face shields to frontline workers
- Roster and limited staffing at the head office and branches

### ADVANTAGEOUS DIGITAL AND TECHNOLOGY STRATEGY



The Bank's continuous focus on technology advancement and digitalisation strategy enabled us to overcome the many challenges posed by COVID-19.

- Internet and Mobile banking facilities
- 24x7x365 online customer chat service
- Merchant portal
- Online payment gateways
- E-Learning platforms
- Electronic statement facilities
- Up-to-date Business Continuity Plan

### FAST ADAPTATION OF NEW PROCESSES AND SYSTEMS

- Immediate adoption of online meeting platforms
- Deployment of Mobile ATMs within one week of the lockdown
- Launched SMS Balance Check
- Converting the traditional AGM to an online version
- Implementation of a digital Cheque Book Ordering System
- Automation of Pension Payments
- Onboarding of customers via digital channels
- Implemented a remote approval process for loans



### CARING FOR THE WIDER COMMUNITY

- Invested LKR 10 Mn to build a fully equipped ICU ward at the East Base Hospital, Colombo
- Donated more than 6,500 face shields to Police officers
- Donated 2,000 face shields to Public Health Inspectors' Union
- Donated LKR 2.5 Mn to the COVID-19 President's Fund
- Conducted two educational webinars on liquidity management, supply chain management and use of new technology to support business revival efforts of community members in these trying times



**NO. 1 IN  
CUSTOMER  
SERVICE**

by LMD for the second  
consecutive year in 2020

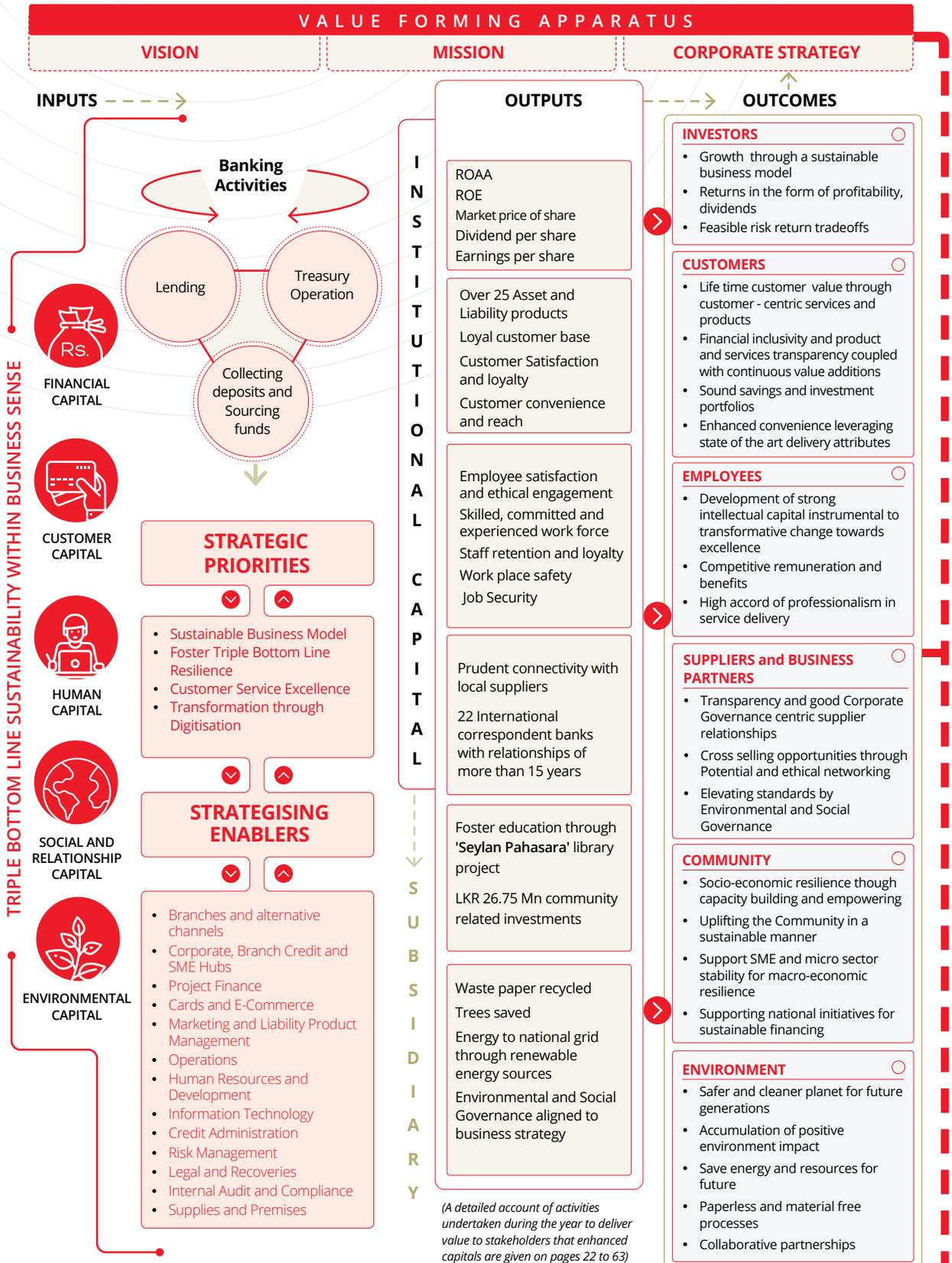
# CONNECTING TO CREATE

## OUR VALUE CREATION STORY

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# POSITIONED FOR VALUE CREATION

## VALUE CREATION MODEL



POLITICAL, ECONOMIC, SOCIAL, TECHNOLOGICAL, ENVIRONMENTAL AND LEGAL BACKGROUND WHICH PROVIDE THE CONTEXT FOR PERFORMANCE

BEACON OF GOVERNANCE AND TRANSPARENCY

We realise our value creation in a transparent and robust Environmental, Social and Governance framework. Our business engagements are totally complied with prudential and statutory requirements.

Our value creation process is powered by our team of 3,251 employees who serve across our network of 172 Banking Centres and units at corporate office. We are reliant on the relationships nurtured with business partners, our distinct organisational tacit knowledge, brand strength and our resources to drive value creation in an economically, socially and environmentally realised sustainable business.

In the backdrop of a dynamic operating environment, our value creation and value redeployment business model strives to strike the right balance between profitability

and sustaining business growth whilst meeting the needs of our stakeholders.

Our robust value creation model stood abreast to navigate its way forward in 2020 through unseen challenges which impacted the business directly and indirectly. Flourishing to connect with every possibility while exploring emerging trends and opportunities, our collective efforts were focused on transitioning to a 'new normalcy' endorsed by every stakeholder. Our long-term performance is evident in its three dimensional business sense; social justice and environmental stewardship that are embedded in sustainable economics resilience.

The Bank's preparedness and tolerance for adaptability to internal and external environmental dynamics are intensified with learning leveraged to transform threats and weaknesses

into new opportunities and strengths as a feasible possibility to connect with business sense responsibly.

## SUSTAINED FUTURE VALUE CREATION

While our business strategy gives clear directions for achieving sustainable future performance, it is our management response with an attentive focus on past learning and stakeholder feedback that enable us to walk the talk.

Our untiring commitment and state of the art approach to banking along with our unwavering service standards, progressive thinking and action to overcome challenges are combined with broader business sense making the right call to fulfill stakeholder expectations and thereby enabling them to be participatory and active agents of change towards achieving collective sustainable business performance.

### The Bank's Sustainable Forecast for 2021 and Beyond

Depiction	Sustainable Forecast/Care and Action Taken
<b>Legal and Contractual Bindings</b> Adherence to Basel III requirements and long-term resilience	Total compliance with statutory and regulatory measures together with voluntary controls Adequately capitalised to absorb unprecedented impacts Sufficient liquid assets Leverage ratio, Liquidity Coverage ratio and Net Stable Funding ratio maintained above the threshold level Voluntary and self-regulatory measures to remain stable Stress testing and contingency planning
<b>Core Banking</b> The revival of businesses financed by the Bank and availing additional benefits to low interest-earning depositors	Customised attention to grant moratoria with prudent advocacy provided in line with new normalcy 'Seylan Sure' and other value additions Prudent continuous dialogue for restructuring loans and advances, as means of win-win recovery drive Identify emerging markets and cater with suitable products and services Capitalise on mobilising Current Accounts and Saving Accounts (CASA) deposits with further value additions Prudently availing finance concentrated to SME businesses empowering them to be future potential corporate persons
<b>Robustness and preparedness for Business Continuity</b> Accessibility to the Bank and provision of uninterrupted service during future pandemic-related restrictions and lockdowns with better delivery standards	Extended kiosks comprise ATMs, CDMs and CQDM backed by other state of the art IT and digital banking platforms to be developed Staff training and development to equip required technical know-how without compromising internal controls and legitimate obligations Further assurance on cybersecurity Development and improvements in disaster management systems and networking Connect every possibility via digital media with improved financial literacy levels through adequate capacity building programmes

We are committed to operationalise and implement the following policies and procedures to the actual business environment in order to be compliant and be responsible in the role we play in the economy as a responsible financial intermediary.

#### Statutory and Self-Regulatory Directions and Governing Policies and Procedures

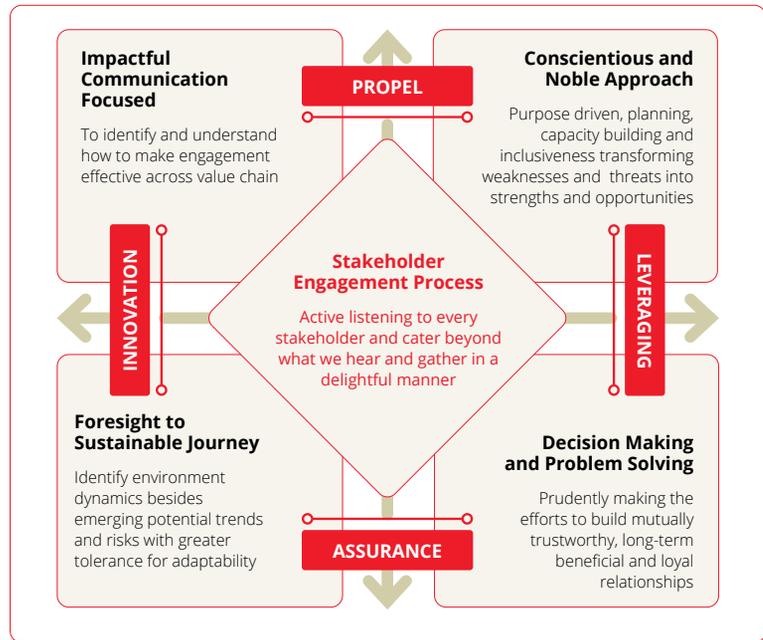
- Staff Code of Conduct
- Information Security Policy
- Credit Policy
- Recovery Policy
- Treasury Investment Policy
- Asset and Liability Policy
- Sustainability policy
- Integrated Risk Management Policy
- Whistle-Blowing Policy
- Related Party Transactions Policy
- Know Your Customer Policy
- Anti-Money Laundering Policy
- Customer Charter
- Ethical Advertisements
- Display of interest rates, exchange rates and service charges
- Ensure adequate and correct disclosures/press statements.
- Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (ICASL)
- Accounting Standards - SLFRS/LKAS
- Approval of CBSL for the authority to accept deposits

# STAKEHOLDER ENGAGEMENT

## EFFECTIVE STAKEHOLDER COMMUNICATIONS

Stakeholder engagement is a reflective mirror about how we effectively communicate with our stakeholders in order to understand their needs, wants and concerns and to reciprocate as a value derived and value redistributed mutual business case. Thus, the Bank takes an inclusive approach to stakeholder engagement whereby mutual understanding and corporate fidelity are held centric to business resilience by way of connecting every possibility.

Being prudently connected to statutory and other legitimate directions with stringent sense of good corporate governance compliance and transparency, we are robust in adapting to unprecedented dynamics and fulfilling expectations of no stakeholder left behind.



Year 2020 was a testimony of our steadfast stakeholder relationship connecting every possibility helping our stakeholders to succeed during the year under review in every possible manner.

The table below gives an overview of the Bank’s management approach to stakeholder engagement.

Stakeholder	Aspirations	Our Approach	Engagement	
			Mechanism	Frequency
 <b>INVESTORS</b> Refer page 22 for more details	<ul style="list-style-type: none"> <li>The Bank’s adaptability to unprecedented environment dynamics</li> <li>Resilience and sustainable growth</li> <li>Visionary drive, together with effective management of risks</li> <li>Robust of capitals to explore and realise the developments and opportunities emerging</li> <li>Transitioning towards a transformative environmental and social governance driven banking model</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable business model driven by growth and long term returns</li> <li>Disaster management systems to ensure business continuity</li> <li>Digitalised platforms and other technology-based developments for convenience and safe and sound connectivity with all stakeholders</li> <li>Adequately capitalised with buffers and surcharge as per Basel III guidelines</li> <li>Strategic Plan factoring emerging trends opportunities, risks and stable returns</li> <li>Environmental and Social Management System (ESMS) operationalised as a win-win business case</li> </ul>	Annual Reports and Annual General Meetings	<b>A</b>
			Interim Financial Statements	<b>Q</b>
			Extra Ordinary General Meetings	<b>WR</b>
			Investor forums, CSE notices, Press articles, surveys and other	<b>WR</b>
			One-to-one meetings	<b>WR</b>
			Corporate website and feedback	<b>R</b>

Stakeholder	Aspirations	Our Approach	Engagement	
			Mechanism	Frequency
 <p><b>CUSTOMERS</b> Refer page 28 for more details</p>	<ul style="list-style-type: none"> <li>Intensified customer security and privacy</li> <li>Inclusive banking accessible to everyone</li> <li>High level of product and service innovations to suit emerging way of life</li> <li>Enable balanced and well-informed financial decision making</li> <li>Transparency and attentiveness in problem solving and amicable and mutually beneficial relationship building</li> </ul>	<ul style="list-style-type: none"> <li>Systems and process upgrading comprising well-managed human resources, cybersecurity strengthened with quality assurance and audit trails together with compliance to customer charter, code of conduct and other policies and procedures in line with customer due diligence</li> <li>Tailor made products and services with simple, affordable and suitable terms and conditions</li> <li>Digitalised banking channels with adequate capacity building to close any gaps and minimise information asymmetry to foster prudent decision making</li> </ul>	Customised service attributes and benchmarks to conclude appropriate business deals	R
			Emails, corporate website	R
			Other direct/indirect communication	R
			Telephone dialogues	
			Customer surveys and other interactions	A
			Customer gatherings	R
			Feedbacks	R
			Service quality department with branch network	WR
			Head office departments and digital space interconnected	WR
			Media advertisements and other forms of communiqués that reach a wider audience	WR
 <p><b>EMPLOYEES</b> Refer page 37 for more details</p>	<ul style="list-style-type: none"> <li>Professionalism, knowledge, skills and positive attitudes to sit well with service quality standards,</li> <li>Problem solving and amicable resolution with greater space for adaptation before environment dynamics</li> <li>Continuous career advancement performance measures</li> <li>Diversity and inclusion</li> <li>Promote freedom of association and collective bargaining power</li> <li>Grievance handling and finding root causes for radical remedial action</li> </ul>	<ul style="list-style-type: none"> <li>Continuous training and development</li> <li>Mid-year and annual performance evaluations backed by general and compliance audit trails for suitable remedial action</li> <li>No discrimination spurred during recruitments and also done from locality based on qualifications, experience and other merits of the applicant</li> <li>Welcome employee ideas and evaluations are executed by a steering committee comprising senior management while rewarding good ideas based on significance to business and development</li> <li>Mentor nominated to hear and amicably resolve staff grievances backed by policies and procedures and evaluations for necessary management response</li> </ul>	Internal and external training programmes and customised E-learning opportunities	R
			Performance and appraisal	A BA
			Review discussions	
			Treatment of all employees impartially and equally	R
			Trade union discussions	WR
			Communication of values through leading by example	WR
			Communication with employees including satisfaction surveys, general and special a staff circulars newsletters and the intranet	R

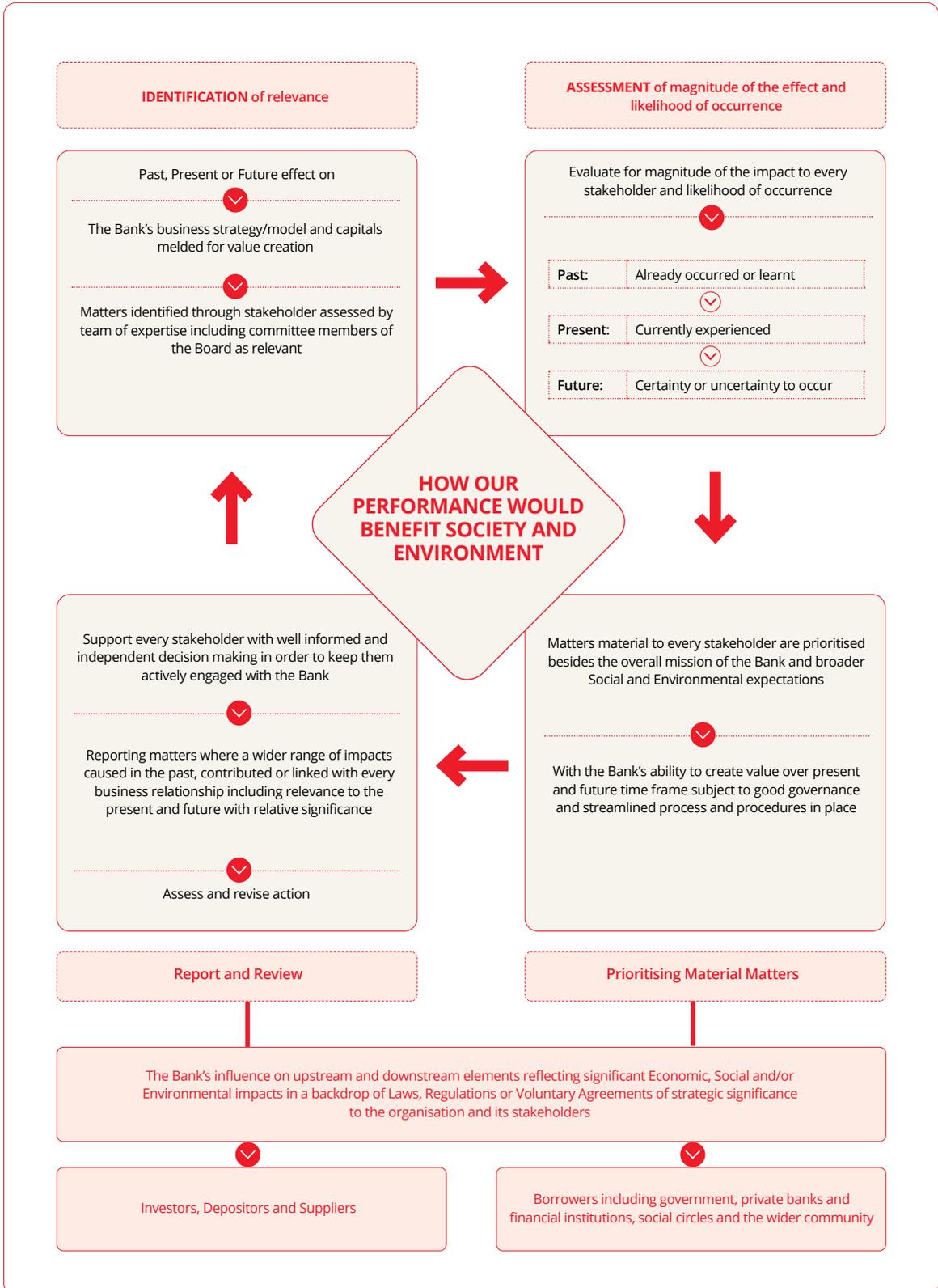
## Key

Annually **A**Biannually **BA**Quarterly **Q**As and when required **WR**Regularly **R**

Stakeholder	Aspirations	Our Approach	Engagement	
			Mechanism	Frequency
 <p><b>SUPPLIERS AND BUSINESS PARTNERS</b> Refer page 46 for more details</p>	<ul style="list-style-type: none"> <li>Upstream risks and assurance insisted on quality of products and services obtained with minimal time lags</li> <li>Long-term connectivity aligned to corporate vision and mission</li> </ul>	<ul style="list-style-type: none"> <li>Environmental and social risks assessment and other screening of certification and adherence to industry best standards and practices</li> <li>Insist on service quality guarantees and after sales service propositions and other value plans in case of contingency</li> </ul>	On site visits and meetings, advertisements and press releases	R
			Procurement Policy	R
	<ul style="list-style-type: none"> <li>Future business potential networking and growth momentum</li> <li>Promote local entrepreneurship</li> <li>Uninterrupted provision of services during unprecedented circumstances now and future</li> </ul>	<ul style="list-style-type: none"> <li>Promptness in honouring payments together with feasible agreements and MOUs signed for mutually beneficial collaborations and partnerships</li> <li>Continuous and close monitoring and review for prudent corrective action and engagement as decided</li> <li>Connect possibilities for a higher ratio of local procurement and partnerships</li> <li>Assessments on availability, delivery, contingency planning and buffer stock maintenance and agreeable flexible and alternative arrangements</li> <li>Preference given for ones who satisfy with the ability and tolerance for adaptation to environment dynamics</li> </ul>	Tender invitations	WR
			Registration of suitable suppliers and delivery of quality products and services	A
			Bank product development and approval process	WR
 <p><b>COMMUNITY</b> Refer page 53 for more details</p>	<ul style="list-style-type: none"> <li>Sustainability initiatives aligned to achieving Sustainable Development Goals (SDGs)</li> <li>Managing diversity in a changing banking and finance needs environment</li> <li>Capacity building and elevating financial literacy across a wider segment of the community</li> <li>Become a leading force in fast-tracking financial inclusivity</li> </ul>	<ul style="list-style-type: none"> <li>'Education' and 'Health' centric sustainable initiatives geared to address the needs</li> <li>Continuous community engagement and education to foster financial literacy through 'Seylan Pahasara' library project and various other engagements</li> <li>Focus on underprivileged communities to promote various financial products and services accessible to them and build sustainable relationships to empower them</li> </ul>	One-on-one discussions	WR
			Internet Banking, E-wallet and various other virtual service delivery interfaces	R
			Environmental and Social Management System across the Bank	R
			Promoting SLBA SBI principles	R
			Targeted investments in projects and community sponsorships	WR
 <p><b>ENVIRONMENT</b> Refer page 49 for more details</p>	<ul style="list-style-type: none"> <li>Accomplishing environmental resilience in prudent business sense</li> <li>Exploring areas where positive impact can be enhanced</li> <li>Capacity building and effective collaboration to nurture environmental aspects and instilling a value culture across industry value chains</li> </ul>	<ul style="list-style-type: none"> <li>Environmental and Social Management System (ESMS) to assess and mitigate environmental impact arising from financing activities</li> <li>Connecting every possibility to fund green projects and renewable energy projects</li> <li>Membership with Sri Lanka Banks Association Sustainable Banking Initiative (SLBA SBI) in an collective effort to create a level playing field</li> <li>Our membership with Global Sustainable Finance Network and Biodiversity Sri Lanka to raise collaborative hands for effective action</li> </ul>	Screening every finance proposition	R
			Keeping doors wider open to initiate and continue the dialogue	R
			Adherence to 11 principles	R
			Active participation in various forms of engagement	WR

**MATERIALITY ASSESSMENT AND MANAGEMENT APPROACH**

Our management response to materiality analysis is held central to accurately identifying and determining the impact of business transactions and operations on every stakeholder including the environment. While the key input for the materiality analysis is derived from reviewing relative risks and returns to respective stakeholder, certain other important key aspects are also obtained from foreseeable developments and changes emerging in the external environment as well as internal operating environment.



Materiality Assessment and Management Approach of the Bank evaluates the impact in terms of significance and propensity to stakeholders as well as the priority relative to each capital in the broader context of the triple bottom line comprising Economic, Environmental and Social perspectives together with the

Legal and Socio-Political Economic Environment.

This process enables a holistic and transparent approach to identifying the most material aspects for the Bank's short, medium and long-term strategies and thereby enabling better informed financial decision-making.

This process ensures that the Bank remains perfectly connected to the vision and mission to capture every possibility in a sustainable manner.

The expected connectedness of materiality analysis is discussed in detail throughout this report having aligned to what the Bank has got to offer during the year.

The table below depicts the Bank's internal and external materiality of the topics for 2020

Materiality		Topic	Specific GRI Disclosure(s)	Topic Boundary		Reported (Yes)/Not Reported (No)	Connected Triple bottom line
Overall Bank	Stakeholder connected			External	Internal		
HIGH	HIGH	Economic performance	201-1,3,4	⊗		Yes	EC
		Market presence	202-1,2	⊗			
		Anti-corruption	205-1,2	⊗			
		Employment	401-1,2,3		⊗		SO
		Labour/management relations	402-1		⊗		
		Training and education	404-1,2		⊗		
		Diversity and equal opportunity	405-1,2		⊗		
		Non-discrimination	406-1		⊗		
		Freedom of association and collective bargaining	407-1		⊗		
		Child labour	408-1		⊗		
		Marketing and labeling	417-3	⊗			EC
		Customer privacy	418-1	⊗			
		Socio-economic compliance	419-1	⊗			
		MEDIUM	HIGH	Indirect economic impact	203-1,2		⊗
Local communities	413-1			⊗			
MEDIUM	MEDIUM	Procurement practices	204-1	⊗		EC	
		Anti-competitive behaviour	206-1	⊗			
		Energy	302-1,4	⊗		EN	
		Water	303-1	⊗			
		Environmental compliance	307-1	⊗		SO	
		Occupational health and safety	403-1		⊗		
		Forced or compulsory labour	409-1		⊗		
		Security practices	410-1		⊗		
Customer health and safety	416-1,2	⊗		EN			
LOW	MEDIUM	Effluent and waste	306-2		⊗		
		LOW	LOW	Materials	301	⊗	
Biodiversity	304			⊗			
Emissions	305			⊗			
Supplier environment assessment	308			⊗			
Rights of indigenous people	411			⊗		SO	
Human rights assessments	412				⊗		
Supplier social assessment	414			⊗			
Public policy	415			⊗			

\*Not assessed for the reporting purpose due to remote and insignificant impact to both the Bank and stakeholders

# LEVERAGING EMERGING OPPORTUNITIES

## Economic Overview

### OUR EXTERNAL ENVIRONMENT

#### Local Context

Sri Lanka was on the path to recovery following the Easter Sunday attacks in April 2019, when the COVID-19 pandemic outstrip the country. The pandemic and the consequent lockdown of the country dampened economic growth prospects by creating an unprecedented socio-economic impact on the local economy. The loss of income from the tourism industry, decline in Foreign Direct Investments (FDIs), stagnate merchandise sector and other export-oriented industries have severely dented economic performance of the country.

The country's Balance of Trade continued to improve narrowing its deficit, which declined end of 2020. A 28% YoY improvement of the trade deficit is driven by the controlled import stance followed by the Government of Sri Lanka. However, exports were significantly affected due to the lost demand for industrial exports.

The country experienced a sharp decline in tourism income in the period under review against the corresponding year. This has created multiple consequences across many stakeholder groups. People who have sustained their livelihoods predominantly from the tourism industry by providing ancillary services such as transport, coffee shops, resorts and spas, etc., were significantly affected due to the unprecedented economic impact caused by the pandemic.

Unemployment levels further deteriorated from 4.8% to 5.4% during 2020. The unemployment rate portrays an adverse impact of the pandemic. Slight recovery of the leisure sector cushioned by local travellers supported the recovery in unemployment rates during Q3 2020. However, revenue constraints have led corporates to

terminate employment contracts, hold off on salary increments and other benefits which have further deteriorated the growth in labour force during later part of the year.



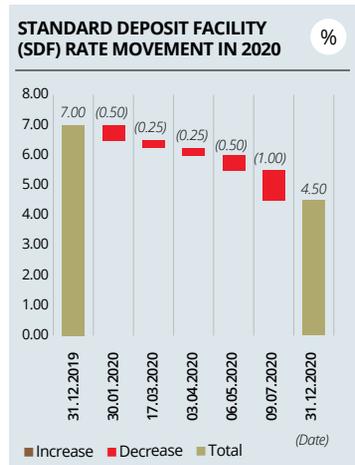
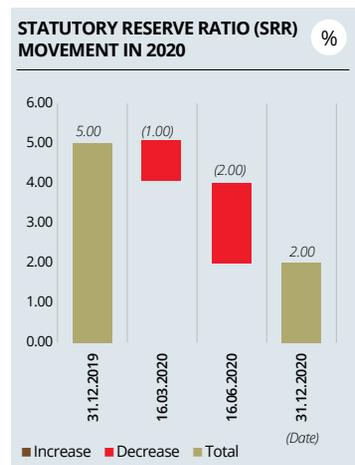
Source: Department of Census and Statistics

In response to the economic uncertainty caused by the pandemic, the Central Bank of Sri Lanka (CBSL) has reduced policy rates. This is in line with actions taken by the global banking industry, who which has introduced fiscal management and monetary policy measures to improve money circulation in the local economy. Such monetary easing measures are expected to stimulate and enhance the economic activities, which are adversely affected by the pandemic. Such initiatives have significantly assisted Micro and Small Medium Enterprises (MSMEs) to stabilise their businesses. The generosity of the corporates and general public has assisted in recover and rebuild the livelihoods of people who have been affected.

As a result of the lower interest rate regime, financial institutions that have been playing a supportive role for many local industries acted promptly and diligently to revive the economy with the right spirit.

Reduction  
in SRR to

2%



Source: CBSL\_Review of the Monetary Policy Stance

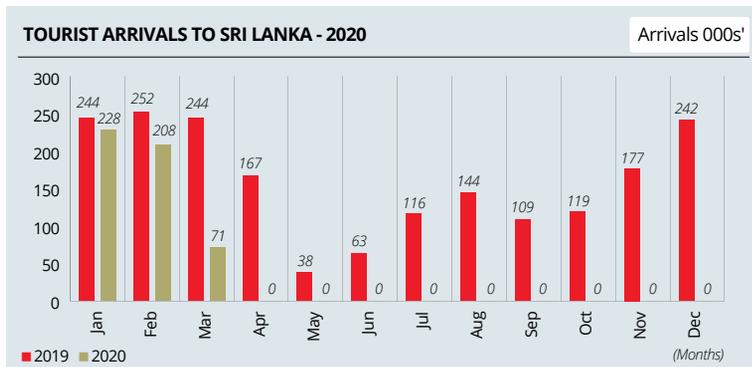
### Connecting Possibilities Towards Growth

Connecting the possibilities in the economy, which is diversified among various industries is one of the prime objective of the Bank.

Rebounding of the economy has already commenced in the 3rd quarter of 2020 with 1.5% growth rate. Reduced Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank of Sri Lanka was maintained at 4.5% and 5.5% respectively. This will further assist the macroeconomic context of the country to establish local economic stability. Liquidity injection to the economy, facilitated by the downward adjustments on lending rates, will enhance the potential of the Sri Lankan economy.

Earnings from merchandise exports suffered due to the first and second wave of COVID-19 pandemic, although exports of agricultural products continued to grow. Earnings from merchandise exports in October 2020 were lower than the export income recorded in the corresponding period in 2019. This decline can be attributed to the sudden outbreak of the second wave of the pandemic that disrupt the garment industry. Further, adverse global market conditions for key exports were aggravated by the second wave of the COVID-19 pandemic experienced by many countries, leading to low demand for Sri Lankan exports.

The tourism industry, the third largest export income earner in the economy has performed extraordinarily, with an average growth rate of 22% in the past few years.



Source: Sri Lanka Tourism Development Authority

Restricted imports and improved exports contributed to narrow the trade deficit of the country. However, as of 30 September 2020 total exports declined by 17% compared to 2019, whereas Tea exports declined by 10% and Merchandise fell by 22%, as the main two contributors in exports. In terms of imports, the 19% decline supported a counteract in the balance of payment, to narrow the trade deficit. Global crude oil prices hitting a drastic plunge in 2020 resulted in a decrease in fuel imports by 35%, one of the major contributors that narrowed the trade gap.

Overall, the Rupee recorded a depreciation of 2.4% against the US dollar during the year up to

2020. Meanwhile, reflecting on cross-currency movements, the Sri Lankan Rupee depreciated against the Euro, the Sterling Pound, the Japanese Yen and the Australian Dollar, while it appreciated against the Indian Rupee in 2020.

Headline inflation measured by the year-on-year (YoY) change in the Colombo Consumer Price Index (CCPI, 2013=100) increased marginally to 4.1% in November 2020.

**Future Outlook**

Our economy experienced economic contraction due to the restricted commercial activities in the first half of 2020. The economy rebounded in the second half prior to the second wave of the pandemic. However, the country is optimistic about the future and the conversions

as a priority, which provides an opportunity to invest their funds to generate a higher ROI. Fixed income earners, who mainly represent the senior citizen segment of the country has also been adversely affected due to the low-interest regime. A sustainable solution should be entrenched to the monetary system to enhance long term income growth by promoting investments in mutual funds, insurance schemes, annuity and pension schemes. The development of the pandemic situation in Q4 2020, will continue to contract the economy in the first half of 2021.

Required attributes to the economy to face the internal and external macro-economic circumstances, current monetary policy to maintain the interest rate and statutory reserve at a lower rate would be continued in 2021, while managing the demand-driven inflation. The low-interest regime will be extended in 2021, which would have a favorable impact on the business community at large. These measures will serve as a boost to the economy and will help in regaining the momentum towards sustainable economic growth.

Entrepreneurs engaged in Fintech, Aggrotech, Healthtech and other IT related services aligned to the country's export strategy will be encouraged by the low-interest regime. Nevertheless, the resumption of cross-border travel and reconnecting to the world would encourage Foreign Direct Investment, which is vital to strengthen the industries not only financially but also strategically and technologically.

As the backbone of the economy, financial institutes will have to play a key role where Banks have already spurred the momentum by connecting the possibilities. The Bank has taken the necessary proactive measurements to support the business community by expanding services to financial advisory to support the entrepreneurial journeys of our valuable clientele.

of such setbacks into opportunities.

Corporates have redefined their perspectives to be more agile and adoptive to conduct business in the 'new normal'. Moving away from traditional frameworks to implement innovative alterations to their systems and enable digital modes to continue their operations seamlessly.

The current low-interest rate regime promotes the need for innovative, safe and attractive financial products to safeguard the savers, who would be impacted from the prevailing low-interest rates scenario. Promoting capital market instruments to stabilise the economy has been identified

## IN THE WAKE OF COVID-19, GOVERNMENTS AND CORPORATES HAVE AN OPPORTUNITY TO BE GREENER AND SUSTAINABLE

### Snapshot of the Global Economy

The World Bank forecasted that global GDP would shrink by 5.2% in 2020, with the recession associated with the pandemic affecting both emerging and advanced economies. The consequences, which are yet to materialise in monetary terms can indicate that the impact of the pandemic is worse than anticipated. The magnitude of the crisis is probably higher than the Great Depression and the Global Financial Crisis (GFC) in 2009. Along with this, the global youth will be highly affected in future consequent to the recession where the International Labour Organisation (ILO) predicts approximately 345 Mn fulltime jobs may be adversely affected worldwide.

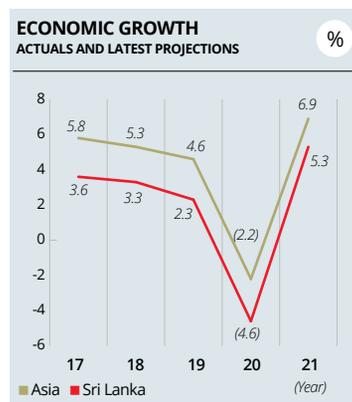


Source: The World Bank Group - Flagship Report

Learning from the previous crises, a collective rebounding effort has to be followed by countries, by providing stimulus packages to regain a sustainable growth. Countries and governments across the world are collaborating with banks, private enterprises and regulators in order to stabilise the economy, regain the consumer and investor confidence and rebuild right supply and demand measures.

### More Resilient and Productive Economies

The COVID-19 pandemic has exposed the weaknesses in every economy despite the level of advancement. Disruptions to supply chains and consumer demand driven by lockdown conditions had an adverse impact on global economic performance. Fiscal assistance granted in emerging markets and developing economies such as China, Indonesia and South Africa will positively reflect the economic resilience. Such initiatives may underpin the rebounding effort to a greater extent, despite the region or maturity of the economy.



Source: Regional Economic Outlook

Projecting the GDP growth in Asia is promising in 2021. Based on the prediction made by the International Monetary Fund (IMF) Sri Lanka will be in par with the Asian GDP growth directions.

### A Greener World

The pandemic has surfaced the importance of environmental concerns amidst the general public. The enforced pause on industrial output and international cross-border travel minimised air pollution, which is estimated to be the lowest in the past 14 year period.

Thus, green recovery is an important and essential factor as half of the world's total GDP is highly reliant on a stable environment. Therefore, any significant change to the environment or climate may make stable economies vulnerable.

British banks have already introduced greener products to address rapid climate change. Following these initiatives, many financial institutions have tightened lending standards to address global warming and climate change. This has prompted global institutional investors to launch necessary protocols in a more proactive manner to better manage environmental concerns in the immediate future.

**MANY LOCAL BANKS INCLUDING SEYLAN BANK PLC HAVE COME FORWARD TO PROVIDE A MULTITUDE OF CONCESSIONS INCLUDING WORKING CAPITAL FACILITIES AT CONCESSIONARY RATES AND DEBT MORATORIA, ETC.,**



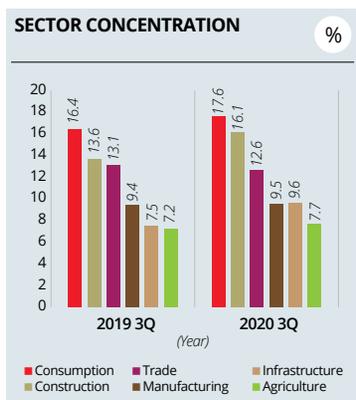
### The Sri Lankan Banking Industry

The banking sector plays a pivotal role in directing the economy towards sustainable growth. Given the present uncertainty associated due to the pandemic, balanced resource allocation mechanism should be implemented by the local banking sector to promote key strategic industries in the country. Furthermore, the right regulatory, governance, risk management and monetary policies should be enforced to drive a dynamic and resilient banking industry in a period of uncertainty.

During 2020, most of the MSMEs were constrained by short-term working capital issues due to the lockdown and cessation of economic activities. It adversely

affected the cash flows of both retail and corporate customers. Many local banks including Seylan Bank PLC have come forward to provide a multitude of concessions including working capital facilities at concessionary rates and debt moratoria, etc.,. Such initiatives contributed to sustain and revive businesses despite the challenging economic conditions.

Going beyond the debt moratoria and working capital loans, the regulator also assisted banks to funnel down relief measures to the customers by withdrawing some of the banking charges such as cheque return charges, late payment charges and stop payment charges, etc.,. Further, regulated interest rate has been applied on specific lending products such as credit cards, pawning, overdraft and housing loan facilities, which were prioritised in line with the Government's strategies of economic revival. Such initiatives were further backed by the reduction of the Statutory Reserve Ratio (SRR), which injected approximately LKR 115 Bn of additional liquidity to the domestic money market, enabling the financial system to expedite credit flows to the economy, while reducing the cost of funds of Licensed Commercial Banks.



Source: Central Bank of Sri Lanka

### Loans and Advances

During 2020, credit growth represents the loans and advances given to State Owned Enterprises (SOEs). Out of the total credit growth a substantial amount was contributed by Larger Banks

and rest driven by the Medium and Small Banks in the industry. Enhancing the liquidity in the domestic market contained by highly concentrated portfolios in Sri Lankan banking sector, whereas 73.1% of the advances were predominantly concentrated among six sectors such as consumption, construction, trade, manufacturing, infrastructure and agriculture in the market. High concentration in the credit portfolio enhanced the Credit Risk in the banking industry. Non Performing Loans (NPL) ratio reached 5.9% by Q3 2020 as a direct result of the pandemic. Certain industries reported a higher NPL ratio than the industry average including Manufacturing (9%), Agriculture (7.3%), Trade (7.3%), Tourism (7.1%) and Construction (6.7%). Collective impact of such main industries has contributed more than 75% of the total industry NPL as of Q3 2020.



### Liquidity and Deposit Growth

The Banking industry demonstrated steady liquidity during 2020 compared to corresponding year due to the easing of monetary policies and low demand for loans and advances. On the other hand, limited economic activities in the market increased the demand for liability products, which further enhanced the liquidity positions of the banks.

### Profitability

Profitability of the industry suffered from the adjustment made to Net Interest Margin (NIM) through changes made to the monetary

policy, Interest rate concessions and increased loan loss provisions. Deterioration of the asset quality and portfolio concentration directly affect on the growth in loan loss provisions in the industry which directly impacted on the industry performance. NIM declined by 0.5% when compared to the corresponding period (3.9%). NII de-growth further supported in the decline profitability of the sector.

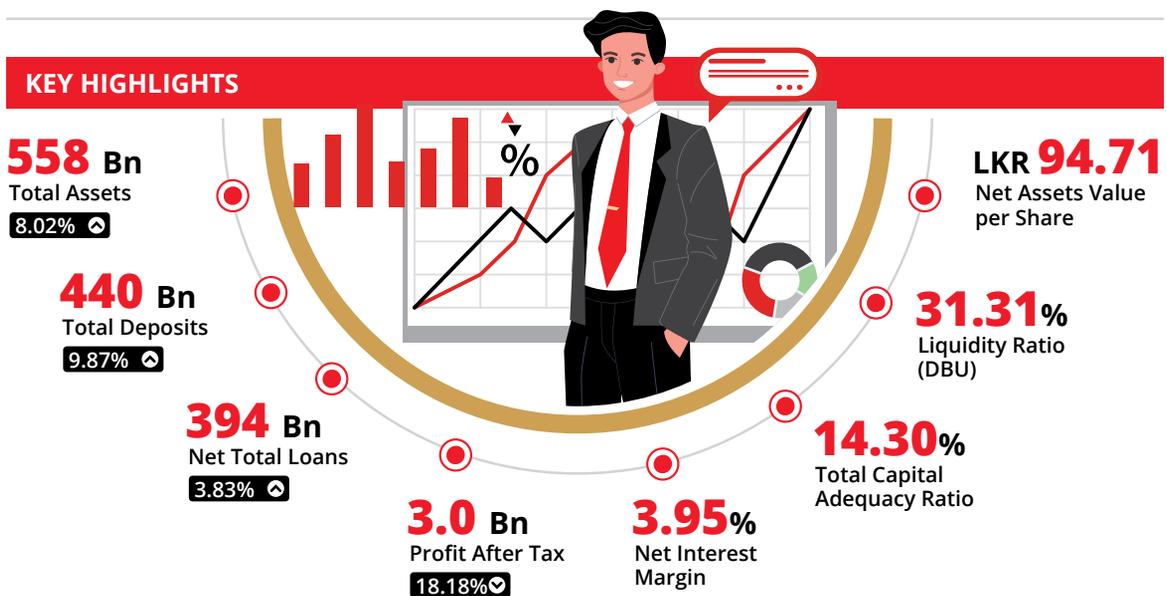


# PURSuing FINANCIAL VIABILITY AND INVESTOR SECURITY

To ensure returns to shareholders and investors

In a multifaceted grid of regulatory compliance, sound assurance practices and broader stakeholder embracing affiliations, the Bank is equipped to pursue business sense with greater clarity and transparency while ensuring the best interests of investors remain at the forefront of the end result.

The Bank continues to remain focused on long-term financial viability through the implementation of effective and futuristic financial strategies in an Environmental and Social Governance (ESG) resilient outfit with better preparedness and tolerance for adaptation before every risk including a pandemic such as COVID-19.



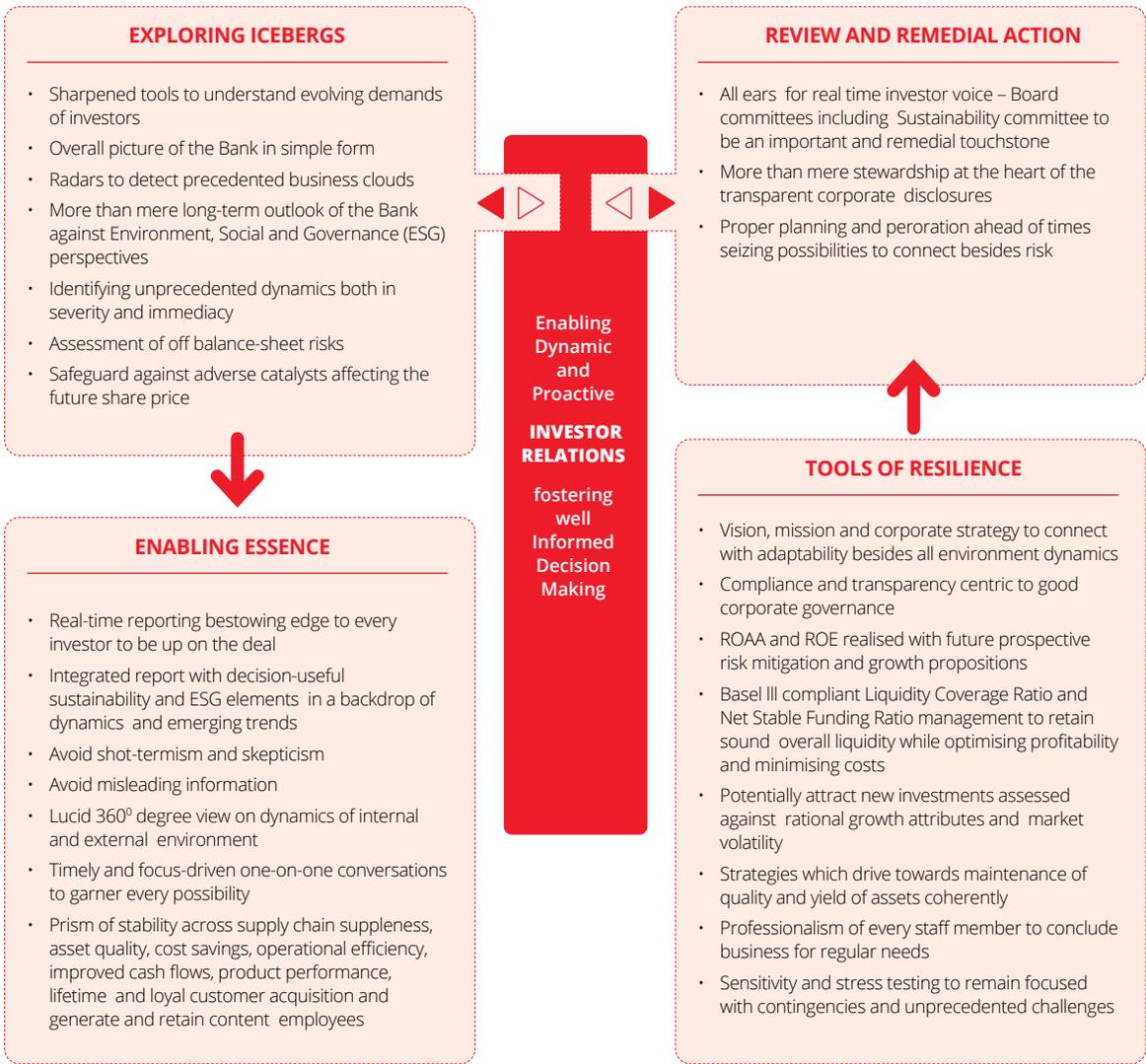
## OUR APPROACH

Creating value for investors remains one of the primary goals of the business. Accordingly, we nurture better investor engagement with the collaboration of every Board Committee comprising the Director/CEO, Chief Financial Officer and Head

of Marketing. This helps us to foster constructive and coherent dialogue to transmit investor concerns into feasible business actions in a sustainable manner. The Bank's integrated reporting approach gives a lucid picture of our business model, disseminating decision-useful information in understandable and transparent

manner keeping risk mitigation, business growth and overall triple bottom line resilience at the heart of it.

A bird's-eye view of the engagement process and management approach supporting the value creation process for investors is depicted below.



## INCOME STATEMENT ANALYSIS

### Net Interest Income and Net Interest Margin

Interest Income of the Bank stood at LKR 52.32 Bn while interest expenses stood at LKR 32.82 Bn, reflecting a Net Interest Income (NII) of LKR 19.50 Bn with an annual growth of 4.64% in the year under review. The main

contributor for NII was the lending that generated interest income of LKR 41.78 Bn during the year. The Bank also earned more than LKR 8.5 Bn net interest from Sri Lanka Government Securities. Interest expenses on deposits stood at LKR 27.87 Bn recording a decline from LKR 30.78 Bn from the previous year. Deposits that were re-priced during the year helped the Bank to reduce its funding cost. Net Interest Margin (NIM) of the Bank

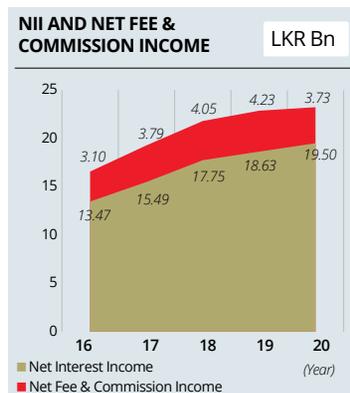
reported 3.95% against 4.20% reported in FY 2019, despite the reduction of interest rates on deposits and mobilisation of low cost deposits.

Further, growth in CASA too supported to manage the NII and the NIM at this levels.

### Fee and Commission Income, Other Income and Total Operating income

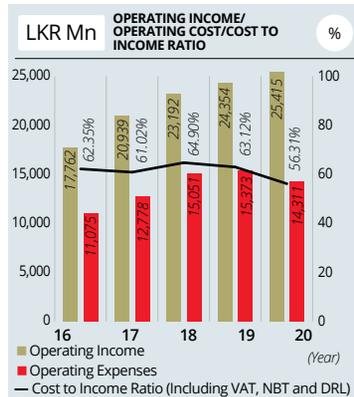
Net Fee and Commission Income reduced to LKR 3.73 Bn from LKR 4.23 Bn, recording a YoY contraction of 11.89%. The reduction was mainly due to limited trade related activities and limited banking operations by businesses, retailers etc.

The Total Operating Income growth of 4.36% predominantly driven by treasury trading activities which converted the loss of LKR 497.60 Mn to a gain of LKR 347.55 Mn in FY 2020.



## PURSUING FINANCIAL VIABILITY AND INVESTOR SECURITY

Further, net gains reported from de-recognition of financial assets increased to LKR 782.57 Mn from LKR 320.47 Mn from FY 2019. Other Operating Income reduced by LKR 608.32 Mn mainly due to foreign exchange related operations which contracted the operating income over the year.



### Impairment Charges

The Bank recorded an impairment charge of LKR 6.99 Bn against LKR 3.88 Bn reported in 2019 with a growth of 80.11%. Impairment charges for Stage III advances increased from LKR 3.99 Bn to LKR 5.68 Bn during the year due to the domino impact of COVID-19 pandemic. Further, businesses that were identified as risk elevated industries too affected the additional increase in impairment. Impairment on Stage I and II also grew from LKR 103.49 Mn to LKR 628.36 Mn and reversal of LKR 246.88 Mn to charge of LKR 359.00 Mn respectively.

Further, businesses that were identified as risk elevated industries too affected the additional increase in impairment due to stress conditions affected on such sectors under the current challenging environment.

Impairment on other financial instruments and assets also went up by LKR 289.78 Mn, mainly due to downgrading of foreign currency bonds. The additional impairment improved the provision cover ratio to 43.68% as of 31 December 2020.

### Operating Expenses and Cost to Income Ratio

Total Operating Expenses of the Bank slightly increased by 1.40% compared to corresponding year of 2019.

Establishment expenses reduced marginally from LKR 6.03 Bn recorded in 2019 to LKR 5.89 Bn in 2020 and mainly driven by selective investments only on prioritised key projects, limited banking operations and cost containment initiatives adopted during the year. The Bank continues to improve processes and workflows, automate repetitive tasks, undertake business process re-engineering and transfer systems processes to digital platforms as ongoing cost saving initiatives together with other prudent defensive measures.

The Bank's Cost to Income ratio excluding tax which stood at 50.30 % as at the end of 2020 has decreased when compared to the previous financial year demonstrating the efforts taken to contain the cost in the current environment where the growth of revenue is restricted and limited. Cost to income ratio with taxes stood at 56.31% against 63.12% in the corresponding previous year and such positive change was mainly attributed to the Nation Building Tax (NBT) and Debt Repayment Levy (DRL) not applicable for 2020 in addition to the other cost containment initiatives explained above.

### Taxation

VAT on Financial Services reduced by 5.73% in align to the Bank's performance despite the increase in personnel cost by 4.82%.

NBT and DRL amounting to LKR 1.15 Bn contributed for a positive change to the Income Statement for 2020.

Income Tax before Deferred Tax stood at LKR 1.32 Bn against LKR 1.51 Bn in 2019. It reduced to LKR 1.10 Bn against LKR 1.42 Bn in 2019 due to subsequent elimination of temporary differences in Deferred Tax.

### Profitability

Overall, the Bank recorded a Profit before Tax (PBT) of LKR 4.11Bn against LKR 5.10Bn in FY 2019 demonstrating a 19.37% decline. Similarly, Profit after Tax (PAT) was recorded as LKR 3.01Bn against LKR 3.68 Bn reported in FY 2019. The net variance was nearly LKR 669 Mn, reflecting a year on year reduction of 18.18%. The Bank's post tax profit YoY reduction would increase further if NBT and DRL applicable for 2019 were excluded. The reduction of profit was mainly due to the additional impairment that accounted for 80.11% growth over the previous year as explained under impairment charges.



### BALANCE SHEET STRENGTH

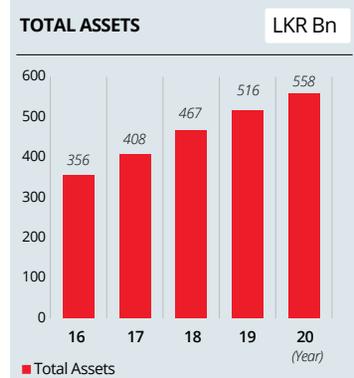
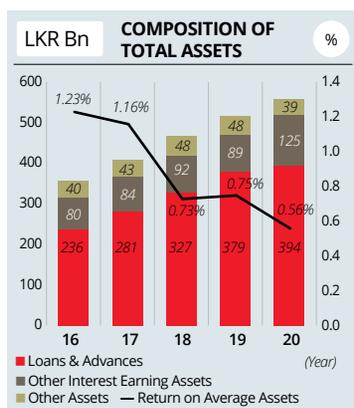


Balance sheet strength is critical to the Bank's ability to serve our customers, drive core business achieves and deliver strong and sustainable returns to our shareholders. The Bank remained well-positioned to support customers and economic growth during this challenging and uncertain period.

### STATEMENT OF FINANCIAL POSITION

#### Growth in Total Assets

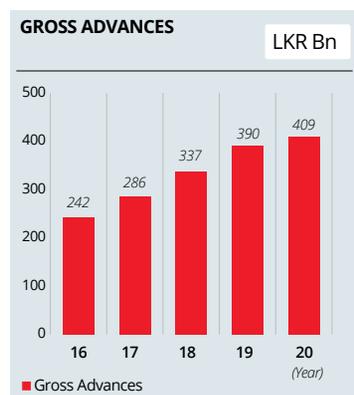
The Bank achieved the LKR 557.71 Bn Total Asset as of 31 December 2020, resulting 8.02% growth compared to the 31 December 2019. The sluggish industry credit growth due to the COVID-19 pandemic slowdown the usual credit growth pattern of the Bank. The additional liquidity was invested in Government Securities.



**Loans and Advances**

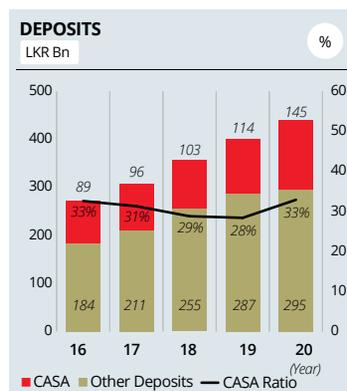
The year proved to be very challenging in terms of granting customer loans. However, the Bank's gross loans grew by LKR 19.31 Bn, recording a 4.95% growth compared to Dec 19 to stand at LKR 409.30 Bn as at Dec 20. Main products contributed for the credit growth are from Term Loans, Pawning and Refinance Loans backed by Saubagya loan scheme.

Preserving asset quality in the prevailing economic climate was a key challenge, where the Bank tightened the loan approval and disbursement processes. Continuous monitoring and strengthened recovery processes placed in order to control the NPL customer base of the Bank. Despite all the effort, Net NPL ratio increased to 6.43% from 5.76% in 2019.



**Deposits and CASA**

Total deposit base of the Bank grew by LKR 39.57 Bn to LKR 440.30 Bn, a 9.87% incline compared to the previous year mainly delivered by the internal campaign 'Heroes of the Heart' launched in 2020. Further, the Bank's CASA base grew to LKR 145.42 Bn, achieving a notable growth of 27.83% and the CASA ratio stood at 33.03% as of Dec 20.



**OTHER KEY RATIOS AND INDICATORS**

**Capital Adequacy Ratio**

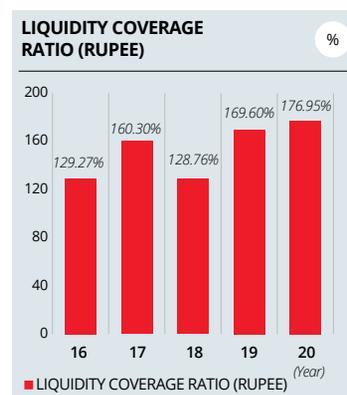
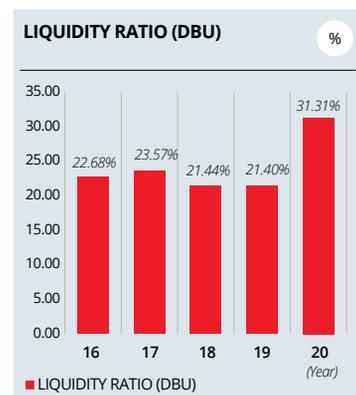
The Bank maintains a sound capital adequacy ratio despite the growth of the risk weighted assets. The Bank's Common Equity Tier 1 (CET 1) Capital Ratio and Total Tier 1 Capital Ratio recorded as 11.46% and Total Capital Ratio recorded 14.30% as at Dec 2020.

	2020	2019
Common Equity Tier 1 Capital ratio (%)	11.46	11.27
(Minimum Requirement 7%)		
Total Tier 1 Capital ratio (%)	11.46	11.27
(Minimum Requirement 8.5%)		
Total Capital ratio (%)	14.30	14.84
(Minimum Requirement 12.50%)		

**Statutory Liquid Asset Ratio (SLAR)**

The Bank maintained its liquidity position above the required minimum ratios, during year under review. The Statutory Liquid Asset Ratio (SLAR) for the Domestic Banking Unit and the Foreign Banking Unit were maintained at 31.31% and 22.47% respectively as of Dec 20.

	2020	2019
<b>Statutory Liquid Assets Ratio (%) (Minimum Requirement -20%)</b>		
Domestic Banking Unit (%)	31.31	21.40
Foreign Banking Unit (%)	22.47	21.81
<b>Liquidity Coverage Ratio - Rupee (%)</b>		
(Minimum Requirement - 2020 - 90%, 2019 - 100%)	176.95	169.60
<b>Liquidity Coverage Ratio - All Currency (%)</b>		
(Minimum Requirement - 2020 - 90%, 2019 - 100%)	142.75	116.01



## PURSUING FINANCIAL VIABILITY AND INVESTOR SECURITY

### Return on Equity (ROE) and Return on Average Assets (ROAA)

The Return on Equity (ROE) stood at 6.43% for the year under review, compared to 9.29% recorded in 2019. The Return on Average Assets (net of tax) recorded as 0.56% in 2020.



### Earnings per Share (EPS) and Net Assets Value per Share

Earnings per Share (EPS) in 2020 stood at LKR 5.82, a reduction compared to the LKR 8.70 recorded in the previous financial year while Net Assets Value per Share recorded at LKR 94.71 (group LKR 98.20).



### Returns to Investors

The Bank's investors are rewarded through myriad methods including rational increases in market share price and annual dividend payments. The Bank continues to serve our investors to the best of our abilities and endeavours to maintain consistency in creating long-term value.

### Distribution of Shareholding with No. of Shares

2020	Type	Voting	49.7%
		Non-Voting	50.4%
Geographic	Resident	96.5%	
	Non-Resident	3.5%	
Demographic	Corporate	78.1%	
	Individual	21.9%	
2019	Type	Voting	49.9%
	Non-Voting	50.1%	
Geographic	Resident	96.2%	
	Non-Resident	3.8%	
Demographic	Corporate	77.9%	
	Individual	22.1%	

Please refer to page 262 for more details on the composition of the shareholdings.

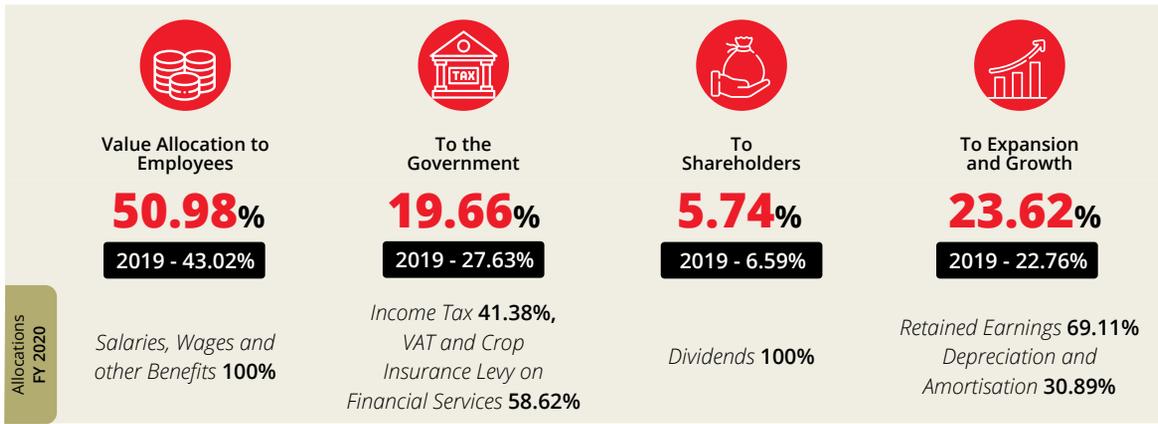
### Value Creation for Our Shareholders

	2020	2019	2018	2017	2016
Turnover (LKR Mn)	58,440	61,370	54,873	49,161	37,873
Profit attributable for shareholders (LKR Mn)	3,011	3,680	3,189	4,430	4,010
Total assets (LKR Mn)	557,707	516,294	466,933	408,126	356,013
Net assets value per share (LKR)	94.71	88.61	94.54	96.50	80.51
Earnings per share (LKR)*	5.82	8.70	7.71	10.71	9.69
Dividend per share (LKR)	1.50	2.00	2.50	3.50	3.25

\*Earnings per share has been restated as per Sri Lanka Accounting Standard - LKAS 33.

### Economic Value Addition

Depiction	2020	2019
	LKR Mn	LKR Mn
Income earned by providing banking services	58,440	61,370
Cost of service	37,931	42,207
Value added by banking services	20,509	19,163
Net impairment charges	6,993	3,883
Value added	13,516	15,280

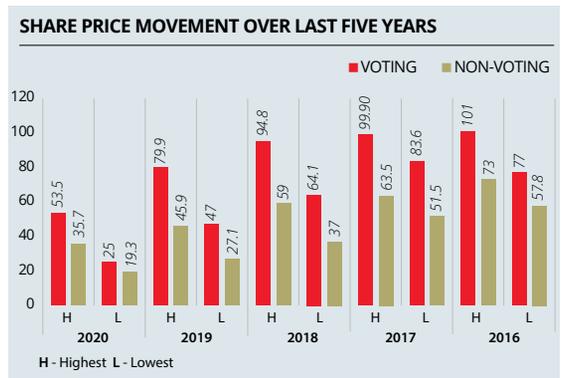
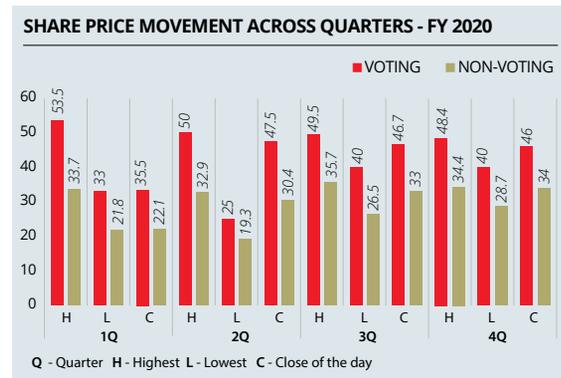


**Dividend Payout**

The Bank's dividend policy ensures that a prudent balance is maintained between shareholders' expectations and Bank's business development

while preserving the organic capital which in return safeguards shareholders' interests with long-term growth momentum as opposed to short-termism. For the

year under review, the Bank will pay a scrip dividend of LKR 1.50 per share which has been recommended and approved by the Board of Directors. Total dividends payout will amount to LKR 776 Mn.



**Financial Reporting and Compliance**

We consider the Annual and Interim Reports issued by the Bank as the primary media used to enlighten stakeholders and the general public with useful

information related to the financial position of the organisation. Hence, the Bank is committed to publishing the Interim and Annual Reports on time while meeting the statutory requirement and supporting these publications

with other relevant and required material information to the Colombo Stock Exchange (CSE) in a transparent manner on or before the stipulated deadline. The Bank published the Interim Financial Statements for 2020 well in advance of the given deadlines.

**FOCUS FOR 2021 AND BEYOND**



We are robust and aware that the ramifications of COVID-19 may continue to impact operations and economic activities and expected to remain highly volatile in the coming year.

The estimated uncertainty is predominantly related to unexpected credit losses. The Bank recognised impairment charge in 2020 as a preparation against any possible credit losses.

However, the Bank's financial resilience remains intact with adequate capitalisation and prudent approach to

risk management would help the Bank transitioning to new normalcy while creating long-term sustainable value for our investors in terms of performance.

The Bank will continue to steer its active engagement including one-on-one dialog with investors to explore their concerns promptly. Plans are underway to use social media engagements to attract new investors.

The integrated working culture and strategic alliance would help the Bank in gearing a performance oriented future, despite the market turbulences.

More information on the Bank's future strategies and key initiatives are discussed under the Business Performance Analysis and Strategic Direction sections of this annual report.

# UNIFYING WITH CUSTOMERS

To Build Relationships Founded on Trust

Our customers are the unifying element of our business operations. They bring together all our processes, products and servicing for the ultimate success of the Bank. They are the stakeholders, whose demand for financial services shapes the Bank's value creations process and results in sustainable long-term growth.



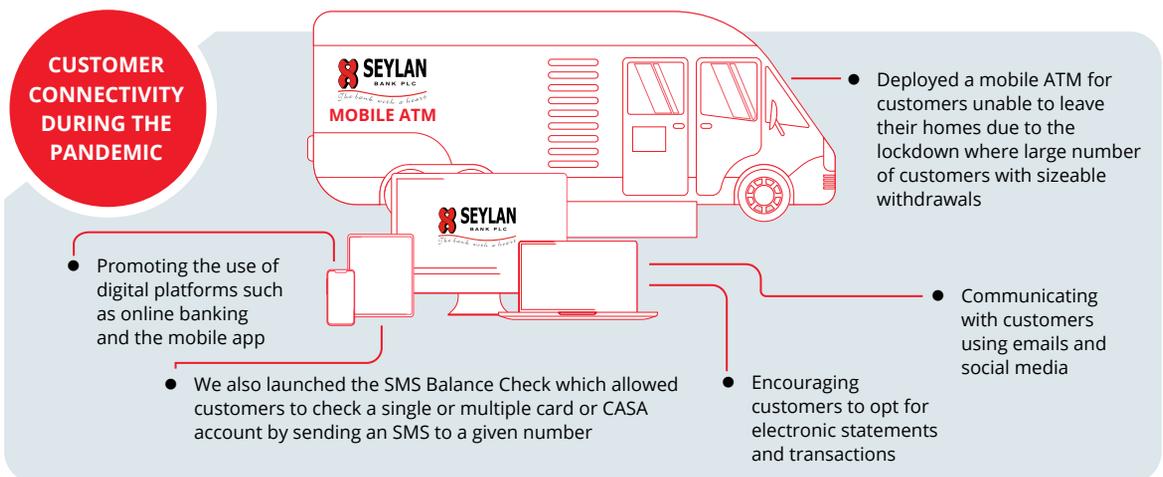
## OUR APPROACH

The Bank aims to unify our products and services with customers' emerging wants and needs. As such, we are very much a customer-centric business where the culture is geared towards placing customers first and ensuring their satisfaction in the longer term. This premise also drives our service proposition and guides our endeavours

with regard to enhanced service offerings, product innovations and convenience and reach in obtaining financial services and products.

Technology also plays a transformational role in customer service offerings for the banking and financial industry. Accordingly, we continuously find ways to integrate technology within our operations to bring a more

fulfilling service to our tech-savvy customers. In 2020, the Bank was obligated to change the approach used to serve our customers due to the advent of the COVID-19 pandemic resulting in a lockdown, limited physical access and the need to impose social distancing measures. Our proactive approach to technology adoption enabled the Bank to fulfill our customers' financial needs using various digital platforms.



**SAFEGUARDING CUSTOMERS DURING THE PANDEMIC**

- The Bank implemented health and safety measures such as sanitisation facilities, the compulsory requirement to wear face masks and undergo temperature monitoring while endeavouring to keep branches open



- Launched 3 off-site ATMs, 30 CDMs and 50 CDKs open 24x7x365 to promote social distancing and reduce crowding at branches

- The Bank's business continuity plan was enacted during the COVID-19 period which allowed us to continue providing uninterrupted services and smoother customer services
- Deployment of well-trained security personnel from a reputed company at the Head Office and throughout the branch network to adhere to health and safety measure for the betterment of customers



E-Statements Registered

**46.2%**



SMS Alert Registered

**49.5%**



Mobile and Internet Banking Registered

**57.1%**

Number of Customers YOY growth

**SUPPORTING CUSTOMERS DURING DIFFICULT TIMES**

The long-term prosperity of the Bank ultimately depends on the financial well-being of our customers. The prolonged closure of business, particularly in the service industry combined with the impact of restrictions has threatened the livelihoods of Sri Lankans. The Bank committed to support our customers during this critical time.

- Customers eligible for loan repayment deferrals were proactively contacted and relevant leeway granted during this period
- Rendering maximum support to businesses/customers adversely hit due to the COVID-19 pandemic
- Loan moratorium granted for over 7,500 customers which was over 70% of the Bank's SME lending portfolio
- Financial support and other financial relief measures were expedited through new facility disbursements under the Saubagya COVID-19 Renaissance Facility

**KEY INITIATIVES AND HOW WE PERFORMED**

**Prioritise customer health and safety amidst the COVID-19 pandemic**

- Implemented safety and health control measures at all branches and locations of operations
- Launch of door-step banking services

**Product innovation and new product development**

- Re-engineered and innovated the Seylan Harasara product
- Relaunch of the Mega Rewards programme

**Increase reach and convenience through branch expansions**

- Launch of Seylan RED – Priority Banking Proposition
- Launch of Palmtop Banking across 50 branches

**Grow customer base - new customer acquisitions and customer penetration**

- Successfully grew customer base despite the challenges due to the COVID-19 pandemic

**CUSTOMER PENETRATION**

During 2020, the Bank successfully grew the customer base despite the various challenges prevalent in the operating environment. The 'Heroes of the Heart' campaign was launched to negate the slowdown experienced due to the spread of COVID-19 in the second quarter of 2020 successfully resulted in acquiring of sizeable new CASA accounts.

**PRODUCT INNOVATION, DEVELOPMENT AND DELIVERY**

Being a part of Sri Lanka's competitive banking industry with inherent challenges, compliance requirements, restrictions and transformation due to technology, product innovation, development and delivery play a critical role in ensuring our relevance to existing and prospective customers. As such, the Bank continues to focus on developing new products based on consumer wants and needs and innovates existing products to differentiate from the products available in the market to better suit customer needs.

## SEYLAN HARASARA

In 2020, the Bank revamped the Seylan Harasara account for Senior Citizens offering value additions such as enriching the support to senior citizens and their health aspects.



## PRODUCT POLICY

To meet and exceed customer expectations in a non-exploitative manner that embodies optimum levels of clarity and transparency.

DEPOSIT PRODUCTS	DESCRIPTION	VALUE DELIVERED	MARKETS SERVED
 <p><b>Seylan Mega Rewards</b> Rewards for precious moments in life</p>	Offers definite benefits for personal savings, current accounts, personal foreign currency savings and foreign currency fixed deposits	Interest and reward benefits	Individuals aged above 18 years
 <p><b>Seylan Tikiri</b> A WORLD OF BENEFITS FOR THE LITTLE ONE</p>	Account for little ones	Interest, reward, gifts and bonus interest benefits	Children below 15 years of age
 <p><b>Seylan Harasara</b></p>	Financial solution for senior citizens	Interest, reward, benefits, merchant discounts, pension loan	Senior citizens aged above 55 years
 <p><b>Seylan Money Market Savings Account</b></p>	Short-term savings account with higher interest rate	Interest benefit	Corporate, individual clients and collection accounts of institutions
 <p><b>Millennium 30</b> 30 DAY FIXED DEPOSIT</p>	30-day fixed deposit	Interest benefit	Corporate, SME, retail and individual clients
 <p><b>Seylan Flexi Deposit</b> FIXED DEPOSIT</p>	Allows depositor to select the time period of the fixed deposit	Interest benefit, flexibility	Corporate, SME, retail and individual clients
 <p><b>SEYLAN SHAKTHI</b> 4 YEAR FIXED DEPOSIT</p>	4-year fixed deposit	Interest and reward benefits (in addition to interest eligible for utility payment vouchers in addition to interest)	Retail clients
 <p><b>5Star</b> SEYLAN FIXED DEPOSIT</p>	5-year fixed deposit	Interest and reward benefits (in addition to interest customers are eligible for utility payment vouchers in addition to interest)	Retail clients
 <p><b>SEYLAN Seyfie</b> FUTURE VALUE</p>	Youth account	Rupee interest, digital interest and reward benefits	Youth aged between 18-26 years
 <p><b>Seylan myplan</b> Begin Your Account</p>	Savings account with monthly fixed saving commitment	Interest benefit	SMEs, business clients and individuals
 <p><b>INCOME SAVER</b></p>	Savings account for monthly regular income earners	Interest and reward benefits	Individuals who earn a regular monthly income
LENDING PRODUCTS	DESCRIPTION	VALUE DELIVERED	MARKETS SERVED
 <p><b>SEYLAN HOME LOANS</b></p>	Home Loans up to LKR 100 Mn to purchase a bare land, purchase, construct or renovate a house or to purchase a condominium apartment	Fixed interest rates, documentation support and advisory with doorstep service	Primarily salaried individuals, professionals and businessmen
 <p><b>SEYLAN LOAN AGAINST PROPERTY</b> The multi purpose loan</p>	Loans made available against your residential property to upgrade your lifestyle, grow your business, or for investments	Fixed interest rates and doorstep service	Salaried Individuals drawing a monthly fixed income over LKR 50,000 with residential property under their name

LENDING PRODUCTS		DESCRIPTION	VALUE DELIVERED	MARKETS SERVED
	<b>Seylan Leasing</b>	Finance leases for vehicles, motorcycles, machinery, plant and equipment	Fixed interest rates with a flexible repayment structure and approval within a day	Corporate, SME, retail and individual clients
	<b>Seylan Personal Loans</b>	Personal loan for any related purpose	Fixed interest rates, doorstep service	Salaried individuals employed at reputed companies, professionals, government servants and armed forces
	<b>Seylan SME</b>	Specialised loan scheme for SME sector	Interest benefits	SME clients
	<b>Scholar Loans</b>	Unique higher education loan scheme	Fixed interest with a longer repayment tenure	Individual clients
	<b>Seylan Credit Cards</b>	Visa, Master credit cards	Interest benefits, rewards and merchant discounts	Individual clients
	<b>Trade Finance</b>	Imports and exports	Commission and interest benefits	Corporate, SME, retail and individual clients
	<b>Seylan Factoring</b>	Provides working capital requirements against trade receivables	Generates working capital	Corporate, SME, retail and individual clients
	<b>Seylan Gold Loans</b>	Instant short-term loan facility against gold articles	Interest benefits	Proprietors of business concerns and individuals
<b>OTHER OFFERINGS</b>	<b>Overdrafts</b>	Overdraft facilities for personal and corporate current account holders	Interest benefits	Corporate, SME, retail and individual clients
	<b>Seylan Personal Solar Loans</b>	Installation of a solar solution on a house owned by the applicant	Fixed interest rates	Salaried employees drawing a monthly fixed income over LKR 50,000 together with consistent income
	<b>Loan Scheme for Pensioners</b>	Specialised banking service for pensioners up to a maximum loan amount of LKR 2.5 Mn	Fixed interest rates	Government pensioners
	<b>Seylan eBanking</b>	Able to carry out a variety of banking functions at their convenience by the click of a button	Low charges and 24x7x365 accessibility	Corporate, SME, retail and individual clients and credit cardholders
	<b>SEY Cash</b>	Bank's remittances platform	Commission benefits	Individual clients
	<b>SMS Banking</b>	Opportunity to carry out selected banking functions via SMS	Free up to a number of SMSs and convenience	Corporate, SME, retail and individual clients and credit cardholders
	<b>Safety Lockers</b>	Allows customers to keep their valuable assets safely	Safety of assets	Corporate, SME, retail and individual clients
	<b>Palmtop Banking</b>	On board customers remotely and collection of cash	Convenience	Existing customers

**REWARDING OUR EFFORTS**



For the second consecutive year LMD Magazine's exclusive customer experience survey 2020 has resulted in Seylan Bank being ranked at first place for providing 'Customer Service Excellence' among 19 state and private sector banks in Sri Lanka.



**SERVICE EXCELLENCE**

The Bank constantly finds ways to improve customer service excellence. In 2020, the Bank launched Seylan RED which is a Priority Banking Membership designed to offer personalised financial solutions by a dedicated Relationship Manager. We also launched Palmtop Banking across 50 branches reducing customer waiting times and increasing the efficiency of services. To ensure uninterrupted service to our customers amid the lockdown to curb the spread of COVID-19, we launched doorstep banking services by sending a mobile ATM to areas in isolation and where customers could not even reach an ATM. Uninterrupted Trade services were offered to Trade clients during the lockdown period whilst taking all the precautionary measures and adhering to health guidelines.



## COMPLAINTS MANAGEMENT

The Bank has in place a formal customer complaint handling process which directs and guides how complaints are handled and who such complaints should be directed to be resolved.

## PRODUCT/SERVICE LABELLING AND MARKETING COMMUNICATIONS

The Bank's products and services are governed by the Product Development Committee of the Bank that approves all product designs and features before launch. The Bank has published product information on our website, product brochures and other relevant communication media.

All product information is published in Sinhala, Tamil and English and is clear and standardised across media. Information includes adequate product details for customers to understand the features and benefits of our products and financial services, such as interest rates, service charges, terms and conditions.

## CUSTOMER PRIVACY

As a reputed and ethical financial services provider, the Bank considers customer privacy as a top priority. We use advanced systems and technologies to protect the money and personal information of both existing and potential customers. Employees are also trained on the importance of confidentiality of customer data and the necessity for following the relevant data security procedures. As much information is stored digitally, the Bank has in place

advanced security systems and regularly improves and upgrades data security measures and processes.

The Bank's Audit and Inspection Department conducts periodic reviews to ensure all departments adhere to the policies and guidelines issued by internal and external regulators.

Incidents of non-compliance with rules and regulations or code of ethics in product/service labelling	Nil
Incidents of breaching of customer privacy or loss of data	Nil
Incidents of non-compliance concerning market communication	Nil
Incidents of non-compliance concerning the health and safety of the Bank's products and services.	Nil
Incidents of non-compliance with social, economic and other applicable laws	Nil

## SALE OF BANNED OR DISPUTED PRODUCTS

The Bank's products and services are highly regularised and duly registered. We operate in strict compliance with the Central Bank of Sri Lanka Customer Charter. Products or services which are banned or disputed in the market or subject to stakeholder or public debate are not offered by the Bank.

## CUSTOMER REACH

The Bank continuously works on increasing our physical branch network to increase our ability to reach customers more conveniently while also enabling customers easy access to our products and services. We also use technology to help customers fulfil their financial obligations and have in place an online banking platform supported by the Seylan Bank Mobile App.

In 2020, we opened 3 off-site ATMs, 30 Cash Deposit Machines (CDMs) and 50 Cheque Deposit Kiosk (CDKs) to increase customer convenience, reduce congestion and enable social distancing to be practiced thereby contributing to increasing the safety of our customers amidst the pandemic.

**The 'Heroes of the Heart' campaign launched in 2020 helped the Bank to increase customer reach and expand our deposit portfolio within just three months.**



**OUR GEOGRAPHICAL PRESENCE**



**Banking Centres 172**



**ATMs 215**



**CDMs 70**



**CDKs 76**

**NORTH WESTERN PROVINCE**

Kurunegala	11	12	2	2
Puttalam	7	7	3	4
<b>Total</b>	<b>18</b>	<b>19</b>	<b>5</b>	<b>6</b>

**CENTRAL PROVINCE**

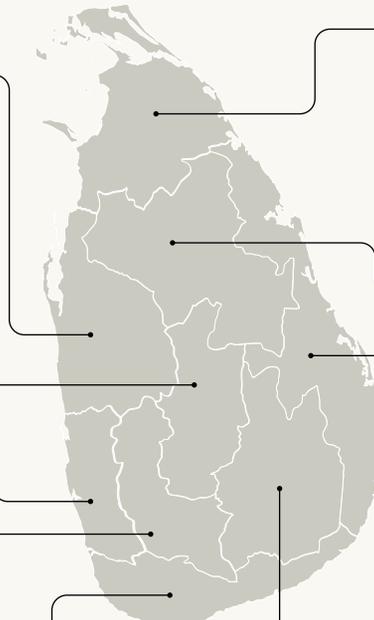
Kandy	8	9	4	3
Matale	2	2	1	2
Nuwara Eliya	4	4	2	2
<b>Total</b>	<b>14</b>	<b>15</b>	<b>7</b>	<b>7</b>

**WESTERN PROVINCE**

Colombo	43	59	24	31
Gampaha	21	31	11	10
Kalutara	11	14	4	6
<b>Total</b>	<b>75</b>	<b>104</b>	<b>39</b>	<b>47</b>

**SABARAGAMUWA PROVINCE**

Kegalle	6	8	2	3
Ratnapura	6	7	3	2
<b>Total</b>	<b>12</b>	<b>15</b>	<b>5</b>	<b>5</b>



**NORTHERN PROVINCE**

Jaffna	6	6	1	1
Kilinochchi	1	1	0	0
Mannar	1	1	0	0
Mullativu	1	1	0	0
Vavuniya	1	1	1	1
<b>Total</b>	<b>10</b>	<b>10</b>	<b>2</b>	<b>2</b>

**NORTH CENTRAL PROVINCE**

Anuradhapura	7	7	1	1
Polonnaruwa	4	4	0	0
<b>Total</b>	<b>11</b>	<b>11</b>	<b>1</b>	<b>1</b>

**EASTERN PROVINCE**

Ampara	6	7	1	0
Batticaloa	4	5	3	2
Trincomalee	2	3	1	1
<b>Total</b>	<b>12</b>	<b>15</b>	<b>5</b>	<b>3</b>

**SOUTHERN PROVINCE**

Galle	5	8	2	2
Hambantota	4	4	0	1
Matara	4	5	1	1
<b>Total</b>	<b>13</b>	<b>17</b>	<b>3</b>	<b>4</b>

**UVA PROVINCE**

Badulla	4	6	3	1
Monaragala	3	3	0	0
<b>Total</b>	<b>7</b>	<b>9</b>	<b>3</b>	<b>1</b>

**COMPLIANCE**

No significant gaps or inaccuracies regarding non-compliance were observed during the year under review as the Bank ensures all products and services comply with the applicable social, environmental laws and regulations as well as all other applicable rules and regulations pertaining to the

industry and business operations of the Bank. The Bank accords the highest importance to these compliance responsibilities and compliance reviews and audits are conducted by respective departments regularly to ensure compliance. During the year, there were no instances of non-compliance reported relating to any of these aspects.

**FINANCIAL SERVICES FOR DISADVANTAGED PEOPLE**

The Bank has taken several steps to offer support to disadvantaged groups who are deprived of access to financial services but are in dire need of same by providing wheelchair access in selected branches and giving them priority service when they enter our premises.

**FOCUS FOR 2021 AND BEYOND**



As we focus on the coming year, the Bank's efforts to unify with customers will be further strengthened by reviewing and re-designing our customer segments to offer them more relevant and customised products and services. This will also help us restructure our existing products to suit differing customer needs and help us to develop new products to meet emerging financial requirements amidst a backdrop of changing consumer and market trends.

Having launched our Priority Banking proposition during the year, the Bank will focus on increasing the availability of this service across key branches in our distribution network in 2021 and thereafter. Palmtop banking solutions will also continue to be rolled out to other branches during 2021.

To further our efforts in responsible and green banking, the Bank's Project Finance business unit plans to expand the renewable energy portfolio for both

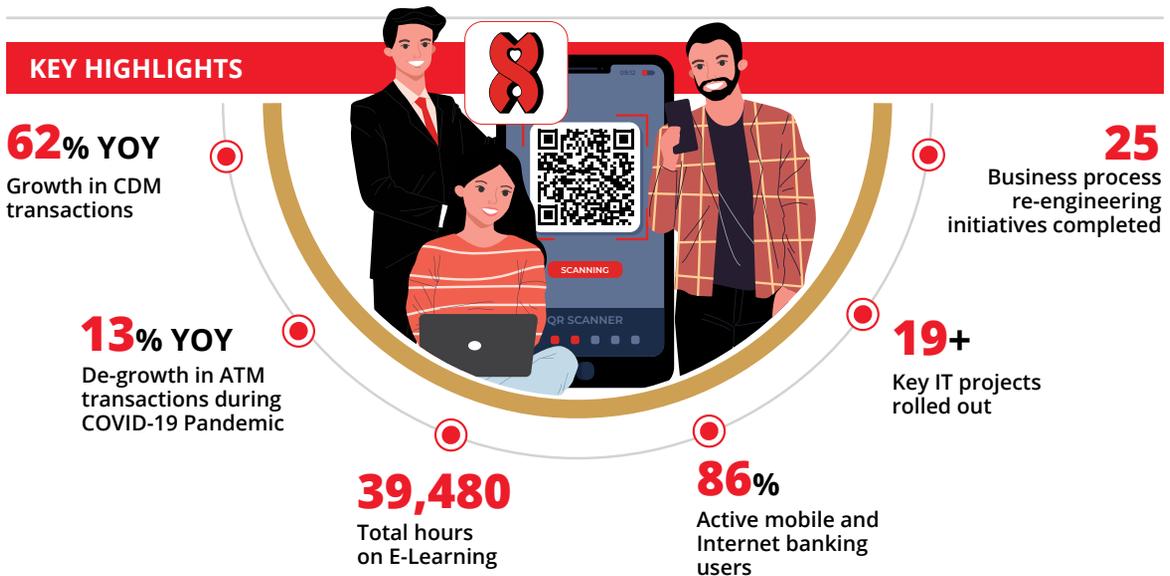
the ground and rooftop solar energy sectors.

Our focus on enhancing customer convenience and efficiencies through the adoption of digital and automated technologies will also continue to remain a key focus in the coming years.

# HARNESSING OUR DIGITAL FUTURE

## To Elevate Customer Experiences

Technology is the transformative aspect of Seylan Bank. Technology converted to automation and digitalisation supports our efforts to meet stakeholder needs and create value across the capitals, while enabling comprehensive connectivity. Our vision for technology and digitalisation is aligned to the Central Bank of Sri Lanka Digital Road Map and is in total compliance with all relevant regulations on digitalisation and technology, which is applicable for a commercial banking operation.



### OUR APPROACH

The Bank recognises that technology is transforming the way the banking industry operates, communicates and interacts with internal and external stakeholders. We also understand that continuous technological adaptation is required to remain viable in the long-term to offer an outstanding customer experience, while being able to differentiate and develop a sustainable competitive advantage. Our service propositions must reflect changing consumer trends as the newer generations consider technology as an integral part of their lives with high expectations of personalisation, ease of access, simplicity for navigation, yet feature intense.

**Expanding our digital banking environment, which increases efficiency and effectiveness of our operations, while facilitating our customers to easily fulfil their daily financial needs.**

The main objective of the digitalisation strategy is to virtualise the business operations as much as possible. The Bank's digitalisation strategy is an enabler across many stakeholders, which includes customers, shareholders and employees etc. Entrenched within the corporate strategy of Seylan Bank, technology adoption and digital adaptation has facilitated employee

empowerment, satisfaction of digitised customer needs and simplified suppliers' transactions. Such, collaboration has driven the overall sustainable growth of the Bank. The Bank will continue to invest in its digital drive in order to sustain the growth in digital service and to enhance the customer convenience in every possible passion.



## KEY DIGITAL STRATEGIES AND HOW WE PERFORMED

### Expand the footprint of digital platforms

- Onboard more customers via digital channels
- Increase the adoption of digital and online banking of our customers
- Expansion of ATM, CDM and CDK footprint across branch network and other strategic locations

### Communication via social media

- Increasing social media footprint
- Updated corporate website, Internet Banking and Mobile Banking solutions
- WhatsApp and 24x7x365 customer support service
- Live chat 24x7x365
- Social media messaging and customer support

### Use technology to increase operational efficiencies

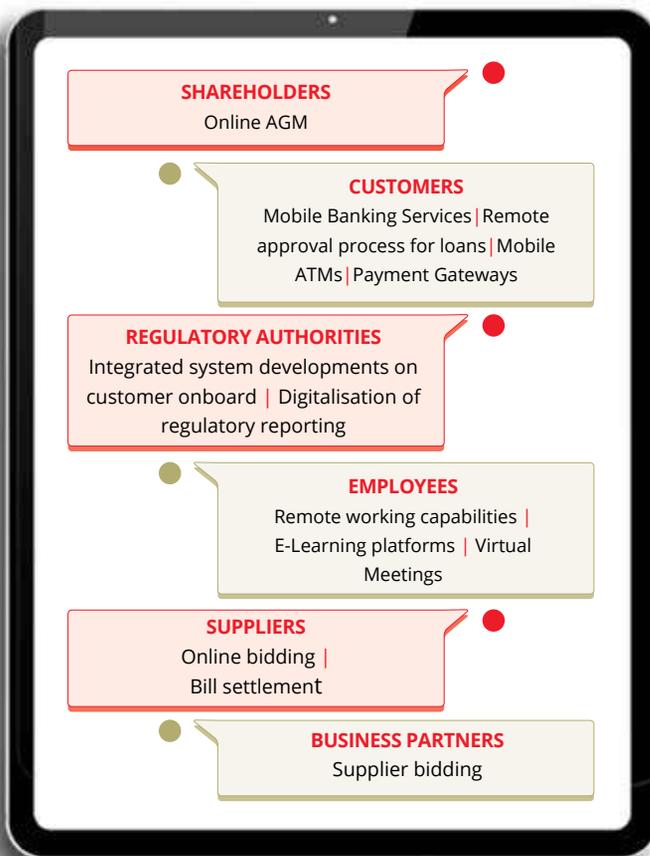
- Automate repetitive processes
- Automate and digitise manual workflows
- Virtual meetings and decision making processes

## Operational Efficiencies through Digitalisation in 2020

- Implementation of new Cheque Book Ordering system
- Automation of Pension Payments and thereby reducing the operational burden on branches
- Centralisation of regulatory reporting
- Discontinuation of faxes for obtaining approvals from other Branches and using e-mails instead
- Introduction of Maker-Checker enhancement for back-office system functions
- Obtained access to an online portal 'Payment Tracker' by Wells Fargo Bank, USA which enables the Bank to provide real-time SWIFT GPI payment status for all payments processed via the Wells Fargo Bank

## CONNECTING STAKEHOLDERS

The Bank's investment in digitalisation creates value across all stakeholder groups. Such planned investment to capitalise on technology developments and adoption will continue to be an indefinite commitment as this strategy will enable us to deliver every advantage to our stakeholders while enabling the Bank to streamline processes, optimise efficiencies and control costs.



## TRUE VALUE OF TECHNOLOGY REVEALED

Increasing adoption of technology and digitalisation of services has seen myriad changes in how businesses operate their supply chain to satisfy customer demand. However, its true value of digitalisation was revealed in 2020 with the incumbent COVID-19 pandemic. For the Bank, this change was mainly visible in the shift in customers' methods of banking and the increasing number of online payments.

### TYPE OF DIGITAL BANKING ACTIVITY - 2020

E-Statement Registrations

↑ **46.2% YOY**

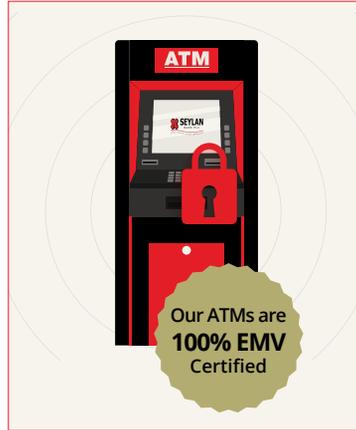
SMS Alert Registrations

↑ **49.5% YOY**

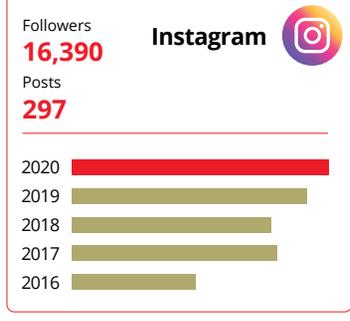
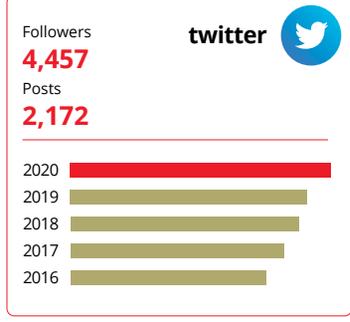
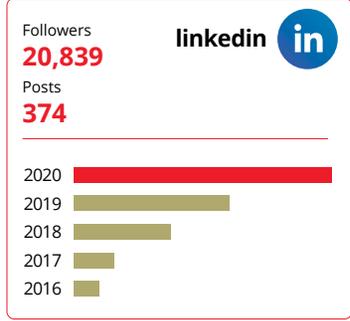
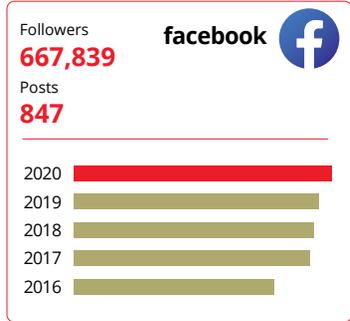
Mobile and Internet Banking

↑ **57.1% YOY**

The success of our digital strategy is only realised when end users adopt it as a norm when undertaking their banking transactions. The growth of internet and mobile banking supports the efforts of our digitalisation strategy. This was further enhanced in 2020 when the Bank implemented self online onboarding service for our customers to ensure their health and safety and continue to provide uninterrupted banking services amidst the pandemic. We also trained our employees to assist with onboarding customers to the Seylan Bank digital channels through our 24x7x365 online chat service and over the telephone.



SOCIAL MEDIA ACTIVITIES IN 2020



digital channels. Such efforts have been rewarded as our customers continue to view the Bank as a very reliable and safe partner for digital banking operations.

**COMMUNICATION**

The Bank has always identified communication as one of the most important elements in stakeholder management. Innovative digitalised communication channels have been introduced by the Bank in order to maintain the customer convenience and transparency among the stakeholders. High responsiveness to customer inquiries and well trained customer supportive teams have made Bank's communication standout. Our digitalised communication channels enable local and international customers to access us 24x7x365 without any limitations. WhatsApp, website live chat and social media messaging can be identified as a few of many.

**IT SECURITY**

The increasing use of technology and digital banking platforms has proportionately increased the need for sophisticated and high-level IT security measures. The Bank has implemented global best practices and state of the art security systems while obtaining relevant IT security accreditations to endorse our determination to provide the highest level of security for our databases and

**FOCUS FOR 2021 AND BEYOND**

The Bank will continue to adopt emerging technology trends and increase data capabilities to create insight-driven propositions while ensuring that these represent consumer expectations and satisfaction. Considering the new normal for business operations with the advent of the COVID-19 pandemic, the focus for 2021 will mainly revolve around online onboarding services for new to bank customers and development of the digital portfolio of the entire Bank.

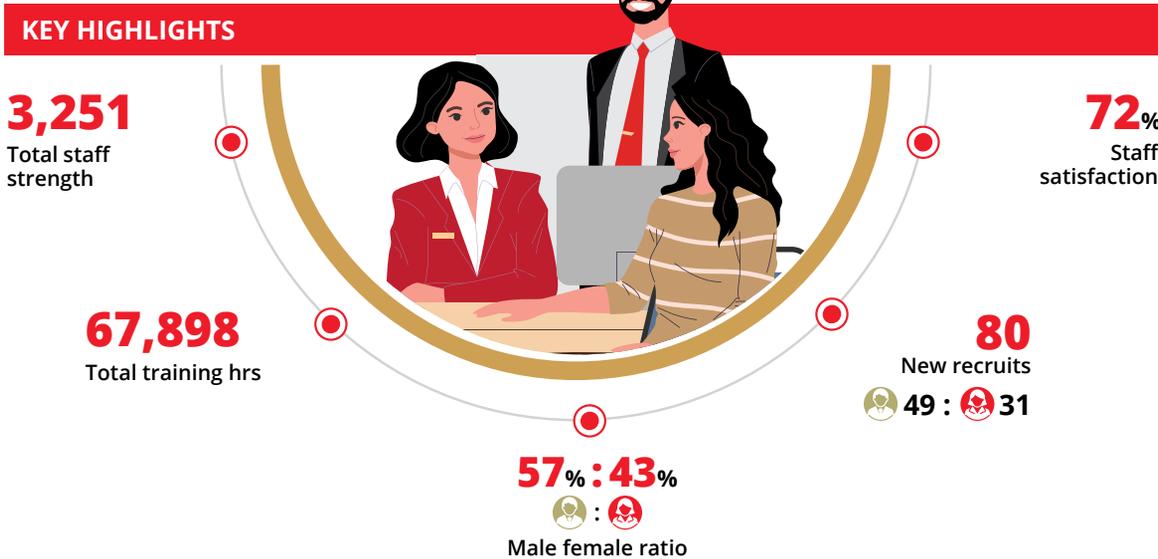
Enhancements to corporate channels such as internet banking and corporate payment platforms will also help solidify relationships with our corporate customers. Automation of processes and digitalisation of workflows will continue as these add value across our operations and resultantly create new value for the Bank's stakeholders.

Augmentation and upgrade of the Bank's IT Security in terms of software, network operations and digital channels will continue uninterrupted as more sophisticated systems become available to counteract the increasing threats to digital & online platforms that develop daily.

# EMPOWERING OUR EMPLOYEES

To Ensure Connectivity with Our Vision

Our employees are the Bank’s most important asset. They are the people who work tirelessly to bring to fruition our strategies and goals. Thus, a team of employees who are motivated, engaged, energised and accountable is considered to deliver positive outcomes for the Bank and to create value for all our stakeholders.



## OUR APPROACH

The Bank’s focus on employees and how they are treated is founded on our social policy. As such we take a holistic approach to managing our employees and fostering an inclusive and diverse workforce. We work towards taking care of their current and future needs while ensuring their wellbeing at all times.

In 2020, the Bank increased our endeavours to protect the health and safety of our employees due to the rapidly and heretofore unseen health hazards caused by the COVID-19 pandemic. As a result, we demonstrated our commitment to live up to our principles of ensuring the health and welfare of our employees. The Bank’s management team played a very significant role in developing COVID-19 safe work practices to mitigate the increasing and evolving risks and safeguard our employees while they continued to remain committed to serve the financial needs of our customers.

### SOCIAL POLICY +

We are committed to encouraging our employees to enhance their skills, map out their careers and grow both personally and professionally. The key to our success and competitive advantage lies in our pursuit of excellence through continuous improvement of our team members.

## EMPOWERING EMPLOYEES

The Bank uses various communication methods to inform employees of important matters and developments that take place to ensure they are always informed and knowledgeable about changes in operations, processes, procedures, polices and key business developments. During the year, these communication channels allowed us to be constantly in contact with our employees while sharing pertinent information with them to ensure their safety and wellbeing while giving them the confidence to trust the Bank in such a challenging period.

-   
Emails
-   
Intranet
-   
Circulars
-   
Employee Notice Board
-   
Regular Meetings
-   
Managers Forum
-   
Seylan Newsletter
-   
Discussion with Trade Union Representatives

EMPOWERING OUR EMPLOYEES

KEY INITIATIVES AND HOW WE PERFORMED

<p><b>Prioritise employee safety and wellbeing amidst the COVID-19 pandemic</b></p>	<ul style="list-style-type: none"> <li>● Implemented safety and health control measures</li> <li>● Introduced new HR policies and revised certain other policies</li> </ul>
<p><b>Employee engagement as a measure to keep motivation levels high</b></p>	<ul style="list-style-type: none"> <li>● Heroes of the Heart campaign to enable employees to achieve corporate goals</li> </ul>
<p><b>Develop employee skills and knowledge</b></p>	<ul style="list-style-type: none"> <li>● Offered training programmes via the E-learning platform</li> <li>● Encouraged employees to upskill themselves and obtain new competencies and knowledge</li> </ul>



PRIORITISING HEALTH AND WELLBEING DURING THE COVID-19 PANDEMIC

The Bank strives to provide a safe and healthy work environment for all employees. During the year under review, the Bank prioritised the safety, health and wellbeing of our employees considering the environmental and operational requirements amidst the COVID-19 pandemic. The fire drills are held several times a year to ensure employees safety and to take the necessary precautions and act quickly during an emergency. However in 2020 fire drills were not performed due to COVID-19 pandemic. To protect employees without compromise, the Bank implemented numerous control measures specifically directed at minimising the exposure to COVID-19 in the workplace.

<p>Office transportation</p>	<p>Supermarket partnerships</p>	<p>Appointed COVID-19 task force and coordinator for every department and branch</p>
<p>Implemented safety and health procedures</p>	<p>Educated and re-iterated employees on best practices to adopt to safeguard against COVID-19</p>	<p>Offered alternate work arrangements</p>

- All branches and offices were re-designed to meet, medical screening, sanitising and social distancing requirements.
- Adoption of more stringent housekeeping procedures to maintain a clean and sterile workplace and workspaces.
- Implementing work from home, flexible working hours policy in so far as feasible for the Bank's business operations.
- Employee rostering to avoid overcrowding and to keep employee motivated and engaged.
- Ensuring only minimal and essential employees were physically present in the branches to carry on daily operational activities and serve our customers.
- Providing employees with sanitisation products such as hand and foot sanitisers, gloves, face masks, etc for them to adhere to the rules of sanitisation at all times.
- Adhering to all lockdown requirements and maintaining only required skeletal staff to carry out crucial and mandatory work during this time within our premises.
- Offering office transport services to employees to prevent them from using public transport facilities thereby reducing their risk exposure.
- Encouraging employees paid-leave to isolate at home, when unwell, or pending test results.
- Implementing robust incident notification, response and management processes to increase awareness of employees on latest developments regarding the pandemic.
- Educating employees on the health and safety procedures they must follow and displaying reminder posters and safety instructions prominently within premises.
- Instructing the managers, supervisors, team leaders, fire wardens and evacuation wardens at each level of the Head Office and at branches on what should be done in case of a positive COVID-19 case being found in any of our premises.

However, as a service sector organisation, the Bank's employees are generally not exposed to the risk of occupational diseases and hence there were no occupational injuries reported during 2020.

### Occupational Health and Safety

	2020	2019	2018
Staff covered by the health plan (%)	100	100	100
Occupational injuries	Nil	Nil	Nil
Number of occupational diseases	Nil	Nil	Nil
Number of loss days rate	Nil	Nil	Nil
Average medical claims per employee (LKR '000)	30.6	31.6	32.3

## TOTAL EMPLOYEES 2020

### Employees by Type of Employment Contract

		2020	2019	2018	2017	2016
Full time	Other Employees Excluding Sales Force	3,132	3,192	3,200	3,091	3,165
	Sales Force	119	168	144	108	-
Part-time		-	-	-	-	-
<b>Total</b>		<b>3,251</b>	<b>3,360</b>	<b>3,344</b>	<b>3,199</b>	<b>3,165</b>
Permanent Employees		3,049	2,948	2,989	2,931	2,790
Contract	Sales Force	119	168	144	108	65
	Other Contract Employees	40	25	35	28	-
Trainees		43	219	176	132	310
<b>Total</b>		<b>3,251</b>	<b>3,360</b>	<b>3,344</b>	<b>3,199</b>	<b>3,165</b>

### Employees Analysis by Grade, Gender and Age

Age	Corporate Management	Middle Management	Operational Management	Others	Total
20 or below	- 01 01 -	- 01 01 -	- 01 01 -	05 01 09	05 01 09
21-30	- 01 01 -	- 01 01 -	15 01 04	329 01 442	344 01 446
31-40	01 01 01 -	19 01 08	311 01 134	253 01 223	584 01 365
41-50	06 01 01	96 01 52	381 01 350	232 01 94	715 01 497
Above 50	13 01 03	61 01 16	42 01 66	75 01 10	191 01 95

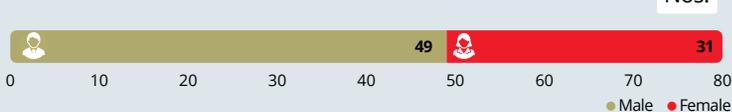
## RECRUITMENTS

Despite the challenges faced due to COVID-19, the Bank remained committed to creating value for the community and helping increase the nation's employment rates. As such during 2020, we recruited 80 new employees across the Bank's locations.

### Recruitments Age-Wise

Age	2020			2019		
	Male	Female	Total	Male	Female	Total
20 or below	14	7	21	74	47	121
21 - 30	24	19	43	114	62	176
31 - 40	4	4	8	13	5	18
41 - 50	4	1	5	4	2	6
Above 50	3	-	3	3	-	3
<b>Total</b>	<b>49</b>	<b>31</b>	<b>80</b>	<b>208</b>	<b>116</b>	<b>324</b>

### TOTAL NEW RECRUITMENTS BY GENDER 2020



### New Recruitments

2020 **80**

2019 **324**

Male Female

### Recruitment Province-Wise

Province	New Recruits				
	Male	%	Female	%	Total
Central	3	60	2	40	5
Eastern	-	-	-	-	-
Northern	-	-	-	-	-
North Central	-	-	-	-	-
North Western	1	100	-	-	1
Sabaragamuwa	1	100	-	-	1
Southern	5	100	-	-	5
Uva	1	100	-	-	1
Western	38	57	29	43	67
<b>Total</b>	<b>49</b>	<b>61</b>	<b>31</b>	<b>39</b>	<b>80</b>

Male Female

### EMPLOYEE TURNOVER

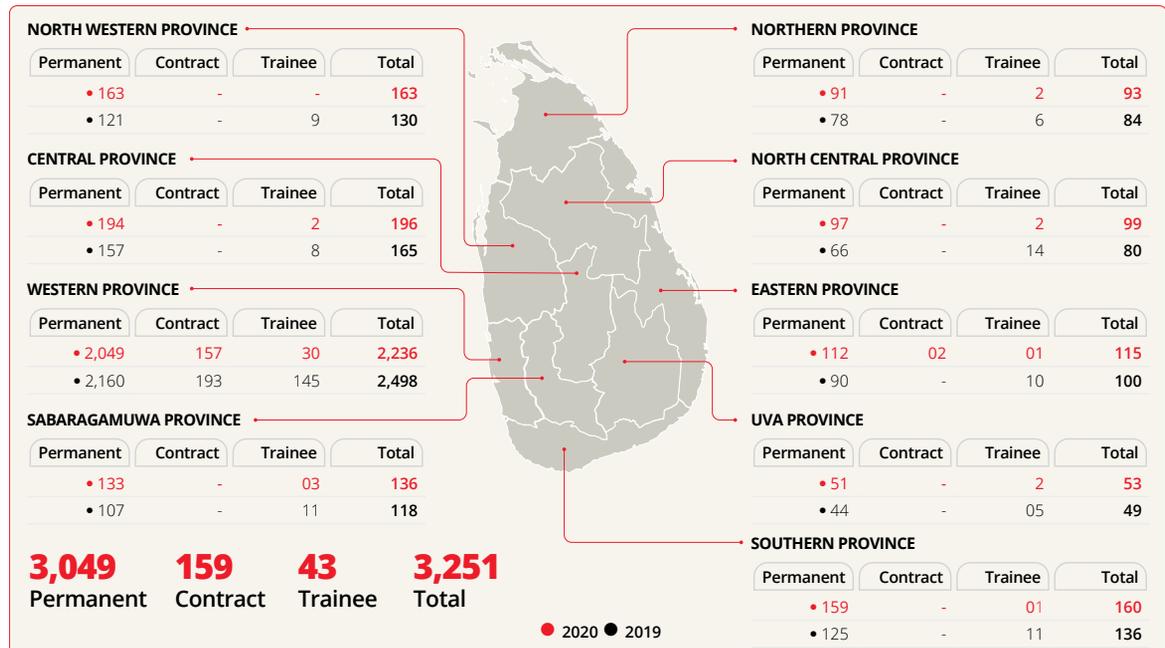
The Bank annually experiences employee turnover due to resignations due to higher education, migration, change in career path, lucrative offers from other corporates and other personal reasons. Retirements are also part of the turnover the Bank experiences annually. During 2020, 191 employees resigned/retired from the Bank.

#### Employee Turnover by Age and Gender

	2020			2019		
	Male	Female	Total	Male	Female	Total
20 or Below	17	11	28	32	16	48
21-30	49	35	84	101	71	172
31-40	15	8	23	34	7	41
41-50	11	11	22	15	11	26
Above 50	18	16	34	18	6	24
<b>Total</b>	<b>110</b>	<b>81</b>	<b>191</b>	<b>200</b>	<b>111</b>	<b>311</b>

### WORKFORCE BY PROVINCE

The Bank's workforce is recruited predominantly from the Western Province and amounts to 69% of the total employees. This is mainly as the Head Office and the majority of the branches are located here. However, employees who work in our branches in other provinces are recruited from local communities.



## BENEFITS GIVEN TO EMPLOYEES

During the year under review, the Bank continued to invest in our employee value proposition by offering our employees new benefits to manage prevailing environmental conditions. As such, we developed

and offered flexible working models, improved health, safety and wellbeing programmes, and maintained other competitive benefits provided to employees despite the challenges faced. Furthermore, during 2020, the Bank paid our employees full salaries and bonuses keeping true to our stance of ensuring employees' wellbeing at all times, while rewarding

their commitment in times of hardships and personal changes amidst the pandemic situation.

All permanent employees enjoy a variety of benefits, in addition to their salaries which are governed by a collective agreement that is reviewed every three years.

GUARANTEED CASH AND OTHER ALLOWANCES
<ul style="list-style-type: none"> <li>• Half month's salary as holiday incentive</li> <li>• Two months bonus (certain grades are subject to one month's fixed bonus and variable performance bonuses)</li> <li>• Fuel reimbursement</li> <li>• Travelling allowances</li> <li>• Special allowances for cashiers and employees located in difficult stations</li> <li>• Holiday/weekend banking allowances</li> </ul>
VARIABLE PAY
<ul style="list-style-type: none"> <li>• Performance bonus (only for certain grades)</li> <li>• Sales incentives</li> </ul>
REIMBURSEMENT EXPENSES
<ul style="list-style-type: none"> <li>• Professional/club subscription</li> <li>• Reimbursement of telephone bills</li> <li>• Financial support for postgraduate studies</li> <li>• Honorarium</li> </ul>
OTHER PREREQUISITES
<ul style="list-style-type: none"> <li>• Use of holiday bungalows</li> <li>• Comprehensive medical scheme</li> <li>• Insurance scheme</li> <li>• Spousal support in the event of death</li> <li>• Critical illness cover</li> <li>• Death donation scheme</li> </ul>
SUBSIDISED LOAN BENEFITS
<ul style="list-style-type: none"> <li>• Concessionary rates for housing, vehicle, computer, education and other loans</li> </ul>

### Employees who obtained maternity leave and returned to work

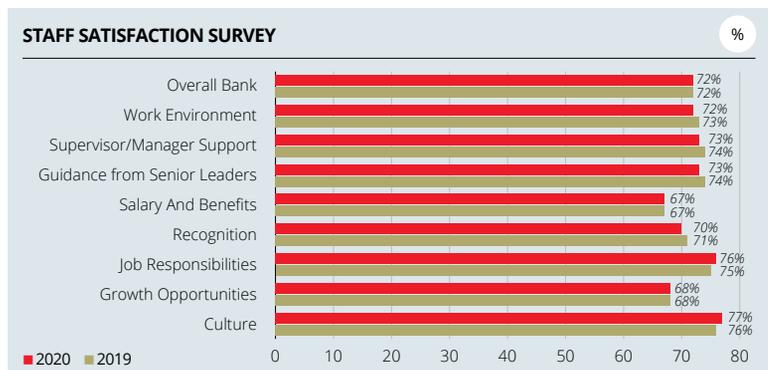
	No. of Employees	Returned to work (%)
2020	43	100%
2019	67	100%
2018	57	100%
2017	45	100%
2016	54	100%

## EMPLOYEE SATISFACTION

Keeping our employees satisfied is a paramount importance for any organisation. Satisfied employees are generally happy, resulting in employees working with dedication and enthusiasm. One way in which the Bank measures employee

satisfaction is through the annual employee satisfaction survey. The latest survey result shows consistency in employee engagement. Much of this is due to the dedicated efforts by the Bank to provide essential services to customers, communities and the broader economy during the difficult times associated with the COVID-19 pandemic. From an organisational perspective this has translated to our employees working with pride and going that extra mile to serve our customers better.

Below is an overview of the employee satisfaction survey conducted in 2020.



## ENGAGING, RECOGNISING AND MOTIVATING EMPLOYEES

The Bank annually organises several programmes and events aimed at employee motivation and engagement and to build team spirit and encourage interdepartmental social networking. Responding to the need to safeguard employees' health and follow through on being a responsible business entity, no regular events took place during the year under review. However, the Bank launched a new employee engagement campaign called the 'Heroes of the Heart' which was aimed at activating and motivating employees considering the need of the hour to grow the Bank's customer base and serve customers through digitalisation amidst the trials created by the COVID-19 pandemic.

Furthermore, the Bank successfully completed the annual evaluations to recognise and felicitate high performing branches and high performers although the awards ceremony did not take place. This annual evaluation helps keep up employee morale and creates a high-performance culture as the criteria, which is announced in advance, is based on the achievement of KPIs.

The Bank also recognises long serving employees of more than 25 years for their loyalty.

### Employee Benefits 2020

	2020	2019*	2018
	LKR '000	LKR '000	LKR '000
<b>SALARIES</b>			
Basic Salary	4,059,050	3,727,210	3,352,891
EPF 12%	486,071	445,817	401,426
ETF 3%	121,519	111,463	100,357
<b>Total</b>	<b>4,666,640</b>	<b>4,284,490</b>	<b>3,854,674</b>
<b>OTHER BENEFITS</b>			
Holiday pay	159,246	141,418	132,822
Medical	99,552	106,089	108,022
Bonus	689,086	571,985	573,758
Insurance	120,939	125,280	124,334
Welfare	46,374	70,937	66,372
Other Allowance/Benefits	843,277	969,977	674,810
Amortisation of prepaid employee cost	265,654	303,632	247,541
Total Other Benefits	2,224,128	2,289,318	1,927,659
<b>Total Benefits</b>	<b>6,890,768</b>	<b>6,573,808</b>	<b>5,782,333</b>
Training Cost	25,000	44,000	40,536
<b>Total benefits including Training Cost</b>	<b>6,915,768</b>	<b>6,617,808</b>	<b>5,822,869</b>
No. of Staff	3,251	3,360	3,344
<b>Average Benefits per Employee</b>	<b>2,127</b>	<b>1,970</b>	<b>1,741</b>

\* Restated

# 1,109

Super Heroes  
Employees

# 1,843

Heroes  
Employees



## HEROES OF THE HEART

The enthusiastic participation of all employees ensured the campaign's unparalleled success, making 'Heroes of the Heart' the most successful campaign in the history of Seylan Bank with a majority of employees participating in the programme and helping to grow the deposit base.

### Workforce by Years of Service more than 20 Years and less than 20 Years (Based on the Grade as at 31 December 2020)

	Less than 20 years	More than 20 years	Total
Corporate Management	13	11	24
Middle Management	83	169	252
Operational Management	603	700	1,303
Others	1,427	245	1,672
<b>Total</b>	<b>2,126</b>	<b>1,125</b>	<b>3,251</b>

## TRAINING AND DEVELOPMENT

To remain true to the Bank's social policy, we offer continuous professional training and development to our employees to help nurture talent and to facilitate a learning organisational culture. The Bank has a dedicated Skills Development Centre which provides both in-house and external training programmes targeting employees across departments functions and grades. Over the year our approach has been well-received by our employees and has also contributed to the Bank's reputation as an employer of choice enabling us to attract and retain high calibre individuals by providing satisfying career opportunities which recognise people's expertise, potential and

personal career aspirations. As a part of the continuous learning culture, the Bank has designed several mandatory E-learning programmes which provide employees across grades and functions knowledge and understanding on the latest developments in the banking sector and within Seylan Bank.

In 2020, the Bank's training programmes were mainly conducted via our E-learning platform to adhere to health and safety guidelines to prevent the spread of COVID-19.

### Number and Duration of Training Programmes

	2020			2019		
	Number of programmes	Training hours	Number of participants	Number of programmes	Training hours	Number of participants
Internal – Classroom	44	11,842	952	178	55,852	3,511
Internal – Online	126	15,448	3,862	-	-	-
External – Local	40	1,064	92	116	3,054	317
Foreign	2	64	2	19	776	24
E-Learning	14	39,480	6,091	12	32,280	8,070
Total	226	67,898	10,999	325	91,962	11,922

### Training Hours by Type of Training

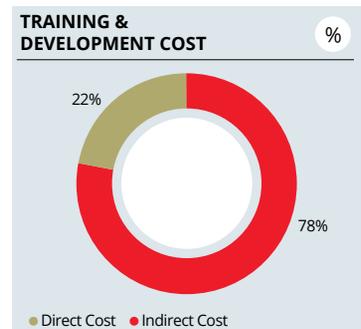
Internal / External – Local / Foreign	2020			2019		
	Number of programmes	Training hours	Number of participants	Number of programmes	Training hours	Number of participants
General Banking Practice	158	18,216	3,554	175	31,816	1,426
Professional Development and Service Quality	19	3,164	541	23	4,206	432
Communication and Negotiation Skills	4	314	76	16	2,890	310
Marketing and Marketing Communication	11	2,192	298	21	2,732	315
HR Management, Staff/Personnel Development	6	184	21	38	12,064	707
Compliance and Specialised areas	14	4,348	418	40	5,974	662
E-Learning	14	39,480	6,091	12	32,280	8,070
Total	226	67,898	10,999	325	91,962	11,922

### Average Training Hours by Employee Category and Gender

	2020			2019			2018		
			Total			Total			Total
Corporate Management	6	3	9	18	2	20	14	6	20
Middle Management	7	2	9	22	10	32	20	12	32
Operational Management	4	3	7	38	24	62	36	26	62
Others	3	3	6	126	88	214	118	86	204

### Training and Development Cost

	2020
	LKR '000
Direct Cost	5,600
Indirect Cost	19,400
Total Training and Development Cost	25,000



### Analysis of Academic and Professional Qualifications Based on Age and Gender

	2020					2019				
	Academic qualifications		Professional qualifications		Total	Academic qualifications		Professional qualifications		Total
										
20 or below	-	-	-	1	1	-	-	-	1	1
21 – 30	13	14	75	143	245	10	15	75	127	227
31 – 40	88	56	266	200	610	82	50	282	216	630
41 – 50	127	93	276	263	759	118	92	294	263	767
Above 50	27	19	57	27	130	23	18	41	26	108
<b>Total</b>	<b>255</b>	<b>182</b>	<b>674</b>	<b>634</b>	<b>1,745</b>	<b>233</b>	<b>175</b>	<b>692</b>	<b>633</b>	<b>1,733</b>

### TRAINING FOR SECURITY PERSONNEL

The Bank ensures that our security service providers provide all necessary training to the security personnel deployed in our Head Office and in all branches and offices across the country. In addition, the Bank also conducts training for security personnel on Bank-specific security requirements and procedures and how to deal with people as part of our efforts to provide high quality and courteous service to every person who visits our business locations. During 2020, 75% of the security personnel deployed at our premises received relevant training, including training such as fire fighting and preventive actions such as checking temperature etc.

#### CREATING A DIVERSE AND INCLUSIVE HR CULTURE

When we reflect diversity and inclusion and feel respected and recognised, we can deliver the best outcomes for all our stakeholders.

The Bank is committed to promoting equality within our workplace, thereby creating an inclusive and flexible culture. A culture founded on the belief that every individual has a right to be different and one where every employee can realise their full potential. Diversity and inclusiveness also contribute towards making the Bank an integral part of the society within

which we operate, thus enabling the achievement of our long-term goals. We are proud to be a leader in supporting diversity and inclusion in the workplace.

Ethnicity	2020			2019		
			Total			Total
Sinhala	1630	1229	2859	1,682	1,268	2,950
Tamil	150	151	301	156	154	310
Muslim	41	19	60	45	20	65
Burger	14	12	26	14	13	27
Others	4	1	5	6	2	8
<b>Total</b>	<b>1,839</b>	<b>1,412</b>	<b>3,251</b>	<b>1,903</b>	<b>1,457</b>	<b>3,360</b>

### HUMAN RIGHTS

#### HUMAN RIGHTS POLICY



Seylan Bank is committed to uphold the human rights standards enshrined in the Universal Declaration of Human Rights and the conventions of the International Labour Organisation (ILO). These cover: the elimination of all forms of compulsory labour, the effective abolition of child labour and the elimination of discrimination with respect to employment.

Human rights principles are ingrained within the Bank's business operations. In addition to the Human Rights Policy, the Bank incorporates within the Employee Code of Conduct shared with every employee after recruitment, the purpose, values and the expectations on how our employees should act and conduct themselves while carrying out work on behalf of the Bank and when interacting with all stakeholders.

Number of hours of staff trained on HR policies and procedures relevant to operations

**320**

2020

**427**

2019



#### Non-Discrimination, Freedom of Association and Collective Bargaining

The Bank does not tolerate discrimination or harassment in the workplace or in dealing with stakeholders. We abide by local labour laws and regulations including those that address child labour, forced labour, equal pay and non-discrimination in its workforce.

#### Promoting Freedom of Association and Collective Bargaining

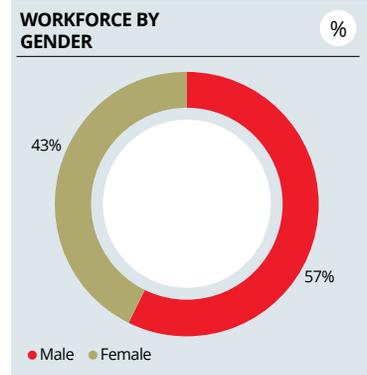
	2020	2019
CBEU and SBEU Membership (No.)	2,970	3,030
Membership (%)	91	90

**Minimum Notice Period**

The Human Resources Department ensures that there are one to one discussions carried out with employees and representatives of Trade Unions in terms of transfers, promotions or any disciplinary actions. Three months' notice in respect of senior level employees and one month's notice in respect of all other employees is to be given when resigning from the Bank which help in order to minimise any adverse impacts arising out of operational changes.

**Gender Parity**

Gender equality and equal opportunities for employment has always been a sacrosanct principle for the Bank. We are committed to ensuring that women are given the same regard as men and that they are empowered in the workplace. Accordingly, the Bank continues to enhance the equal treatment of males and females across all roles and functions with no room for discrimination through use of clear and transparent processes.



**Promotions by Gender**



**GRIEVANCES HANDLING MECHANISM**

Seylan's Grievances Policy provides a mechanism for individual employees to raise a grievance arising from their work relationships. The Bank's Policy ensures that such grievances are dealt with promptly, fairly and in a timely manner. In the case of a grievance, the staff member can raise the matter with the immediate supervisor. If the issue remains unresolved it may be referred to the Bank's Grievance Handling Committee.

**Promoting Whistleblowing**

The Bank has in place a Whistle-Blower Policy where employees can raise any issue or concern without the risk of being disregarded. Any individual who uses this method to bring to notice of the Bank any wrongdoing is guaranteed confidentiality and non-disclosure of identity. The policy applies to not only all employees but other key stakeholders of the Bank as well.

**Pending Litigation**

Pending litigation against the Bank is reported in Note 48 of the Financial Statements.

**Employee Remuneration by Gender**

	2020								2019							
	Basic Salary (Monthly)		Total No. of Staff		Average Basic Salary (Monthly)		Salary Ratio	Basic Salary (Monthly)		Total No. of Staff		Average Basic Salary (Monthly)		Salary Ratio		
	LKR Mn				LKR Mn			LKR Mn				LKR Mn				
Corporate Management	9.45	1.80	20	4	0.47	0.45	1.04:1	8.61	1.67	19	4	0.45	0.42	1.07:1		
Middle Management	41.54	17.63	176	76	0.24	0.23	1.04:1	36.95	14.97	166	68	0.22	0.22	1:1		
Operational Management	87.62	66.17	749	554	0.12	0.12	1:1	82.49	63.40	770	584	0.11	0.11	1:1		
Others	58.69	49.17	894	778	0.07	0.06	1.17:1	54.19	43.01	948	801	0.06	0.05	1.2:1		

**FOCUS FOR 2021 AND BEYOND**



The challenges faced due to COVID-19 in 2020 will continue to have an impact on the operations of the Bank in the coming year. However, as part of our efforts to empower and ensure the wellbeing of our employees we will remain focused on employee safety and health while promoting employees to achieve their best despite changes and challenges. Digitalisation will continue to play an important role in delivering the Bank's training programmes and in increasing efficiencies in HR functional processes.

An aspect of great importance will be continuous communication with employees to ease their concerns and keep motivational levels high. Communication will also be important as the human resource function plays a critical role in accommodating changes to the Bank's operations as we continue to operate within a changed economic and external environment.

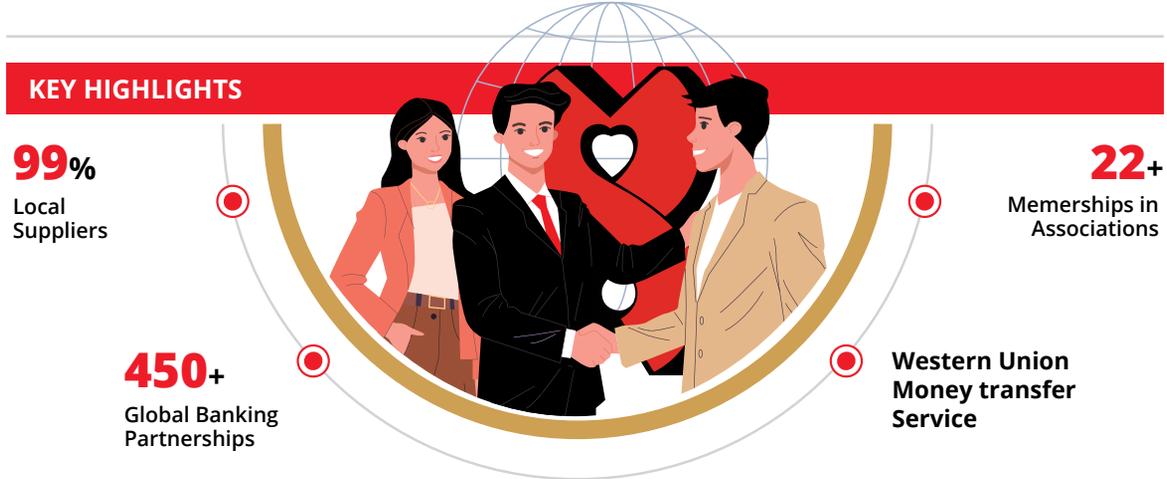
With cost management being an organisation wide initiative in 2021, the human resource function will also

contribute by evaluating job roles and embarking on job enlargement and job enrichment initiatives. This process while enabling the Bank to operate with limited employees at a given time will also enhance personal growth of individuals due to gaining new skills and knowledge. Succession planning activities will be redesigned and improved to build a stronger future leadership and help build careers for the Bank's employees aligned to our Social Policy.

# CONNECTING WITH OUR BUSINESS PARTNERS

## To Build Respectful Relationships

The Bank's partnerships are built over a period of time and across multiple stakeholder groups. Bank's long-standing partnerships, have helped us in achieving our goals while nurturing strong relationships with various suppliers and business partners.

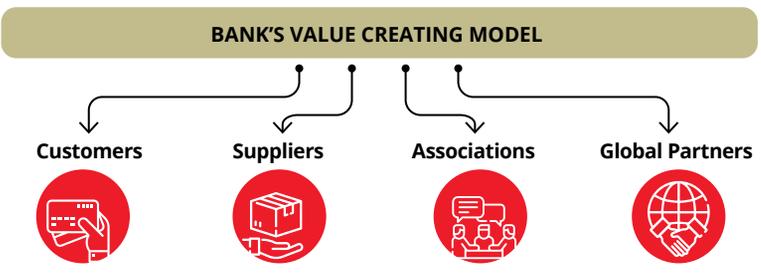


### OUR APPROACH

Our partners range across our value chain where they represent different stakeholders from corresponding global banks, local suppliers for goods and services, as well as industry associations and customers. The Bank engages with these stakeholders and collaborates with them to connect the value-creating model for all parties involved. The mutually respectful relations with our partners further supported us in reducing Environmental Social and Governance (ESG) risks and to meet our Environmental and Social (E&S) goals, while creating value for the industry and the national ecosystem.

When connecting with our business partners, Seylan Bank always nurtures and promotes them to grow together, while adhering to the principles of integrity, accountability, transparency, fairness and responsibility. We also comply with all applicable laws and regulations of the country while carrying out transactions across stakeholder groups.

Long standing relationships with our business partners enabled Seylan Bank to manage the plethora of challenges caused by the COVID-19 pandemic.

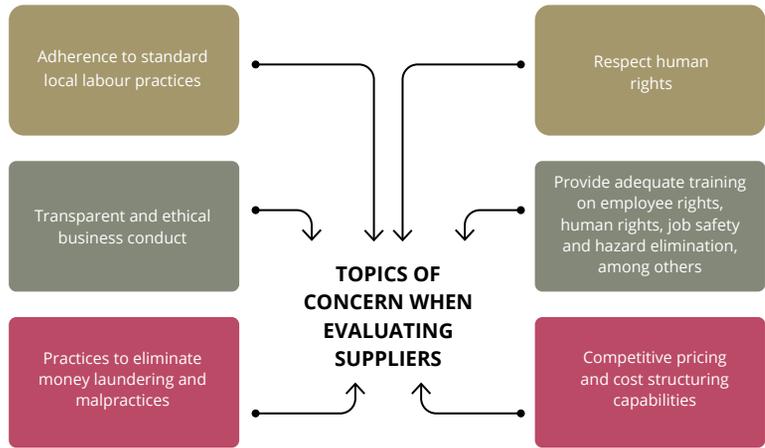


### KEY INITIATIVES AND HOW WE PERFORMED

- Continuing to build long term relationships**
  - We entered into 18+ new partnerships with service providers during 2020
- Cost management**
  - Centralised monitoring and inventory management systems to optimise storage and related costs
  - Re-negotiated with suppliers to obtain more reasonable cost structure
- Proactive measures to address the pandemic**
  - Supply chain management of personal protection equipments throughout the year for the staff members
  - On-time payments to the suppliers despite the constraints developed due to the pandemic
  - New relationships with diverse group of vendors

## CONNECTING WITH SUPPLIERS

Many of the Bank's suppliers provide products and services to continue our operations without any interruption. The majority of the Bank's suppliers are local companies whose philosophies align with Bank's practices. We work with our suppliers based on trust and integrity and endeavour to remain accountable and transparent in our business dealings at all times.



### ZERO INCIDENTS



During the year under review, the Bank has not identified any incidents of forced or compulsory labour practices or child labour issues amongst our suppliers.



### Creating Value in the Supply Chain

- Many of the Bank's supply chain activities were disrupted or had to undergo instant changes to manage the adverse impact arising due to measures taken to curb the spread of COVID-19 in the country. Agility of our supply chain partners helped us manage these changes timely to satisfy all parties concerned
- The Bank also developed comprehensive guidelines which our suppliers must adhere to as part of our ESG efforts and to manage best practices in the supply chain management process

### Managing the Procurement Process

- The Bank's fair and transparent vendor management process and our detailed procurement guidelines have made the process more transparent while enabling us to obtain goods and services from the most feasible and reliable suppliers.
- Our centralised supplier database ensures the reliability of the process.
- Both goods and service suppliers have continuously supplied required solutions more proactively and effectively to the entire Bank, including our 172 branches.
- The Bank's automated inventory management monitoring system also supports the procurement and vendor management processes.

## CONNECTING WITH GLOBAL BANKS

In offering services to our customers, the Bank regularly engages with global banks for timely and accurate processing of

trade transactions. The Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) provide an integrated service culture to facilitate customer needs. As a result, the Bank is able to connect the possibilities with global financial service providers. Our fast and accurate service provision for trading customers is well-recognised as it plays a critical role in the prosperity of the Sri Lankan economy. The process improvement done on Nostro reconciliation has further strengthened our international relationships and our service efficiency. The impact of such strong connections has further enhanced the business proposition of the Bank.

Besides, the Bank has also created a learning culture with our global banking partners whereby we add value to our partnerships by sharing knowledge and impacts of the latest industrial and marketplace developments.

## KNOWLEDGE SHARING EVENTS 2020

### Webinar organised by the Doha Bank, Qatar (extended to Seylan Bank employees and clients)

- Bilateral and synergistic opportunities between Qatar and Sri Lanka

### Webinars organised by Standard Chartered Bank

- Cyber Security in the age of COVID-19
- Trade Distribution – focus on Africa and Middle East

### Webinars organised by Wells Fargo Bank

- Cyber fraud
- Global payments industry trends and solutions
- Preparing for cyber fraud threat actors in times of a global pandemic

### Webinars organised by the Deutsche Bank

- Fraud and Cybercrime Prevention amidst COVID-19
- Closing on the US Election, What Should we expect?

### Webinar organised by Caixa Bank, Spain

- A perspective of digitalisation

### Webinars organised by the Deutsche Bank

- The road ahead for Spain and Europe

### Online training programmes offered by Asian Development Bank

- The road ahead for Spain and Europe

## CONNECTING WITH OUR BUSINESS PARTNERS

## PARTNERSHIPS WITH NOSTRO BANKS

COUNTRY	CITY	BANK NAME
<b>RELATIONSHIP FOR MORE THAN 15 YEARS</b>		
AUSTRALIA	MELBOURNE	NATIONAL AUSTRALIA BANK
CANADA	TORONTO	ROYAL BANK OF CANADA
DENMARK	COPENHAGEN	DANSKE BANK
ENGLAND	LONDON	BANK OF CEYLON
GERMANY	FRANKFURT	DEUTSCHE BANK AG
	FRANKFURT	COMMERZ BANK
HONGKONG	HONGKONG	STANDARD CHARTERED BANK
INDIA	CHENNAI	BANK OF CEYLON
	MUMBAI	STANDARD CHARTERED BANK
ITALY	MILANO	UNICREDITO ITALIANO
KOREA	SEOUL	KOREA EXCHANGE BANK
NORWAY	OSLO	DNB NOR BANK
PAKISTAN	KARACHI	STANDARD CHARTERED BANK
SAUDI ARABIA	RIYADH	SAUDI BRITISH BANK
SINGAPORE	SINGAPORE	STANDARD CHARTERED BANK
		OVERSEAS CHINESE BANKING CORPORATION
SWEDEN	STOCKHOLM	DANSKE BANK

## CONNECTING WITH INDUSTRY AND TRADE ASSOCIATIONS

Operating in a community, the Bank has understood the importance of collaborating with networks around the

Details of general memberships and established alliances with various industry associations and other trade and professional bodies are given below.

General Memberships and Established Alliances	Industry Associations and Other Trade & Professional Bodies
Professional Bodies	The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) Chartered Institute of Management Accountants (CIMA) Association of Chartered Certified Accountants (ACCA) Certified Management Accountants (CMA) The Institute of Bankers of Sri Lanka (IBSL) Association of Banking Sector Risk Professionals
Regulators	Securities and Exchange Commission of Sri Lanka Sri Lanka Institute of Taxation Colombo Stock Exchange (CSE) Central Bank of Sri Lanka (CBSL)
Business Collaborations	Association of Professional Bankers-Sri Lanka (APBSL) Lanka SWIFT User Group (LSUG) Lanka Clear (Pvt) Ltd. The Ceylon Chamber of Commerce The National Chamber of Commerce Sri Lanka
Banking and Financial Industry Associations	Financial Ombudsman Sri Lanka (Guarantee) Limited Association of Compliance Officers of Banks, Sri Lanka Sri Lanka Forex Association The Sri Lanka Banks' Association (Guarantee) Limited Credit Information Bureau (CRIB) The Clearing Association of Bankers The Employers' Federation of Ceylon (EFC)
Environmental Conservation Institutes	Biodiversity Sri Lanka Global Sustainable Finance Network Sri Lanka Banks' Association Sustainable Banking Initiative (SLBA-SBI)

COUNTRY	CITY	BANK NAME
UAE	DUBAI	MASHREQ BANK, DUBAI
	NEW YORK	DEUTSCHE BANK TRUST COMPANY - NY
USA	NEW YORK	MASHREQ BANK
	NEW YORK	STANDARD CHARTERED BANK
	PHILADELPHIA	WELLS FARGO BANK
<b>RELATIONSHIP BETWEEN 10-15 YEARS</b>		
UAE	ABU DHABI	FIRST ABU DHABI BANK
	DUBAI	EMIRATES NBD
<b>RELATIONSHIP BETWEEN 5-10 YEARS</b>		
BANGLADESH	DHAKA	STANDARD CHARTERED BANK
CHINA	SHANGHAI	STANDARD CHARTERED BANK
KOREA	SEOUL	KB KOOKMIN BANK- SOUTH KOREA
OMAN	MUSCAT	BANK DHOFAR
SWITZERLAND	ZURICH	ZURCHER KANTONALBANK
USA	NEW YORK	HABIB AMERICAN BANK
<b>RELATIONSHIP LESS THAN 5 YEARS</b>		
CHINA	SHENZHEN	AGRICULTURAL BANK OF CHINA LIMITED
ENGLAND	LONDON	STANDARD CHARTERED BANK
	LONDON	WELLS FARGO BANK
JAPAN	TOKYO	STANDARD CHARTERED BANK

organisation locally as well as internationally to obtain information on changing trends, new developments and business best practices. Such collaborations enhance the Bank's dynamism and awareness regarding global movements and developments. Further, we encourage our employees to be part of these networks to extent their relationships by becoming members of these professional bodies and other relevant trade and industry associations.

Supplier Engagement in Branch Vicinity	YEAR		
	2020	2019	2018
	LKR Mn	LKR Mn	LKR Mn
Tea and coffee	27.69	37.25	39.22
Subsidised lunch for staff	37.17	61.18	60.70
Supply of foliage/maintenance of fish tanks	2.61	2.92	3.35
Janitorial and courier services	94.29	98.06	92.82
Repair and maintenance	17.66	22.95	19.21
Drinking water	9.93	12.41	11.28
Newspapers	2.05	3.47	3.46
Security	334.16	351.35	337.35
<b>Total</b>	<b>525.56*</b>	<b>589.59</b>	<b>567.39</b>

\* Decline in value YoY is due to lockdown days and limited working hours confronted as a result of COVID-19

## FOCUS FOR 2021 AND BEYOND



Building and maintaining mutually beneficial and respectful relationships with business partners and promoting ethical supply chain and procurement processes will always be a key priority for the Bank. We will continue to strengthen our global banking partnerships and build strategic alliances for the sustainable growth of all stakeholders involved. Furthermore, the Bank will persist in obtaining goods and services from local suppliers in our efforts to help with local industry growth and increase domestic economy value.

# PROTECTING THE ENVIRONMENT

## To Recognise Our Response to the Wider Community

Environmental impact assessment and due diligence remain as a priority of our business operations while striving to meet every stakeholder need. Recognising this correlation, our business model incorporates diverse yet collaborative measures to safeguard the environment and thereby reduce the impact from our operations for long-term economic and societal value creation factored in mutual stakeholder understanding and collective efforts.



### OUR APPROACH

The Bank is mindful and transformative in dealing with the environmental impact arising from every transaction across the value chain. As such, we passionately engage with our stakeholders to identify and then lessen or negate negative impacts to the environment while continuously focusing on reducing, reusing and recycling natural resources used to conduct day-to-day business activities. While our environmental policy operationalises our actions and positive reactions, the Environmental, Social and Governance (ESG) framework ensures we cohesively work towards achieving environmental stewardship with clearly stated goals and pre-determined outcomes. This approach has helped the Bank to convert a protection possibility into a protection opportunity despite the many challenges faced.

Our business strategies are seamlessly ingrained with ESG goals and we believe our collective and amicable stakeholder engagements in a 'building blocks' approach would help preserving a safe and clean planet for future generations.

### ENVIRONMENTAL POLICY



We have a long-standing commitment to minimising both direct and indirect impact on our environment arising from our business activities, whilst at the same time doing everything we can to protect and replenish the natural resources around us. Accordingly, the Bank ensures not only are its products and services compliant with applicable environmental and social impact but also the projects it supports during the normal course of business.

### KEY INITIATIVES AND HOW WE PERFORMED

- Fostering positive environmental impact**
  - 89 rooftop solar power loans
  - 02 environmentally friendly loans on minimising waste/pollution
- Saving on carbon footprint**
  - 15,277 kg as a result of paper recycling
- Environmental impact assessment in an Environmental, Social and Governance (ESG) outfit**
  - Encouraging and mutually-beneficial invitation to customers to join hands with us to keep away environmental and social risks if any gauged with financing

## ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

The Bank's Environmental and Social Management System (ESMS) plays a catalyst role in supporting environmentally resilient business growth and emerging opportunities to fostering positive impact in a win-win value proposition. The ESMS also directs us uniquely to promote socio-economic resilience by way of catering to the innumerable and diverse financial

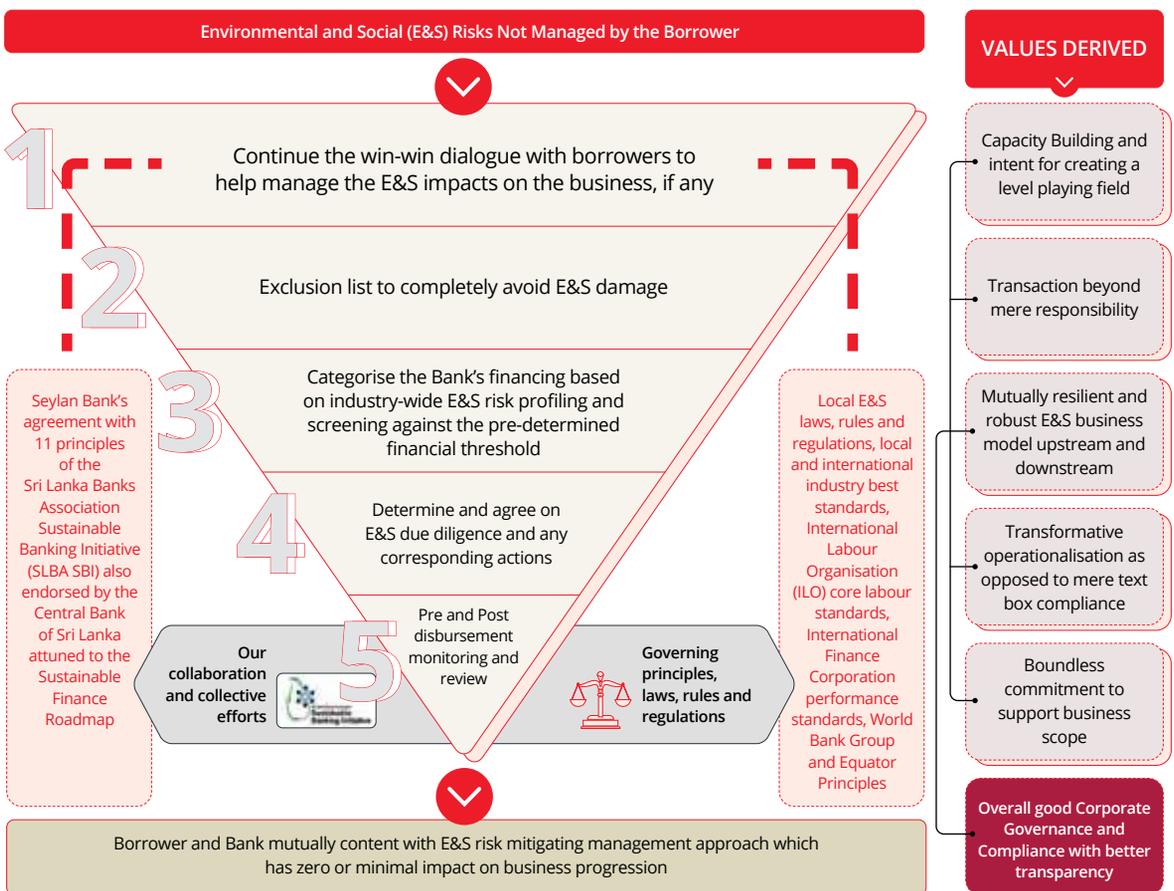
needs of individuals, businesses, industries, across demographics and economic cross layers in an environmentally friendly manner.

As depicted below, this system helps our customers to identify and manage environmental and social risks that are pertinent with their businesses to which we finance. From a broader standpoint of Environmental and Social Governance (ESG) framework, we believe that it is necessary to have an industry-wide common

understanding and agreement to take forward this vital dialogue and achieve every goal successfully.

Our membership and adoption of the implementation guide of the Sustainable Banking Initiative of the Sri Lanka Banks' Association (SLBA –SBI) which is endorsed by the Central Bank of Sri Lanka also provides similar roadmap herein and sets up the culture required to be instilled as an industry-wide uniformity and level playing field.

### Environmental and Social Management System (ESMS)



## RECOGNISING CULTURE OF POSITIVE ENVIRONMENTAL IMPACT

The Bank predominantly takes a conservation stance on natural resource utilisation to protect the environment as a duty to payback without compromising ability of future generations. We have financed 89 rooftop solar panel loans as detailed on page 55.

## ENVIRONMENTAL PROTECTION INITIATIVES

With an overarching objective of achieving a minimal carbon footprint, The Bank connects every possibility to contribute to the identified Sustainable Development Goals (SDGs) and nationally developed SDGs as an environmentally conscientious corporate citizen.

### Renewable Energy Projects

Location	Amount granted (LKR Mn)	Production capacity (Mega Watts)	Energy produced in year 2020 (Gega Watts per hour)	No of employment provided
<b>HYDRO</b>				
Kalawana, Ratnapura	129	1.3	3.2	5
Badulla	387	1.35	5	5
Deraniyagala	150	0.7	3.3	3
Kibale, Uganda*	810*	6.5	7.24	21
<b>SOLAR</b>				
Vavuniya	100	1	2.16	2
Vavuniya	100	1	2.16	2
Kelaniya	72	0.8	0.631	3
Ampara*	225	2	3.5	3
Kaththuduwa*	90	1	1.63	2
Matugama	180	1	Under development	2
Galle	200	1	Under development	2
<b>WIND</b>				
Kilinochchi	50	10	29.25	3
Kilinochchi	50	10	27.12	3

\*Commissioned in 2020 \*Loan granted in USD 4.5 Mn (USD/LKR : 180)

**SUSTAINABLE DEVELOPMENT GOALS WE SUPPORT**

### Paperless Workplace

For several years, the Bank has been making deliberate efforts to reduce the paper used in our operations. We have made much progress to date, especially by the adoption of digital communication channels and automation. Some key accomplishments for 2020 is shown below.

**76,387**  
kg of paper recycled.

---

**62%**  
increase in transactions using Cash Deposit Machines.

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**39,720**  
credit proposals were routed using the Loan Originating System.

### Energy Conservation

The main energy source used in business operations is electricity. During 2020, due to the closure of business premises and the Bank operating with minimal staff, together with our efforts on conservation, direct electricity consumption was reduced by 761,460 kWh units YoY.



### PROMOTING A PAPERLESS WORK ENVIRONMENT

- Reduced the font size if documents need to be printed
- Promoted the reuse of paper before it is sent for recycling
- Restricted printing at ATMs

Another source of energy used by the Bank is fuel, i.e., diesel and petrol which is used to operate bank vehicles and generators. Please refer page 63 for more details. As the Bank provided additional transport facilities to employees during the lockdown periods to control the spread of the COVID-19 infection, total indirect fuel use increased compared to the previous year.

### Conserving Water

Water is mainly used for personal hygiene purposes. The Bank

- Charges for printing slips and other receipts available electronically
- Using an E-learning platform for training and development
- Internal communications using digital platforms.
- Switchover to 'Bank on a laptop'
- Process automation
- Sharing of Board Papers digitally

promotes water conservation among employees. However, during 2020, water usage increased as a result of excessive consumption due to hand washing in the wake of disinfection against COVID-19.

	Water Footprint in Units (U) per Employee (E) (U/E)	
2020	<b>85,830</b>	<b>U/E - 26</b>
2019	<b>77,370</b>	<b>U/E - 23</b>
2018	<b>77,226</b>	<b>U/E - 23</b>

Source: Surface or groundwater\*, municipal or private  
\*Use of surface or groundwater is minimal

### Waste Management

The Bank's waste management focuses on the disposal of all types of waste responsibly with minimal harm to the environment.

To ensure proper waste disposal, we work with a registered recycling operator for e-waste disposal

PROTECTING THE ENVIRONMENT

and remain in compliance with the rules and regulations of the Central Environment Authority and Basel Convention on control of hazardous waste disposal. All biodegradable solid waste is appropriately segregated and handed over to the municipal waste collectors.

The Bank continued to encourage staff to say 'no' to plastic bottles and lunch wraps. In this wake every staff member was provided with a glass bottle during the year 2019.

Our endeavours to reduce paper in business operations and to encourage customers to use digital platforms also continued to have a positive impact, reducing the number of print and toner cartridges thereby, setting a new precedent for eliminating e-waste by reducing the use of materials

which become e-waste. Also during first few months of the year we donated 85 cannibalised and usable computers to needy schools and religious institutions as a means of managing e-waste accumulation.

**Preserving Biodiversity**

The Bank does not operate in rich biodiversity areas and ensures all branches are located in identified commercial areas. As a financial institution, our products and services do not obstruct or harm ecosystems. Thus, our operations do not encroach on any high-value biodiversity areas or habitats which are homes to any Red List species or species protected by the National Conservation List.

Furthermore, the Bank's ESMS and E&S risk management principles help screen new customers and other suppliers across our value

chain on key biodiversity aspects, thereby enabling us to refrain from entering into financing activities that oppose our principles on conserving biodiversity while protecting the interests of the International Union for Conservation and Nature (IUCN).

**Environmental Grievance Mechanism**

There were no reported incidents or serious actions warranted for violations or misconduct against the environment and our commitments during the year.

**Environmental Impact Assessment and Mitigation**

As a part of our E&S processes, we assess the impact of our suppliers and procurement practices on the environment and work in collaboration to actively implement measures for environmental conservation in the longer term.

**OUR 4PS FROM AN ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK**

	Key Concerns Addressed	Adopted Approach	Expected Outcome
 <p><b>PEOPLE</b></p>	Generating and retaining content human capital equipped with positive attitudes, professionalism and loyalty	Strict adherence to ethical and industry best human resource standards and practices including ILO Core Labour Standards with continuous evaluation, training and development and amicable grievance handling	Exceptionally passionate and committed human capital factored in sustainable business performance
 <p><b>PLANET</b></p>	Negate and or mitigate detrimental environmental impact both direct and indirect while fostering positive impact wherever possible that arise from business of banking without compromising ability of future generations	Assessment of environmental impact of each and every business engagement and exercise environmental due diligence based on the gravity of impact in a collective and collaborative business sense responsibly.	Environmentally resilient business model that carries rational mandates of achieving sustainable finance attributes
 <p><b>PROSPERITY</b></p>	Thrive for socio-economic resilience with equity and inclusive financing	Ensure progressive economic value addition for our stakeholders connecting every possibility in a sustainable manner	Generate content and actively contributing stakeholder substance that propel the momentum of business progression in a sound, safe and sustainable manner
 <p><b>PRINCIPLES OF GOVERNANCE</b></p>	Hand in hand business accomplished journeying with every stakeholder anticipation intact with robust business strata in a landscape of transparency and compliance being a responsible corporate citizen to the nation at large	Board level intervention in carrying forward common mandates of transitioning economies towards financially viable, socially equitable and environmentally cautious value propositions harnessed through sustainable stakeholder engagements that connect every possibility in a mutually beneficial way	Active and participatory role played by stakeholders with sense of ownership and passion for excellence in a transformative and mutually beneficial manner

**FOCUS FOR 2021 AND BEYOND**



- The Bank is currently on the verge of developing an extensive and inclusive sustainability strategy to ensure a more robust process for environmental conservation and social responsibility programmes that are aligned with the overall corporate strategy
- Branch buildings identified to instill with solar power
- Few branches scheduled for layout changes in order to intensify energy efficiency
- Need based capacity building programmes for related stakeholders as means of promoting transitioning to greener economies collectively and save the planet, our common base of resources

# SERVING THE WIDER COMMUNITY

## To Support Inclusive Socio-Economic Growth

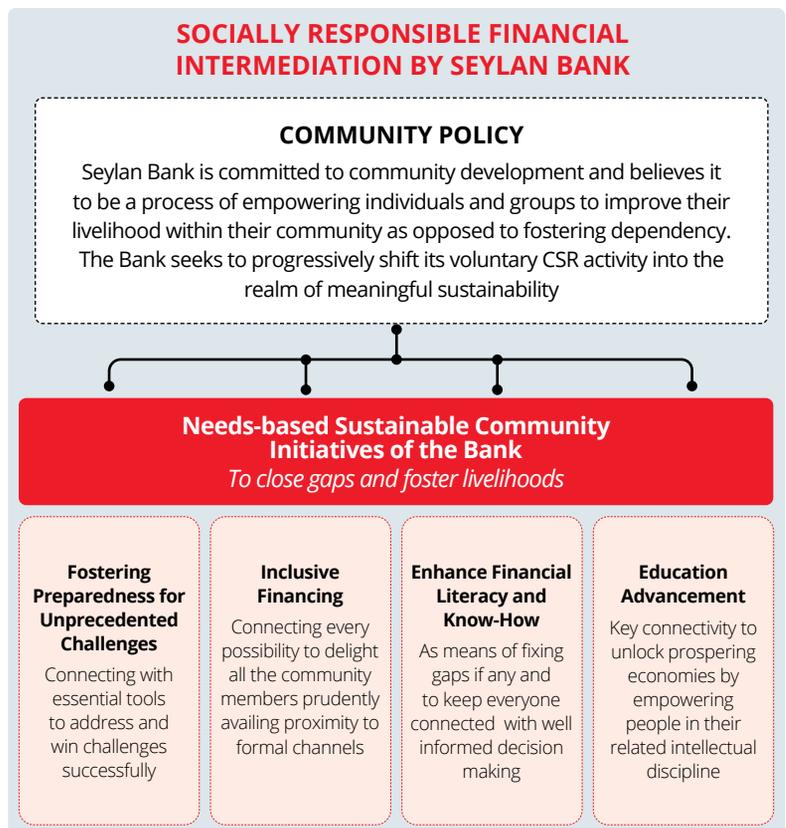
Our wider community within which we operate responsible business is an intrinsically correlated stakeholder substance that represents our steadfast connectivity with past, present and future possibilities. The Bank has been over time identifying and bridging gaps of respective communities by nurturing every endeavour from advancing education, fostering health and safety and reinforcing socio-economic livelihoods at large. We envisage paths of connecting every possibility rising up to the task of creating sustainable value and better tomorrow.



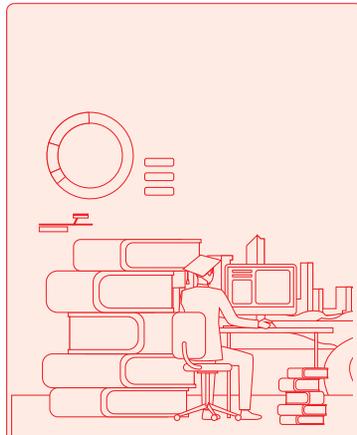
### OUR APPROACH

We believe in the premise of pursuing every endeavour which gains grounds for the best interests of the wider community which will foster socio-economic prosperity. Our community is the wider depiction of our past, present and future stakeholder origins within which we operate and propel our business journey to be a mutually fruitful long-term relationship.

Our purpose centric community projects are instrumental to address the needs of surrounding community in a manner that the people whom we help today may help others tomorrow and generate revolving streams of sustainable value.



As a notable attribute of the captioned model, our passionate actions were successfully pledged during the year to address the dire needs of the unprecedented hour in combating the COVID-19 pandemic, extending hope.



**OUR IDEOLOGY ON OVERALL COMMUNITY SUSTAINABILITY**

Through our needs-based community projects, we do our best to connect inclusively identifying range of needs prevalent in our communities in the wake of fulfilling overall socio-economic resilience.

**SUSTAINABLE DEVELOPMENT GOALS WE SUPPORT**



**KEY INITIATIVES OF AND HOW WE PERFORMED**

**SMEs to turn the wheel against COVID-19 pandemic**

- Two webinars to educate on liquidity management, supply chain management and use of new technology for better business revival against the tide
- More than 10 Bn 'Saubagya' COVID-19 Renaissance facilities
- Moratoria adequately linked to business regains
- Re-finance and interest subsidy schemes

**'Seylan Pahasara' Library Project continued**

- Nine new library initiatives and two re-visits were carried out before the COVID-19 outbreak

**Prioritise the wider community health and safety amidst the COVID-19 pandemic**

- Invested LKR 10 Mn to construct fully equipped ICU ward at the Colombo East Base Hospital
- Donated more than 6,500 face shields to Police officers and 2,000 face shields to Public Health Inspectors' Union at a cost of LKR 6.3 Mn

Our Student Savings Centre engagements are literacy developing shelters

Youth entrepreneurship to propel sustainable future macroeconomic growth

Develop exporters being key economic indicator of the county

Endow excellence by fostering the nation's future minds of prosperity

'Seylan Pahasara' library Project to support inclusive nationwide high-quality education efforts

Empower women and enable vital cross layers for economic prosperity

**FOSTERING PREPAREDNESS ON UNPRECEDENTED CHALLENGES**

- Construction of a fully-equipped Special Intensive Care Unit for the Colombo East Base Hospital at a cost of LKR 10 Mn
- Refurbishment of doctors' cafeteria at the National Hospital of Colombo at a cost of LKR 4 Mn
- Donation of more than 6,500 face shields to Police officers and 2,000 face shields to Public Health Inspectors' Union at a cost of LKR 6.3 Mn
- Donation of LKR 2.5 Mn to President's Fund
- Launch of the Seylan 24x7 Smart Banking - 'Banku Noya Banku Yanna' media and digital marketing campaign

- Installations of ATMs at strategic locations such as the SLT University in Padukka
- 02 webinars to educate on liquidity management, supply chain management and use of new technology for better business revival against the tide
- Deploying the Seylan Bank Mobile ATM in the districts of Colombo, Gampaha and Kalutara as well as at 'Kedalla' Exhibition 2020
- 'Seylan Merchant Portal' for enterprises as an all-inclusive multi-purpose payment portal

INCLUSIVE FINANCING + ENHANCED FINANCIAL LITERACY AND KNOW-HOW	
The Bank offers a diverse range of products and services to reach people and cater to their diverse needs and wants in every possible way	The Bank transparently and clearly states terms and conditions of products and services, which are also monitored and reviewed regularly to close gaps if any
Customers are given every opportunity to request information about products and services apart from one on one education provided at the point of service to promote balanced decision making with least information asymmetry	Our employees are equipped to educate customers with basic financial understanding of products and services as means of enhancing the financial literacy levels

Student Savings Centres	Encouraging Women Entrepreneurs	Promoting Youth Entrepreneurship	Supporting Exporters
<p>Student saving centres to familiarise students with the banking environment and develop leadership skills</p> <p>We manage 98 student savings Centres across the island</p>	<p>Enabling vital segments for overall economic prosperity</p> <p>13 SME hubs geared to identify needs and wants to fulfill entrepreneurship including vision of women and youth through various refinance and subsidised loan schemes</p>	<p>Offer various financial facilities to youth across micro, small and medium segments of the community with a view to build an entrepreneurship based economy. Our 'Seylfie' account with digital value additions is an encouraging bridge to connect with youth engagements.</p>	<p>We partner with the Board of Investment and Export Development Board to identify and support potential exporters to enable them to meet product quality standards with tailor made capacity building programmes to increase export earnings and foreign reserves</p>

### Refinance Schemes to Bridge Proximity to Formal Finance Channels

Refinance Scheme	Donor	Eligible Sectors	Loans Granted in 2020		Loans Granted in 2019	
			No. of loans	Amount (LKR Mn)	No. of Loans	Amount (LKR Mn)
Small and Medium Enterprises Line of Credit	Asian Development Bank	SME	32	454.50	83	1,213.73
COVID-19 Emergency Response Working Capital Scheme	Asian Development Bank	Businesses/ Entrepreneurs affected by COVID-19	4	40.00	-	-
Saubagya	GOSL	SME	9	67.18	9	50.43
Saubagya COVID-19 Renaissance Facility	GOSL	Businesses/ Entrepreneurs affected by COVID-19	2,208	10,333.21	-	-
Liquidity Facility to the Construction Sector	GOSL	Government Contractors/ Suppliers	8	145.18	-	-
Small and Micro Industry Leader and Entrepreneur Promotion Project (SMILE III)	Japan Bank for International Cooperation (JBIC)	SME	4	33.10	22	213.21
Kapruka Ayojana	GOSL	Coconut Cultivation	9	3.67	7	3.80
Rooftop Solar Power Generation Scheme	Asian Development Bank	Solar Power Generation	89	131.19	118	158.76
Environment-Friendly Loan Scheme (E-Friends)	Japan Bank for International Cooperation (JBIC)	Businesses to minimise waste/ pollution	2	17.03	4	42.51
Swashakthi	GOSL	Micro, Small and Medium Entrepreneurs	2	0.70	-	-

## Interest Subsidy schemes

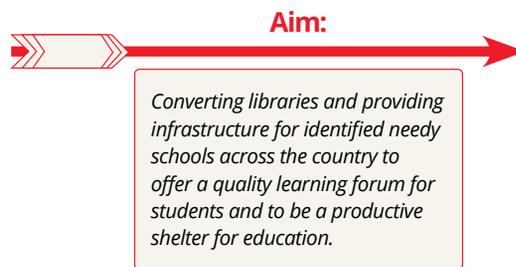
Scheme	Donor	Eligible Sectors	Loans Granted in 2020		Loans Granted in 2019	
			No. of loans	Amount (LKR Mn)	No. of Loans	Amount (LKR Mn)
Govi Navoda	GOSL	Agriculture	-	-	2	0.85
Green Loans	GOSL	Tourism	-	-	4	11.85
Jaya Isura	GOSL	SME	8	245.18	90	1,925.33
Ran Aswenna	GOSL	Agriculture	3	160.18	15	725.01
Rivi Bala Savi	GOSL	Solar Power Generation	-	-	5	1.63
Working Capital Loan for Tourism	GOSL	Tourism	-	-	10	1,041.15
New Comprehensive Rural Credit Scheme	GOSL	Agriculture	1,300	176.29	602	91.85
Credit Guarantee and Interest Subsidy Scheme for Businesses Affected by the COVID-19 Pandemic	GOSL	Businesses/ Entrepreneurs Affected by COVID-19 Pandemic	173	779.98	-	-

## Details of SME Loans

	2020	2019	2018
Total Number of Clients	18,872	22,148	26,161
Loan Portfolio (LKR Mn)	100,650	100,708	93,882

## Details of Micro Finance Loans

	2020	2019	2018
Total Number of Clients	8,668	3,478	1,704
Loan Portfolio (LKR Mn)	1,537	836.995	220

EDUCATION  
ADVANCEMENT'Seylan Pahasara'  
Supporting the  
Education of  
Today's Students  
for Tomorrow's  
Prosperity

Planned Goal:

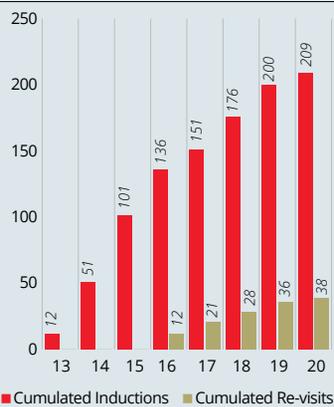
**250**  
Libraries  
by 2020  
(Timeline to be  
extended)



In 2020, we added nine more libraries to the captioned project bringing the total to 209. The initial target of reaching 250 was not possible due to the lockdown in effect and closure of schools because of the COVID-19 pandemic outbreak. We also completed two revisits on previously completed libraries and delivered value as detailed below.

As an environmental value addition to the project we combine a tree planting initiative parallel to the inauguration ceremonies while inculcating a value culture to preserve nature with little steps from schooling age.

**PROGRESSION OF 'SEYLAN PAHASARA' LIBRARY PROJECTS (INDUCTIONS AND RE-VISITS) FROM Y 2013 - 2020**



**Value delivered to current and future students:**

- More than 50,000 books to meet curriculum needs and other broader educational objectives such as personal grooming, technical studies, sports, meditation, etc.,
- A total of two school libraries revisited
- Libraries equipped with a two computers each and other digital platforms to provide students with access to based on the need in order E-books and E-learning facilities
- The importance of nature conservation was emphasised by planting few trees at schools

**Province wise Distribution of 'Seylan Pahasara' Library project**

Province	Year 2020		Total since 2013	
	Inductions	Re-visits	Inductions	Re-visits
Central	01	-	30	8
Eastern	-	-	24	3
North Central	03	-	18	4
North Western	-	-	18	6
Northern	01	-	24	3
Sabaragamuwa	01	-	16	2
Southern	-	-	15	3
Uva	01	02	12	4
Western	02	-	52	5
<b>Total</b>	<b>09</b>	<b>02</b>	<b>209</b>	<b>38</b>

**Supporting Educational Excellence**

The Bank offered an honorarium for the educational advancement opportunities of 10 students who scored 200 marks at the 2020 scholarship examinations to make schooling a reality for these young minds with much potential while reducing the financial burden on their parents.

**INVESTMENTS CLOSER TO LIFE**

**Fostering Life Events of the Community**

While the Bank's community initiatives and projects are mainly developed based on our sustainable Community Fostering Model, there are instances where we assist surrounding communities through purpose-driven sponsorships as a connectivity gateway which can make a difference to their lives in the long-term.

Focus	Amount of sponsorship LKR Mn	Impact made Value delivered	Nature of engagement
Communal activities	0.51	Potential networking and spur collective efforts towards common interests	P
Cultural and Recreational activities	3.02	Fostering peace and sound coexistence with balance of life	P
Educational pursuits of schools and academia	0.54	Support national goals of accomplishing total quality education	P, C
Entrepreneurship development and capacity building	0.05	Promote entrepreneurship based economy with better financial literacy and technical know-how	P, C
Mass religious observances	0.36	Encouraging fair and peaceful religious co-existence	P
Sports and physical fitness	1.53	Developing sound mindset in a healthy body towards reaching socio-economic goals	P
<b>Total</b>	<b>6.01</b>		

P Pro bono C Commercial

**Engagement with future minds through 'Seylan Tikiri'**

27 events took place to make kids happy with thoughts and memories through kids' banking days, educational and entertaining gatherings accompanied by their parents and loved ones.

**ENGAGING EMPLOYEES TO SERVE COMMUNITIES**

Much of the Bank's projects and initiatives to serve communities are undertaken with the help of our employees. In 2020, to meet the wider community needs, our employees delivered essential services and went above and beyond to ensure the safety of our customers. They also contributed one day's salary for the President's COVID-19 Fund. Our employees assembled to place the foundation stone at the National Hospital Colombo and also to provide face shields for Police Officers and Public Health Inspectors in the country.

As means of closing gaps while assuring professional conduct of every staff member, our Bank tailor made the following training programmes for employees to equip them with adequate knowledge and skills to better implement financial do's and don'ts and to be well versed with responsible service delivery attributes.

### Training on Specific Capacity building

Focus	2020		2019	
	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants
General Banking Practices	158	3,554	175	1,426
Anti-Money Laundering/KYC	*	512	*	726
System Security	*	395	*	722
Accounting/Auditing/Compliance and Other Specialised Areas	14	418	40	662

\* Online training platform developed herein KYC – Know Your Customer/Customer Due Diligence.

### Our Corporate sense of Responsibility and Good Governance

Compliance	Level/status of compliance and action taken
Percentage and the total number of business units analysed for risk concerning corruption and the percentage of employees trained in the Bank's anti-corruption policies and procedures	<ul style="list-style-type: none"> <li>Prevaling gaps are identified through examining audit trails</li> <li>Provide training programmes which enforce good corporate governance internally</li> <li>Code of Conduct is signed by every employee and shoulders the responsibility herein</li> </ul>
Action taken in response to incidents of corruption	<ul style="list-style-type: none"> <li>Stringent controls, internal audit procedures and staff disciplinary codes in all operations are enforced</li> </ul>
Participation in public policy development	<ul style="list-style-type: none"> <li>At the invitation of the Government, the Bank presents proposals and engages in formulating new policies for consideration and inclusion in the Government Budget and tax laws, Sustainable Banking Initiative of the SLBA, development of Sustainable Financing Roadmap of the Central Bank of Sri Lanka</li> <li>The Bank's participation in many policy decisions in various initiatives</li> </ul>
The total value of financial and in-kind contributions to political parties and politicians	<ul style="list-style-type: none"> <li>No contributions were made to political parties or politicians</li> <li>All business of the Bank was conducted at arm's-length The Bank has a policy on politically exposed persons and maintain strict adherence to same</li> </ul>
The number of legal actions taken against anti-competitive behaviours	<ul style="list-style-type: none"> <li>The Bank consistently complies with the country's laws and regulations in conducting its marketing campaigns. Truth and transparency in advertising are followed when displaying banners, conducting sales campaigns, roadshows and using public address systems. No legal action was taken against the Bank for anti-competitive behaviour during the year</li> </ul>
The monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with laws and regulations	<ul style="list-style-type: none"> <li>No fines or non-monetary sanctions were made against the Bank during the year. All laws and/or regulations applicable to the Bank were complied with. To enable effective monitoring, a monthly compliance report is tabled at Board meetings</li> </ul>

## FOCUS FOR 2021 AND BEYOND



- Regain momentum in 'Seylan Pahasara' Library project and phase out reaching the target of 250 Libraries island-wide
- Continue with financial literacy building and technical assistance impetus to foster entrepreneurship abreast with new normalcy
- Focus on refinance and subsidy schemes to empower identified communities including housewives and youth
- Comprehensive sustainability strategy to be developed in par with our corporate strategic plan, centric to triple bottom-line performance with pragmatic initiatives

# BUSINESS UNIT PERFORMANCE

**The Bank's key business units are the main contributors to the overall performance of the organisation. The Business units are the frontline of the Bank which have extended their performance amidst the pandemic. Supporting functions offer the requisite backing for the frontliners to connect the possibilities across our valuable stakeholders**

The Bank began the year with ambitious strategic growth and development plans, which were put on hold with the advent of COVID-19 which caused major disruption to economic and social operating environments globally. Accordingly, to accommodate the sudden near standstill of economic and business activities, we revised our business plans to suit the emerging needs of our stakeholders and work within the new normal culture of our operating environment. However, despite these misfortunes, the Bank successfully delivered results due to the efforts of employees to proactively serve our customers and the relatively smooth adjustments made to the Bank's way of doing business.

## Branch Banking

With a branch network spread across Sri Lanka, the Bank is well-positioned to offer and provide our customers a quality service using our 172 branches. Our branches are also equipped with digital channels such as ATMs, CDMs, Multiple service counters and CDKs to offer better facility and efficient services to all our customers.

The liability product management team plays a significant role within branch banking by guiding the branches to grow their deposit portfolio. The year was not conducive for the SME segment growth due to the external environmental impact of the COVID-19 pandemic. However, moderate growth was realised by the end of the year across the branch network. Multiple branches across the network unexpectedly closed down during the year whereas, 10% of the branch network closed for more than 35 working days (18,000 banking hours).

## Corporate Banking Unit

The Corporate and Offshore Banking Unit provides flexible, integrated and customised financial solutions to a credit portfolio of customers recognised amongst the top corporates of Sri Lanka.

Our Relationship Managers help clients to manage their financial needs, streamline their financial operations and work with customers to achieve their company's objectives and goals. Our customers are from a range of industries including, consumer and retail, technology, transportation, power, healthcare, construction, financial institutions and many other general industries. The lower levels of economic activity impacted business unit growth, especially as the import/export segments realised lower performance due to the prevailing COVID-19 pandemic.

## Retail Banking Unit

The main focus of the Retail Banking business is to meet the needs of customers through innovative product offerings. The Retail Banking unit oversees all the retail products of the Bank including credit cards, leasing, housing loans, pawning and personal loans. The pawning segment performed exceptionally well, achieving a growth above expectations, as did personal loans of the salaried segment. The credit card business also prospered during the year.

## Islamic Banking Unit

The unit was formed under the Bank's strategic vision to cater the niche market segment of clients, looking for Islamic banking solutions and services. Within this short span of time the unit was able to breakeven and is on the course of becoming a one of

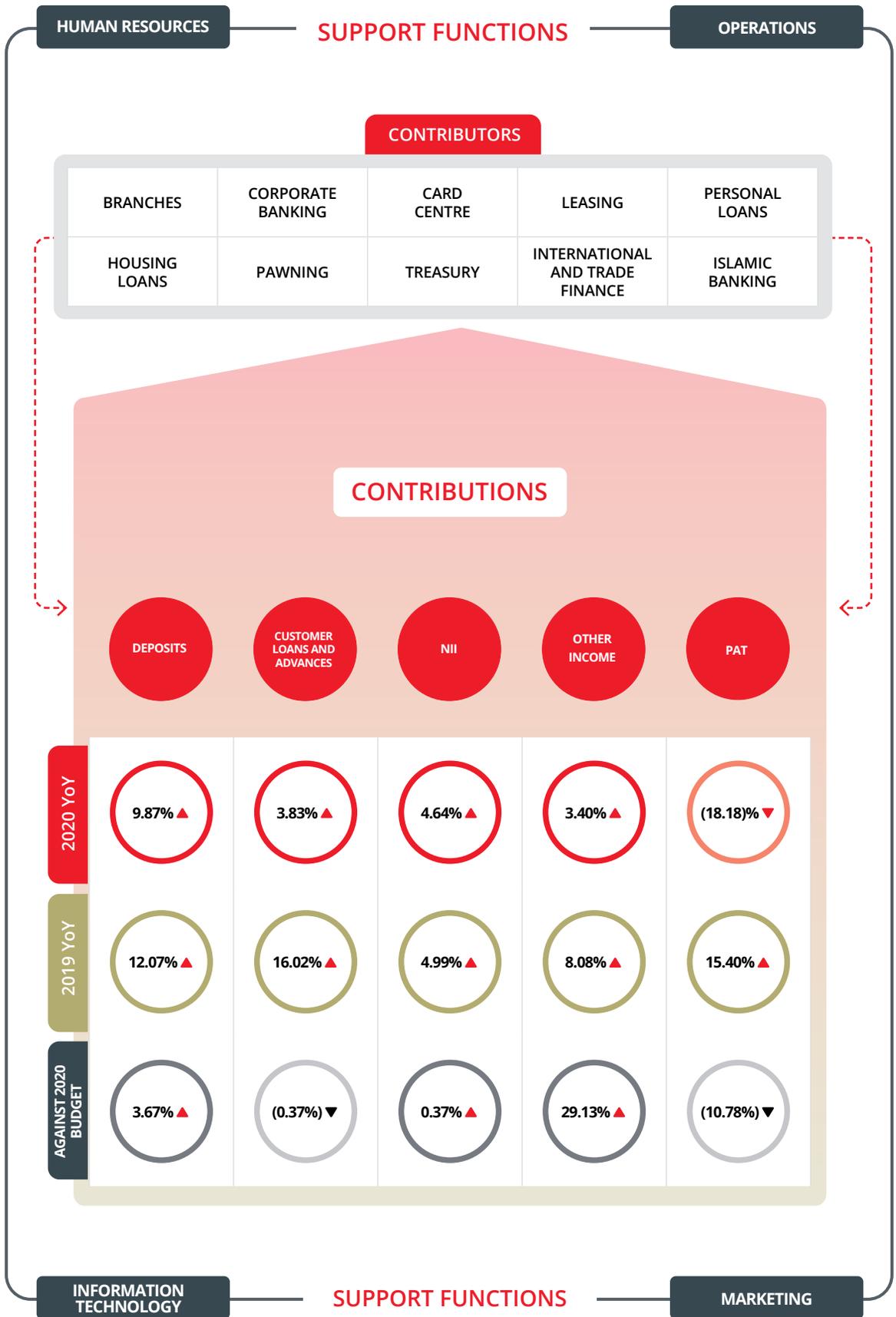
the profitable business lines of the Bank. Significant growth was achieved in Income level, Assets and liabilities and was able to square balance sheet by meeting funding requirement through the deposit base. Further the unit was able to secure the joint Gold Award for Deal of the Year 2019 at the recently concluded Sri Lanka Islamic Banking and Finance Industry (SLIBFI) Awards 2019 and Bronze for the same deal at the regional Islamic Finance Forum of South Asia (IFFSA) Awards 2020. Seylan Bank was recognised for successfully financing a Diminishing Musharaka Facility of USD 4.5 Mn as part of a syndicate facility of USD 10 Mn. This is a key mile stone achieved during this journey and has placed Sri Lanka and Seylan firmly in the global Islamic Map.

## Support Functions

**Marketing:** Marketing is one of the key support functions of the Bank which adds value to the Bank year on year. Marketing drives and promotes the corporate brand of the Bank, the products available in the marketplace and the promotions offered.

## Information Technology

**(IT):** The increasing tech-savvy customers and increasing use of digitalisation have made IT a critical support function of the Bank. In 2020, IT played a significant role in ensuring the Bank's overall business operations continued uninterrupted by providing relevant digital systems across stakeholder groups.



# OUR STRATEGIC DIRECTION

Strategic direction of the Bank has been reanalysed during year 2020 and updated in order to inculcate recent developments in both internal and external environments. The Bank's ambitious three-year strategy was launched in January 2021. Strategic goals of the corporate strategy are aligned to the performance of the Bank which will be closely monitored. Strategic Business Units of the Bank are accountable to accomplish these strategic objectives.

We have made a significant improvement by transforming the Bank's digital channels, IT infrastructure development and development of the Bank's sales channels etc. Such strategic initiatives have laid the foundation for the Bank in order to drive a turbo growth. The plan will be re-evaluated and updated in line with external market conditions by the latter part of year 2021. Such agility and flexibility will ensure that Bank's strategy will evolve throughout next three years.



# SUSTAINABILITY PERFORMANCE INDICATORS

Stakeholder Group	Indicator of Performance	Achievement					Indicator
		2020	2019	2018	2017	2016	
<b>Investors</b> 	Economic value added (LKR Mn)	13,516	15,280	14,443	14,443	12,290	GRI 201-1
	Profit after tax (LKR Mn)	3,011	3,680	3,189	4,430	4,010	GRI 201-1
	Earnings per share (LKR)	5.82	8.70*	7.71*	10.71*	9.69*	GRI 201-1
	Return on equity (%)	6.43	9.29	9.27	14.30	15.18	GRI 201-1
	Return on average assets	0.56	0.75	0.73	1.16	1.23	GRI 201-1
	Dividend per share (LKR)	1.50	2.00	2.50	3.50	3.25	GRI 201-1
	Customer deposits (LKR Mn)	440,303	400,731	357,560	307,099	273,456	GRI 102-7
	Number of KYC anti-money laundering programmes [NJ/participants (P)]	512P	726P	1,223P	36N	14N	GRI 205-2
	Penalties arising from non-compliance of laws	Nil	Nil	Nil	Nil	Nil	GRI 206-1
<b>Customers</b> 	Number of banking centres	172	173	170	166	166	GRI 102-6
	Number of ATMs	215	215	207	205	202	GRI 102-6
	Total customer advances (Gross) (LKR Mn)	409,301	389,991	336,775	286,469	242,073	GRI 102-7
	Number of housing loans	5,254	5,703	5,738	5,698	5,864	GRI 102-7
	Value of housing loans (LKR Mn)	16,731	16,765	15,690	13,500	12,515	GRI 102-7
	Housing loans to total loans (%)	4.09	4.30	4.66	4.71	5.17	GRI 203-1
	Number of 'Tikiri' kids events held	27	104	136	123	162	GRI 413-1
	Number of student saving centres	98	98	98	98	100	GRI 102-6
	Number of customer complaints	4,534	4,824*	4,620*	74	74	GRI 418-1
	<b>Employees</b> 	Turnover rate (%) (Including sales staff)	5.88	9.26	6.84	4.53	4.32
Permanent employees (%)		94	88	89	92	88	GRI 102-8
Average benefits per employee (LKR '000)		2,127	1,970*	1,741*	1,636*	1,465*	GRI 405-2
Staff covered by health plan (%)		100	100	100	100	100	GRI 403-1
Women employees (%)		43	43	43	42	43	GRI 405-1
Women in corporate and middle management (%)		29	28	27	22	29	GRI 405-1
							GRI 102-41
Union membership (%)		91	90	93	98	93	
Number of pending human rights cases against the Bank		Nil	Nil	Nil	Nil	Nil	Nil
Number of participants on external and foreign training		94	341	280	373	361	GRI 404-2
Ratio of standard entry level wage		Above minimum	Above minimum	Above minimum	Above minimum	Above minimum	GRI 202-1
Proportion of Senior Management from local community (%)		100	100	100	100	100	GRI 202-2

\*Restated

Stakeholder Group	Indicator of Performance	Achievement					Indicator	
		2020	2019	2018	2017	2016		
<b>Community</b> 	Contribution on the community projects (LKR Mn)	26.75	15.37	8.81	11.19	17.50	GRI 413-1	
	Contribution on education-related pursuits (LKR Mn)	5.42	8.81	14.70	15.14	16.70	GRI 413-1	
	Number of loans granted under 'Seylan Scholar'	14	17	24	37	63	GRI 413-1	
	Number of SME loans	18,872	22,148	26,161	15,990	14,605	GRI 413-1	
	Value of SME loans (LKR Mn)	100,650	100,708	93,882	84,647	80,917	GRI 413-1	
	Number of micro finance loans	8,668	3,478	1,704	-	-	-	
	Value of micro finance loans (LKR Mn)	1,537	837	220	-	-	-	
<b>Suppliers</b> 	Purchases from locally based suppliers (LKR Mn)	525.56	589.59	567.39	522.69	502.52	GRI 204-1	
<b>Environment</b> 	Electricity consumed, (Units kwh) 000	7,651	8,413	8,518	8,767	9,165	GRI 302-1	
	Electricity consumption – units per employee (kWh)	2,353	2,503	2,547	2,741	2,896	GRI 302-1	
	Water consumption – Units	85,830	77,370	77,226	77,685	79,335	GRI 303-1	
	Water consumption – Units per employee	26	23	23	24	25	GRI 303-1	
	Generator diesel consumption (litres)	65,460	74,626	63,447	63,210	71,674	GRI 302-1	
	Vehicle petrol consumption (litres)	8,238	11,426	16,860	18,359	17,386	GRI 302-1	
	Vehicle diesel consumption (litres)	43,157	52,940	56,442	45,962	42,990	GRI 302-1	
	Lubricant consumption (litres)	595	767	480	680	685	GRI 302-1	
	Total business travels (km)	486,523	668,725	586,183	511,523	396,625	GRI 305-1	
	Packets of A4 paper used	18,878	23,984	24,215	23,725	23,498	NA	
	Weight of A4 paper (kg)	226,536	287,808	290,580	284,700	281,976	NA	
	A4 packets usage per business unit	100	126	130	130	141	NA	
	Waste paper recycled (kg)	76,387	102,026	63,892	141,624	102,237	GRI 306-2	
	<b>Savings from recycled papers</b>							
	Trees (No.)	1,299	1,734	1,086	2,408	1,738	GRI 306-2	
	Water (litres)	2,427,579	3,242,386	2,030,488	4,500,811	3,249,092	GRI 306-2	
	Electricity (kWh)	305,548	408,104	250,568	566,496	408,948	GRI 306-2	
Oil (litres)	134,059	179,056	112,130	248,550	179,426	GRI 306-2		
Land fill (cubic meters)	229	306	192	425	306	GRI 306-2		
Carbon footprint (kg)	15,277	20,405	12,778	28,325	20,447	GRI 306-2		
<b>The Government and the Government Institutions</b> 	Income tax (LKR Mn)	1,100	1,418	1,477	2,226	1,723	GRI 201-1	
	Value added tax and nation building tax on financial services (LKR Mn)	1,528	2,767*	2,113*	1,895	1,349	GRI 201-1	
	Total Tax (VAT/NBT and income tax % of PBT)	64	53*	53*	48	43	GRI 201-1	

\*Includes debt repayment levy

# INDEPENDENT ASSURANCE REPORT



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : [www.kpmg.com/lk](http://www.kpmg.com/lk)

## INDEPENDENT ASSURANCE REPORT TO SEYLAN BANK PLC

We have been engaged by the directors of Seylan Bank PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2020. The Sustainability Indicators are included in the Seylan Bank PLC's Integrated Annual Report for the year ended 31 December 2020 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

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The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

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## Our conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2020 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2020, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

## Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

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

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

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA

Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

### Reasonable assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

### Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

### Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

### Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.



**CHARTERED ACCOUNTANTS**  
Colombo

22 February 2021

# CONNECTING SUSTAINABLE PERFORMANCE THROUGH GOVERNANCE

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# BOARD OF DIRECTORS

## Mr W M R S Dias

Non-Executive Director/Chairman



### Qualifications

*FCIB (UK), LL.B, Hubert H Humphrey Fellow*

### Appointed to the Board

29 May 2015 as a Non-Executive Director and was appointed as the Chairman on 9 May 2016.

### Memberships on Board

#### Subcommittees

Board Nomination Committee, Board Integrated Risk Management Committee, Board Governance and Compliance Committee and Board Marketing and Product Development Committee.

### Skills and experience

Senior Banker with long years of banking experience and was lastly serving as the Managing Director/Chief Executive Officer of Commercial Bank of Ceylon PLC. Mr Dias has served on the Boards of Commercial Development Company PLC, Commercial Insurance Brokers (Pvt) Limited, Lanka Clear (Pvt) Limited, Lanka Financial Services Bureau Limited and was a Council Member of the Employers' Federation of Ceylon.

Mr Dias presently serves on the boards of many corporates.

## Mr W D Kapila Jayawardena

Non-Executive Director/Deputy Chairman



### Qualifications

*MBA (Financial Management), FIB, Associate, ICEA (London).*

### Appointed to the Board

1 August 2013 as a Non-Executive Director and appointed as the Deputy Chairman on 10 September 2018.

### Memberships on Board

#### Subcommittees

Board Audit Committee and Board Nomination Committee.

### Skills and Experience

Former CEO and Country Head of Citibank N.A. Sri Lanka. Mr Jayawardena

has wide experience in investment banking, banking operations, audit, relationship management, corporate finance, corporate banking and treasury management. He has held several key positions in important professional associations and organisations. Mr Jayawardena joined LOLC in the year 2007 as the Group Managing Director/CEO and heads the business and operating functions of LOLC Group. He is a member of the main Board of the LOLC Group and serves on many of the subsidiary and associate entities of both the LOLC Group and the Browns Group of Companies.

## Ms M Coralie Pietersz

Independent Director/Senior Director



### Qualifications

*BSc (Hons) Physics (University of Sussex), MBA (Heriot-Watt University, Edinburgh), ACA (ICAEW), FCA (ICASL), FCMA*

### Appointed to the Board

23 September 2013 as an Independent Director and was designated as the Senior Director with effect from 9 May 2016.

### Memberships on Board

#### Subcommittees

Board Audit Committee (Chairperson), Board Human Resources and Remuneration Committee (Chairperson), Board Nomination Committee (Chairperson), Board Integrated Risk Management Committee, Board Governance and Compliance Committee and Related Party Transactions Review Committee.

### Skills and experience

Ms Pietersz counts over 25 years of senior level experience in corporate finance, accounting and auditing in both private and public sectors including several years of banking and plantation sector experience. She was trained at Thornton Baker Chartered Accountants in London (presently known as Grant Thornton). Back in Sri Lanka, Ms Pietersz served in the Mahaweli Authority. She also served as the Finance Manager of Commercial Bank of Ceylon, as the Chief Financial Officer of Nations Trust Bank, as the Group Chief Financial Officer of Richard Peiris & Co PLC and as the Finance Director of Finlays Colombo and its subsidiary/associate companies, including Hapugastenne Plantations PLC and Udupussellawa Plantations PLC until 2020.

Ms Pietersz serves as a member of the Council of the Institute of Chartered Accountants of Sri Lanka and on many of its committees.

### Mr Kapila P Ariyaratne

Director/Chief Executive Officer



#### Qualifications

*BSc (Honours – First Class), University of Colombo*

#### Appointed to the Board

16 February 2015 as an Executive Director

#### Memberships on Board

##### Subcommittees

Board Integrated Risk Management Committee, Board Credit Committee, Board Sustainability Committee, Board Marketing and Product Development Committee, Board Strategic Plan Committee and Board Information Technology Committee.

#### Skills and experience

Mr Kapila Ariyaratne joined the Bank in March 2011 as the General Manager/ Chief Executive Officer and was appointed to the board as an Executive Director on 16 February 2015. He has over 36 years of experience in the banking sector having worked for several local and international banks acquiring an in- depth knowledge. He is also the Chairman of Seylan Developments PLC and serves on the Boards of Lanka Financial Services Bureau and the Sri Lanka Banks' Association. He is a member of the present Governing Board of the Institute of Bankers of Sri Lanka and also the National Payments Council.

### Mr P L S Kumar Perera

Independent Director



#### Qualifications

*BSc (Special) (Mathematics) University of Colombo, MSc in Statistics, University of Ibadan, MA (Economics and Econometrics), University of Manchester.*

#### Appointed to the Board

23 September 2013 as an Independent Director

#### Memberships on Board

##### Subcommittees

Board Governance and Compliance Committee (Chairman), Related Party Transactions Review Committee (Chairman), Board Audit Committee, Board Nomination Committee and Board Integrated Risk Management Committee.

#### Skills and Experience :

Possesses over 22 years of executive and managerial experience in the Central Bank of Sri Lanka and has received extensive exposure in capital markets, portfolio management and new financial instruments locally and overseas. Held the position of Additional Controller of Exchange at the time of his retirement of the Central Bank of Sri Lanka and has previously served as Deputy Director-Marketing of the Agricultural Development Authority and has also served the Task Force appointed by the Central Bank of Sri Lanka on Reforms to Exchange Control. Mr Perera serves as a Consultant to reputed private sector organisations.

### Mr S Viran Corea

Non-Executive Director



#### Qualifications

*Bachelor-of-Laws (LL.B) and Master-of-Laws (LL.M) (University of Colombo), Attorney-at-Law*

#### Appointed to the Board

14 May 2015 as a Non-Executive Director.

#### Memberships on Board

##### Subcommittees

Board Credit Committee, Board Governance and Compliance Committee, Board Sustainability Committee, Related Party Transactions Review Committee and Board Human Resources and Remuneration Committee.

#### Skills and experience

Counsel and Legal Consultant with over 23 years' experience at the Bar.

His experience in private practice has included the fields of constitutional and administrative law, human rights law, commercial law, industrial law, arbitration, contract law and land law. He has been involved as counsel in a number of landmark cases of national and public importance reported in the Sri Lanka Law Reports. He has served as a State Counsel at the Attorney General's Department of Sri Lanka for several years and has represented in court and advised the Government Departments and state institutions in several important matters. At present, he is also a legal advisor to many companies and organisations.

In 2012, he was picked as an Asia 21 Young leader by the Asia Society.

## Mr Anushka S Wijesinha

Independent Director



### Qualifications

*MA Economics and Development [University of Leeds Business School, UK], BSc (Hons) Economics [University College London, UK]*

### Appointed to the Board

1 December 2016 as an Independent Director.

### Memberships on Board Subcommittees

Board Credit Committee (Chairman), Board Strategic Plan Committee (Chairman), Related Party Transactions Review Committee, Board Marketing and Product Development Committee, Board Nomination Committee and Board Information Technology Committee.

### Skills and experience

An economist with expertise in Sri Lanka, Myanmar, Maldives and South Korea. He has published national and international academic publications, focusing on innovation, private sector development and international economics. Some of the important positions held by Mr Wijesinha included; being an Advisor to the Ministry of Development Strategies and International Trade; Chief Economist of the Ceylon Chamber of Commerce; Research Economist and Unit Head at Institute of Policy Studies of Sri Lanka, etc. Mr Wijesinha is a Consultant to many international development organisations and serves on the boards of leading corporates. He is an Asia Development Fellow of the Korea Development Institute and member of the World Economic Forum's 'Global Future Council on Innovation Ecosystems'.

## Ms Sandya K Salgado

Independent Director



### Qualifications

*MBA (International) Edith Cowan University, Perth, Australia, BA(English, French, Linguistics) University of Kelaniya, Sri Lanka, MCIM-UK*

### Appointed to the Board

1 December 2016 as an Independent Director.

### Membership on Board Subcommittees

Board Marketing and Product Development Committee (Chairperson), Board Sustainability Committee (Chairperson), Board Human Resources and Remuneration Committee and Board Strategic Plan Committee.

### Skills and experience

Ms Sandya Salgado is a Strategic Communications and Sustainable Business Management specialist with over three decades of experience, across the financial and banking sectors. She has been trained at the Johns Hopkins University, Baltimore, USA, in Strategic Communications and served as the CEO of Ogilvy Action for nearly twenty years, was the Senior Communications Specialist at the World Bank, for the World Bank funded projects in Sri Lanka and Maldives until 2015. Ms Salgado was an awardee of the title 'Marketer of the Year' in 2001, 'Zonta Woman of Achievement' in 2006. She was also selected as the Woman of Inspiration by Women in Management and IFC. She is a honorary member of the board of management of the 1990 Suwaseriya Ambulance Service.

## Mr D M D Krishan Thilakaratne

Non-Executive Director



### Qualifications

*AIB (Sri Lanka)*

### Appointed to the Board

1 October 2018 as a Non-Executive Director

### Memberships on Board Subcommittees

Board Credit Committee, Board Sustainability Committee, Board Marketing and Product Development Committee and Board Human Resources and Remuneration Committee.

### Skills and experience

Mr Krishan Thilakaratne is the Director/ CEO of Commercial Leasing and Finance PLC and is a Member of the Senior Management Team of LOLC PLC. He was the past Chairman of the Finance Houses Association of Sri Lanka (FHASL), the Apex body for Non-Bank Financial Institutions (NBFIs) in Sri Lanka. Mr Thilakaratne has followed a Strategic Leadership Training Programme in Microfinance at the Harvard Business School, USA. He counts over 25 years of experience in management, credit, channel management, marketing, factoring, portfolio management and Islamic finance.

## Mr D R Abeyesuriya

Independent Director



### Qualifications

FCMA, CGMA, MBA (Monash University, Australia), CFA

### Appointed to the Board

17 October 2018 as an Independent Director

### Membership on Board Subcommittees

Board Integrated Risk Management Committee (Chairman), Board Information Technology Committee (Chairman), Board Audit Committee, Board Human Resources and Remuneration Committee and Board Strategic Plan Committee.

### Skills and experience

Mr Abeyesuriya is currently the Director/CEO of the Candor Group and holds directorships in several other corporates. He is also the President of the Association of Alternative Financial Institutions, Advocacy Chair and Board

Director of CFA Society Sri Lanka, Council Member of Sri Lanka Institute of Directors and Co-Chair of the National Agenda Committee-Finance and Capital Markets, Ceylon Chamber of Commerce and a member of the Codes of Conduct Review Committee appointed by the Monetary Board of the Central Bank of Sri Lanka. Formerly, he has held key positions in reputed corporates and has served in several commissions/committees of regulatory entities, namely the Securities and Exchange Commission of Sri Lanka, Central Bank of Sri Lanka and was also a permanent member of the Financial Sector Reforms Committee and a member of the Prime Ministerial Task Force.

Mr Abeyesuriya was named as 'Lifetime Achievement' award laureate by CFA Institute, USA in 2017 for his outstanding work and dedication to the investment management profession.

## Ms V G S Sunjeevani Kotakadeniya

Alternate Director to  
Mr W D K Jayawardena



### Qualifications

FCMA(UK), CGMA(USA), MBA(Col.)

### Appointed to the Board

26 June 2020 as the Alternate Director to Non-Executive Director, Mr W D K Jayawardena.

### Skills and experience

Ms Kotakadeniya is the current Chief Financial Officer of the LOLC Group, overseeing the Group's local and international affairs.

She possesses over thirty three years' experience in the fields of finance and management both in the financial services sector and non-financial services sector, having held key positions in many leading organisations in insurance,

finance, leasing, factoring, fund management, unit trusts administrations and stock broking. Her experience as a senior finance professional includes organisations engaged in trading, manufacturing, construction, agriculture and plantations, leisure and IT services industries representing the non-financial sector. Ms Kotakadeniya has been a catalyst in corporate restructuring and change management, mergers and acquisitions and project management.

# SENIOR MANAGEMENT TEAM

## DIRECTOR/CEO AND DEPUTY GENERAL MANAGERS

### Mr Kapila Ariyaratne

Director/Chief Executive Officer



#### Qualifications

BSc (Honours - First Class)  
University of Colombo

#### Total experience

33 years

### Mr Ramesh Jayasekara

Chief Operating Officer



#### Qualifications

Associate of Institute of Chartered Accountants of SL  
Bachelor of Commerce (First Class)- University of Colombo

Associate of Chartered Institute of Marketing United Kingdom

Associate of Institute of Certified Management Accountants

#### Total experience

23 years

### Mr Chitral De Silva

Deputy General Manager – Branches Zone I



#### Qualifications

Executive Diploma in Business Administration - University of Colombo

#### Total experience

38 years

### Mr Delvin Pereira

Deputy General Manager – Branches ZONE II



#### Qualifications

Masters in Business Administration- University of Western Sydney

Certified Management Accountant-Australia

#### Total experience

35 years

### Mr Jayantha Amarasinghe

Deputy General Manager - Human Resources



#### Qualifications

Master in Business Administration - Buckinghamshire New University  
Bachelor of Law (LLB)

Attorney at Law  
Chartered Fellow Member of CIPM - Sri Lanka

Postgraduate Diploma in Management - Sri Lanka Institute of Marketing

Postgraduate Diploma in International Relations - Bandaranaike Centre for International Studies - Sri Lanka

#### Total experience

28 years

### Ms Champika Dodanwela

Chief Financial Officer



#### Qualifications

Master in Business Administration University of Colombo

Fellow member of ACCA UK

Associate member of Certified Management Accountants

Fellow member of Institute of Bankers Sri Lanka

Bsc Applied Accounting Oxford Brooke UK

Bsc Management. University of Sri Jayawardanapura

#### Total experience

31 years (Finance)

## SENIOR MANAGEMENT TEAM - DIRECTOR/CEO AND DEPUTY GENERAL MANAGERS

**Mr Harsha Wanigatunga**

Chief Information Officer

**Qualifications**

Bachelor of Science –  
Computer System Design  
– University of Houston -  
Clear Lake  
Master of Science –  
Computer Engineering -  
University of Houston – Clear  
Lake

**Total experience**

26 years

**Mr Malik Wickramanayake**

Deputy General Manager - Operations

**Qualifications**

BA in Business and Admin  
Studies – Lewis & Clark  
College, Portland, Oregon,  
USA.

**Total experience**

26 years

**Mr Shanaka Perera**

Deputy General Manager - Treasury

**Qualifications**

Master in Business  
Administration - PIM  
- University of Sri  
Jayawardanapura  
FIB - Institute of Bankers of  
Sri Lanka  
PG. Ex. Diploma in Bank  
Management- Institute of  
Bankers Sri Lanka  
CMA - ICMA, Australia  
ACI DC - ACIFMA  
Diploma in Treasury and Risk  
Management - IBSL

**Total experience**

30 years

# SENIOR MANAGEMENT TEAM

## ASSISTANT GENERAL MANAGERS

**Mr Wasantha Karunaratne**  
Assistant General Manager - Services



**Qualifications**

Diploma in Purchasing and Materials Management

**Total experience**  
30 years

**Mr Kapila Rathnayaka**  
Assistant General Manager - Premises Maintenance



**Qualifications**

BSc - Engineering Honours (Peradeniya)  
MBA - PIM University of Sri Jayewardenepura  
Chartered Engineer  
Corporate Member of Institution of Engineers (IESL)

**Total experience**  
19 years

**Mr Aruna Fernando**  
Chief Risk Officer



**Qualifications**

Master of Business Administration - PIM, University of Sri Jayewardenepura  
AIB (Sri Lanka)  
Postgraduate level Certificate Course in Modern Commercial Banking - PIM, University of Sri Jayewardenepura  
Special Course Credited by GARP on Bank Risk Management, Euromoney Learning Solutions

**Total experience**  
33 years

**Mr Varuna Koggalage**  
Head of Audit



**Qualifications**

Fellow member of the Chartered Accountants - Sri Lanka (ICASL)

**Total experience**  
25 years

**Mr Nuwan Jayawardane**  
Assistant General Manager - IT Infrastructure



**Qualifications**

BSC in Computer Engineering - New Jersey Institute of Technology  
MBA in finance - University of Colombo  
ITIL V3 Foundation  
Project Management Professional  
COBIT® Foundation

**Total experience**  
26 years

**Ms Sharon Fonseka**  
Assistant General Manager - Corporate Credit Branches



**Qualifications**

Associate member of the Institute of Bankers of Sri Lanka

**Total experience**  
32 years

## SENIOR MANAGEMENT TEAM - ASSISTANT GENERAL MANAGERS

**Ms Nisha Najumdeen**

Company Secretary

**Qualifications**

Associate Member of the Institute of Chartered Secretaries and Administrators (UK)  
Associate Member of the Institute of Chartered Corporate Secretaries of Sri Lanka

**Total experience**

31 years

**Mr Eranga Lankatilaka**

Assistant General Manager – Recoveries

**Qualifications**

Associate Member of the Institute of Bankers of Sri Lanka  
Master of Business Administration - Rajarata University of Sri Lanka

**Total experience**

30 years

**Mr Chandana Gurusinghe**

Assistant General Manager - Special Projects

**Qualifications**

Certificate IV in Business (Frontline Management) - Department of Further Education, Employment Science and Technology - Government of South Australia

**Total experience**

36 years

**Mr Ranil Dissanayake**

Assistant General Manager - Branch Credit

**Qualifications**

Associate member of the Institute of Bankers of Sri Lanka  
Certificate course in Project Finance - Institute of Bankers of Sri Lanka

**Total experience**

30 years

**Ms Dilani Sooriyaarachchi**

Head of Compliance

**Qualifications**

Attorney-at-Law of the Supreme Courts of Sri Lanka  
Fellow member of the International Compliance Association of UK [FICA]  
Fellow member of the Institute of Bankers of Sri Lanka [FIB]  
Post Graduate Diploma in Business Management granted by the University of Colombo.  
Post Attorney Diploma in Banking and Insurance Law granted by the Advanced Legal Education Centre attached to the Sri Lanka Law College  
Diploma in Credit Management granted by the Institute of Credit Management of Sri Lanka.

**Total experience**

23 years

**Mr Sunil Jayawardana**

Head of Credit Hubs

**Qualifications**

BSc Business Administration (Special) of University of Sri Jayewardenepura  
Master in Business Studies - University of Colombo

**Total experience**

33 years

**Mr Sampath Fernando**

Assistant General Manager - Information Technology

**Qualifications**

Master of Business Administration- University of Manipal Banking Intermediate

**Total experience**

31 years

**Mr Eugene Seneviratne**

Assistant General Manager - Retail Banking

**Qualifications**

Master of Business Administration- Sikkim Manipal University  
Certificate IV in Business Frontline Management - TAFE  
Certificate in Credit – College of Banking and Finance  
Intermediate Banking  
Diploma - IBSL

**Total experience**

29 years

**Mr Sanjaya Perera**

Assistant General Manager - Finance

**Qualifications**

Associate Member of Institute of Chartered Accountants of SL  
Bachelor of Science in Accountancy and Financial Management - University of Sri Jaywardenepura  
Associate Member of Institute of Certified Management Accountants  
Master of Business Administration University of Sri Jaywardenepura

**Total experience**

18 years

**Mr Ruwan Fernando**

Assistant General Manager – Branches II

**Qualifications**

Associate Member of the Chartered Institute of Management Accountants – UK  
Associate member of the Institute of Bankers of Sri Lanka

**Total experience**

27 years

**Ms Vayoma Paranagama**

Assistant General Manager - Legal

**Qualifications**

Attorney at Law and Notary Public  
Associate of Institute of Bankers Sri Lanka  
Master of Business Administration - University of Sri Jaywardenepura

**Total experience**

28 years

**Mr Dilan Wijegoonawardena**

Assistant General Manager - International

**Qualifications**

Master of Business Administration – PIM  
Fellow Member of the Chartered Institute of Management Accountants- UK  
Fellow Member of the Chartered Management Accountants-SL.  
Fellow member of the Institute of Bankers of Sri Lanka  
Diploma in International Trade - IBSL

**Total experience**

26 years

## SENIOR MANAGEMENT TEAM - ASSISTANT GENERAL MANAGERS

**Mr Gamika De Silva**

Assistant General Manager - Marketing and Sales

**Qualifications**

Master in Business Management - University of Wales

CIM – Chartered Institute of Marketing

**Total experience**

22 years

**Ms Nilanthie De Meral**

Assistant General Manager - Corporate Banking

**Qualifications**

Associate member of the Institute of Bankers of Sri Lanka

**Total experience**

29 years

**Mr Dimuth Sigera**

Assistant General Manager – Branches I

**Qualifications**

Chartered Financial Analyst – Chartered Financial Analyst (CFA) Institute

Master in Economics – University of Colombo

Master of Business Administration- PIM

BSc Management (Public) Special degree- University of Sri Jayawardenepura

**Total experience**

19 years

# CORPORATE GOVERNANCE

## CHAIRMAN'S LETTER

Dear Shareholders,

The core of any resilient bank is made up of good governance, effective risk management and robust internal controls. In the recent times the business landscape of banks has undergone significant change consequent to the COVID-19. Board members and management members of banks were facing a complex new reality as a result of COVID-19, characterised by a multitude of pressures, demands and heightened expectations from various stakeholder groups and radical uncertainties. Given that the banking sector has a responsible role to play as a facilitator of growth of the economy whilst ensuring a reasonable return on shareholder funds, a complete relook at the business strategy and orientation was the need of the hour.

The Board of Directors of Seylan Bank PLC ('the Bank') at the Board meetings and Board Subcommittee meetings held during the year post-Covid, continued to play an active role in ensuring that the interests of its various stakeholders, namely the shareholders, customers, employees, regulators, general public, etc., were handled in a way that was consistent with its obligations to these groups and with the long-term health of the Bank. This was possible due to the Board members having a shared understanding of the purpose and strategy as well as

the Bank's responsibilities towards each stakeholder group. The Board deliberated and arrived at considered conclusions in a proactive and efficient manner, around key issues that are critical in the post-Covid period during the year.

The Non-Executive Directors continued to bring independent views and opinions on key issues affecting the Bank. They reflected the consistency of the Bank's focus on maintaining its values and delivering its objectives.

The Board continued to ensure timely flow of information from the management to the Board to support its roles and responsibilities. Despite the challenges, it helped the Bank comply with the Directions of the Corporate Governance principles set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) and principles of the codes on Corporate Governance to the extent applicable. These are disclosed in the Corporate Governance Report as well as in the Reports of the regulatory Board Committees published in the Annual Report. The disclosures on Financials and notes thereof, on Internal Controls, on ESG (Environmental Social Governance) and on Risk Management further demonstrate the Bank's commitment to governance, the Board's oversight of strategy and management's commitment to application of good governance practices.

The Board Governance and Compliance Committee and the Board of Directors reviewed this Corporate Governance Report and were satisfied with the disclosures and confirmations therein on the level of compliance in respect of the year ended 31st December 2020 under the aforementioned Banking Act Directions and also on the related governance codes and principles overall. The findings of the External Auditors' Factual Findings Report carried out based on the Agreed Upon Procedure in terms of Sri Lanka Related Services Practice Statement 4750 were reported to be consistent with the matters disclosed in this Corporate Governance Report.

I confirm that to the best of my knowledge, there were no material violations of any of the provisions of the applicable laws and regulations, the Banking Act and the Directions issued by the Central Bank of Sri Lanka and also the Codes of Conduct and Ethics of the Bank.

Yours sincerely,



**W M R S Dias**  
Chairman / Non-Executive Director

22 February, 2021  
Colombo

## CORPORATE GOVERNANCE REPORT

In order to improve the performance of the Bank, protect the interests of stakeholders and improve compliance with laws and regulations as well as the code of conduct which applies in general to the banking industry, Seylan Bank conducts its operations based on the principles of good corporate governance. The Board's approach to corporate governance is based

on the following six core principles which is spelt out in the Bank's Corporate Governance Framework.



- Independence
- Accountability
- Stewardship
- Ethical Culture
- Oversight and Strategy
- Continuous Improvement

The Bank's corporate governance framework guided by the above principles ensures effective engagement with its stakeholders and helps it evolve with changing times. The Bank's governance related policies, charters and codes of conduct and ethics formulated taking into consideration as appropriate, the rules, directions, guidelines and principles of the following regulations in addition to its' own Articles of Association, ensure that we make timely disclosures and share accurate information regarding our financials and performance as well as the leadership and governance of the Bank.

- *The Banking Act No.30 of 1988 (as amended)*
- *The Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks of Sri Lanka (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka*
- *Provisions of the Companies Act No.7 of 2007*
- *the Rules of the Colombo Stock Exchange (as amended)*
- *Guidelines of the Securities and Exchange Commission of Sri Lanka in pursuance of its regulations (as amended)*
- *other applicable regulations, directions and recommended best practices on Corporate Governance.*

### Compliance with Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended)

The Bank's level of compliance with Section 3(1)(xvi) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) (hereinafter referred to as the Banking Act Directions or CBSL Directions or Banking Act Directions on Corporate Governance) is disclosed in the Report that follows with references to the respective Banking Act Directions. The disclosures cover the eight sub-sections {Section 3(1) to Section 3(8)} of

the above Direction. Section 3(9) of the Direction on 'Transitional and Other General Provisions' is not applicable to the Bank and therefore not mentioned herein.

The Banking Act Directions and Banking Act regulations, other directions, determinations and circulars issued by the Monetary Board of the Central Bank of Sri Lanka under the Banking Act No.30 of 1988 (as amended) can be perused by accessing the website of the Central Bank of Sri Lanka [www.cbsl.gov.lk](http://www.cbsl.gov.lk).

### Directions/Compliance Status - complied ✓; not complied ✗; partially complied P and Level of Compliance

#### 3 (1) Responsibilities of the Board

##### 3 (1) (i) ✓ - Ensuring the safety and soundness of the Bank

Compliance with the regulations and policy measures, directions, determinations and circulars released by the regulators from time to time and the various governance related frameworks and policies adopted by the Bank were the key to robust and transparent risk management and effective decision-making across the Bank. It ensured responsibility and accountability of the Board as well as the management and strengthened the safety and soundness of the Bank whilst promoting public confidence, mainly of its depositors and borrowers.

##### 3 (1) (i) (a) ✓ - Strategic Objectives and Corporate Values

A fundamental component of good governance is a demonstrated corporate culture of reinforcing appropriate norms for responsible and ethical behaviour. These norms are especially critical in terms of a bank's risk awareness, risk-taking and risk management vis-a-vis its strategic objectives. The Bank's strategic objectives and corporate values are entrenched in its Vision and Mission statements. The Board has ensured that appropriate steps are taken to communicate these throughout

the Bank, by means of the Bank's Employment Manual and the Codes of Conduct and Ethics as well as supporting policies.

### Values stimulated by Seylan's Vision and Mission



The corporate values and the importance of achieving the objectives were emphasised to staff at orientation programs, training and development forums, etc. Different management forums were also held from time to time to review the progress against the set strategic objectives and goals as well as against the financial targets as per the annual budget.

### Codes of Conduct and Ethics

Two separate Board approved Codes are in place for the Directors and for the employees of the Bank, namely;

- *The Code of Business Conduct and Ethics for Directors and*
- *The Code of Conduct as well as the Code of Ethics for the Bank's employees.*

These Codes clearly state that Directors and employees are expected to conduct themselves ethically in addition to complying with laws, regulations and company policies. These Codes mainly cover the following principles and guidelines (but not limited to) to be abided by the Directors and the employees:

- *to protect the business interests of the Bank;*
- *to maintain the Bank's reputation;*
- *to foster compliance with applicable legal and regulatory obligations.*

The annual declaration to the effect that the Directors are aware and will abide by the Code of Business Conduct and Ethics for Directors was signed by all the Directors during the year. The Code of Conduct and the Code of Ethics for the Bank's employees are available on the Bank's intranet for perusal and due adherence by all staff.

### 3 (1) (i) (b) and (c) - Approval of the Overall Business Strategy and Risk Policies and Prudent Risk Management with Measurable Goals

The Bank's four-year Strategic Plan for the period 2017-2020 was approved by the Board. The Board Strategic Plan Committee periodically reviewed the developments and the progress of the Strategic Plan and provided necessary guidance to the executive management. The internal Project Management Office (PMO) in collaboration with the management focused on driving the results of the selected priorities as per an agreed operational plan.

During the year, the PMO and the internal teams with the approval of the Board Strategic Plan Committee, took into consideration the learnings and outcome of the 2017-2020 Plan and also the impact and implications of the COVID-19, commenced the development of a new Strategic Plan rolled over from the 2020 plan for the next three years ending 2023. The new plan was reviewed and recommended by the Board Strategic Plan Committee with improvements and was approved by the Board of Directors.

The Board has vested the responsibility for formulating and implementing prudent risk management policies to the Board Integrated Risk Management Committee (BIRMC). This Committee has ensured that the Bank's Risk Management Unit headed by the Chief Risk Officer identifies principal risks and with the approval of the Board puts

in place policies and guidelines for implementation. During the year, the Board ensured that the implementation of overall business strategy and the goals and targets are aligned with the Bank's overall risk assessment and risk appetite of the Bank mainly in context of the post COVID-19 pandemic situation. The Board approved risk policies and procedures in place which constitute the overall risk management framework of the Bank were constantly tested and reviewed by the Risk Management Unit and the status reviewed by the BIRMC.

### 3 (1) (i) (d) - Communication Policy with all stakeholders

The Board believes that collaboration and regular interaction with all stakeholder groups is essential to the Bank's long term resilience and to the effectiveness of its integrated sustainability approach.

The Board has adopted the following policies in this regard:

- *Stakeholder Engagement Policy – an internal document which sets out the method of engagement with stakeholders who impact and influence the Bank's long term resilience, specifying the lines of authority for communication with them in the ordinary course of business.*
- *Customer Charter (Customers include depositors and borrowers) - This document which is published in all three languages on the Bank's website, [www.seylan.lk](http://www.seylan.lk) outlines the Bank's policy on dealing with customers, handling customer complaints, contact information for making complaints to the Bank and also to the Financial Ombudsman.*
- *Shareholder Communication Policy - Accessible on the Bank's website, [www.seylan.lk](http://www.seylan.lk). This Policy was set out with the objective of enhancing long term shareholder value and strives to ensure that shareholders have ready and timely access to publicly available information on the Bank.*

- *Communication Policy – an internal document which provides guiding principles to the staff on both internal and external communication, mainly the dissemination of corporate information to the media.*

### 3 (1) (i) (e) - Internal control systems and management information systems

Internal controls system can only be adjudged to be effective if its components are present and function effectively for operations, financial reporting and compliance. The Board Audit Committee ensured that the internal controls system within the organisation was adequate. This responsibility included determining the extent to which internal controls were evaluated by the internal and external auditors. The Committee also ensured that management kept proper records that can be relied upon.

### 3 (1) (i) (f) - Identification of Key Management Personnel (KMPs)

Key management personnel (KMPs) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. All members of the Board of Directors and members of the senior management in the grade of Assistant General Manager and above and other officers performing executive functions as per the Banking Act Determination No.1 of 2019 are deemed as KMPs by the Bank. Their appointments were recommended by the Board Nomination Committee and approved by the Board.

KMPs are deemed as "related parties" and therefore, necessary steps were taken to ensure compliance with the relevant Banking Act Directions on Related Party Transactions, provisions of the Sri Lanka Accounting Standards (LKAS/SLFRS) and the Rules of the Colombo Stock Exchange. The Bank's Policy and

Process document on Related Party Transactions and Avoidance of Conflicts of Interests and the Codes of Ethics provide necessary principles, guidelines and processes to be followed by the KMPs.

### 3 (1) (i) (g) ✓ - Defining of areas of authority and key responsibilities

The key responsibilities of Key Management Personnel (KMPs) are defined in their job responsibilities, whilst the Directors derive their responsibilities from the regulations and directions, mainly, the Banking Act Directions. This is documented in the Board approved Corporate Governance Framework of the Bank.

### 3 (1) (i) (h) ✓ - Oversight of the affairs of the Bank by Key Management Personnel (KMPs)

The Board was satisfied that there was appropriate oversight of the affairs of the Bank by KMPs. The monthly management reports presented to the Board by the Chief Financial Officer provided an overall account of the performance of the Bank and of the business units and support units, against the agreed strategic objectives and targets set. These were reviewed and deliberated in depth by the Board members. Further, reports and/or proposals including those aligned to the Board's and its Subcommittees' instructions and Board policies, those arising from management level strategic decisions at meetings headed by the CEO were submitted by KMPs to the Board and Board Subcommittees for information, review and concurrence or decision.

### 3 (1) (i) (i) ✓ - Effectiveness of the Board's own governance practices

The Board believes that a properly conducted board evaluation can contribute significantly to performance improvements; at organisational level, board level and individual director level with benefits achieved in terms of improved leadership, greater clarity of roles and responsibilities,

improved teamwork, greater accountability, better decision-making, improved communication and more efficient board operations.

The Board has in place a formal process for reviewing the effectiveness of its own performance and that of its Committees annually. Each Director completes a detailed questionnaire which sought response of the Board on governance practices adopted by the Board which included the following:

- *structure of the Board and its Committees;*
- *board culture and relationships with stakeholders;*
- *effectiveness of Board proceedings;*
- *implementation of strategy; internal control processes and robust risk management;*
- *capitalisation of the Bank;*
- *response to problems and crisis that have emerged;*
- *succession planning;*
- *knowledge and skills update by board members;*
- *effectiveness of the Independent Directors of the Board.*

The results of the evaluations were collated and summarised by the Company Secretary and submitted for review and comments and/or recommendations of the Board Governance and Compliance Committee (BGCC) to its first meeting in 2020 and thereafter submitted to the Board for an overall assessment of the Board effectiveness and decisions where appropriate. The results reflected that the Board and Board Subcommittees have continued to be effective and have made valuable contributions towards the Board's responsibilities. The evaluations also yielded valid recommendations by the BGCC as well as the Board.

The Board Subcommittees too carried out assessments of the effectiveness of the respective

Subcommittees and submitted their reports to the Board for evaluation and comments.

### 3 (1) (i) (j) ✓ - Succession plan for Key Management Personnel (KMPs)

This responsibility is vested with the Board Nomination Committee (BNC). During the year, the Committee reviewed and ensured the effectiveness of the Succession Plan for KMPs in place with appropriate structural changes in order that the activities continued without any disruption to business. The BNC as well as the Board Human Resources and Remuneration Committee ensured that the right training and development plans were in place for identified successors and staff across the Bank.

### 3 (1) (i) (k) ✓ - Regular meetings with Key Management Personnel (KMPs)

The CEO and KMPs heading different areas of authority were invited to regular meetings of the Board Subcommittees as well as Board meetings at which the Board discussed the progress and the extent to which policies, corporate strategies and objectives of the Bank were implemented and achieved whilst advising and providing relevant directions to the management.

### 3 (1) (i) (l) ✓ - Understanding of the Regulatory Environment

The Board members by their own professional virtues keep abreast of the changes in the regulatory environment. They were also updated of the changes in the regulatory environment relating to or affecting the licensed commercial banks in general and/or the activities of the Bank, by the CEO and relevant key management personnel at the Board Subcommittee level and at Board level. The Board discusses and/or endorses the steps taken to comply with such changes as appropriate. The Board has ensured that the Bank maintains an effective dialogue and relationship with the regulators.

### 3 (1) (i) (m) ✓ - Hiring of External Auditors

The Board Audit Committee is vested with the responsibility of exercising due diligence and oversight in making necessary recommendations for hiring of the External Auditors. The Committee has ensured that the Audit Engagement Partner was changed every five years. A Board approved Policy for hiring and engagement of external auditors was adopted and followed in this regard.

### 3 (1) (ii) ✓ - Appointment of Chairman and Chief Executive Officer

The Bank appointed Non-Executive Director, Mr W M R S Dias as the Chairman of the Bank in May 2016 whilst Mr K P Ariyaratne was appointed in March 2011 as the Chief Executive Officer (CEO) of the Bank. The functions and responsibilities of the Chairman are as defined in section 3(5) of the Banking Act Directions and were stated in the Corporate Governance Framework of the Bank. These are distinct from the role and responsibilities of the CEO which is defined in his Job Description approved by the Board. Please refer section 3(5) of this report for further update.

### 3 (1) (iii) ✓ - Frequency of Board Meetings and participation of Directors

Twelve regular meetings were held

monthly. Additionally, two special meetings were held at different times during the year to consider important issues with the active participation of Directors.

**Quorum** - The quorum for the Board Meetings is minimum 5 members or above 50% of the number on the Board whichever is higher with the presence of majority non-executive directors. The quorum required in this manner was maintained from commencement to the conclusion of proceedings of Board Meetings held during the year.

Directors actively participated, shared their views and made valuable contributions at Board proceedings. Resolutions by circulation were restricted to matters of a routine nature and/or for urgent business requirements. A summarised report of all such resolutions passed, were ratified at the immediate regular monthly Board meeting that followed such dates of resolutions. The Directors' attendance at Board meetings are disclosed under 3(1)(vi) below.

### 3 (1) (iv) ✓ - Agenda

Since adequate notice of the Board meetings were issued, Directors had the opportunity to include matters and/or proposals relating to business of the Bank and other relevant matters to be considered at Board Meetings.

At Board meetings too, Directors proposed and collectively agreed on any additional matters to be included in the Agenda of future Board Meetings and/or Board Subcommittee meetings. Papers and information was provided by management to comply with any such requests of the Board prior to Board meetings.

### 3 (1) (v) ✓ - Notice of Meeting

Notices for the regular monthly meetings of the Board of Directors were emailed by the Company Secretary to the Directors as well as to the management at least three weeks prior to the date of the meeting and the agenda along with the connected papers/reports were circulated to the Directors by uploading them to the Board papers application system and accessed by the Directors from their application devices.

### 3 (1) (vi) ✓ - Attendance

The Board members' record of attendance at Board meetings at the preceding twelve-month period was apprised by the Company Secretary at the Board Meeting that followed such period. During the year, each Director has attended more than two-thirds of the meetings he/she was eligible to attend and further, no Director was absent from three consecutive meetings. The following table provides the total number of meetings attended by each Director during the year.

Director	Status*	Meetings eligible to attend	Meetings Attended	As a Percentage (%)
Mr W M R S Dias	Non-IND NED/Chairman	14	14	100.00
Mr W D K Jayawardena	Non-IND NED/ Deputy Chairman	14	**14	100.00
Ms M C Pietersz	IND NED/Senior Director	14	14	100.00
Mr K P Ariyaratne	EXD/CEO	14	14	100.00
Mr P L S K Perera	IND NED	14	14	100.00
Mr S V Corea	Non-IND NED	14	14	100.00
Mr A S Wijesinha	IND NED	14	14	100.00
Ms S K Salgado	IND NED	14	12	85.71
Mr D M D K Thilakaratne	Non-IND NED	14	13	92.86
Mr D R Abeyesuriya	IND NED	14	14	100.00

\*NED – Non-Executive Director; IND – Independent Non-Executive Director; EXD – Executive Director

\*\* includes one meeting attended by Alternate Director, Mr R D Tissera and four meetings attended by Alternate Director, Ms V G S S Kotakadeniya.

**3 (1) (vii) ✓ - Company Secretary**

Ms N N Najumudeen, who is a qualified Chartered Secretary, is the Bank's Company Secretary appointed by the Board and in conformation with Section 43 of the Banking Act No.30 of 1988 (as amended), she is not an employee of any other organisation or institution. The Board approved Job Description of the Company Secretary includes the responsibilities of a Company Secretary/Board Secretary as per the relevant regulations and codes.

The Company Secretary reports to the Board and to the Board Subcommittees and guides the members on matters relevant to the functioning of the Board and the Board Subcommittees. The Company Secretary also oversees the administration and day to day operations of the Company Secretariat including the registrar functions, communications with shareholders and with regulatory authorities, mainly the Colombo Stock Exchange, the Registrar of Companies and the Central Bank of Sri Lanka.

**3 (1) (viii) ✓ - Access to the advice and services of the Company Secretary**

Advice and services sought by the Board members from time to time in respect of board responsibilities, procedures and applicable rules and regulations that are required to be followed, were duly offered by the Company Secretary.

**3 (1) (ix) and (x) ✓ - Minutes of Board Meetings**

Minutes of Board meetings were recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations and decisions taken at the meetings. Minutes of Board meetings were prepared by the Company Secretary and circulated to the Directors upon being reviewed by the Chairman, so that they may peruse same and confirm or record any discrepancy for rectification or amendment at the following Board meeting. The Minute Books were maintained by the Company Secretary and were

available for inspection by any Director on reasonable notice.

**3 (1) (xi) ✓ - Independent professional advice**

Directors are able to seek independent professional advice at the expense of the Bank in furtherance of their duties and contribution at Board and Board Subcommittee meetings in the interest of the Bank. A Board approved procedure is in place for this purpose.

**3 (1) (xii) ✓ - Avoidance of Conflicts of Interest**

If a Director has a conflict of interest in a matter to be considered by the Board or by a Board subcommittee, which has been determined to be material, the Company Secretary and/or the Chairman or the Director/s concerned draw attention of the Board to such interest (directors' interest in contract or related party interest), prior to such proposal or matter is to be discussed and decided upon at the meeting. Directors leave the meeting room to abstain from participating in such deliberations and from voting on any such resolution. Such Directors were not considered for the quorum for approving such agenda item in the Board meeting.

**3 (1) (xiii) ✓ - Schedule of Matters Reserved for Board's Decision**

There is a formal schedule of matters that are reserved for the Board to decide. They are taken up at the regular Board meetings. They also include matters which require the approval of the Board where it is not within the delegated authority of the management and/or the Board sub-Committees. The scope of such matters are described in the Bank's Corporate Governance Framework, which includes but not limited to business strategy and management; capital structure, financial reporting and controls, remuneration of key management personnel, Bank's policies and delegation of authority.

**3 (1) (xiv) ✓ - Bank's ability/inability to meet its obligations on payments**

The Board has adopted a Contingency Funding Plan (CFP). The CFP addresses the procedures to be followed by the Bank and keeping the Director of Bank Supervision of the Central Bank of Sri Lanka informed in a liquidity crisis situation, i.e. if it considers that it is, or is unlikely to be able to meet its obligations or is about to suspend payments due to depositors and other creditors. The Bank however, did not face a situation of being unable to meet its obligations on payments during the year.

**3 (1) (xv) ✓ - Capitalisation of the Bank**

The Bank was in compliance with the Capital Adequacy requirements as required by the Monetary Board under Banking Act Direction No.1 of 2016 (as amended) on Capital Requirements under BASEL III for Licensed Commercial Banks and Licensed Specialised Banks. The Capital Adequacy Position based on the Capital Augmentation Plan (CAP) was reviewed periodically during the year. The Capital Augmentation Plan which was prepared based on BASEL III, took into consideration the projected growth patterns, provisions impact on the profitability, capital issues, dividend payout, etc. The total Capital Ratio as at 31 December 2020 based on certified audited financials was 14.30%, (well above the minimum regulatory requirement of 12.50%)

**3 (1) (xvi) ✓ - Annual Corporate Governance Report**

This Corporate Governance Report published in the Annual Report serves to meet the requirement of this provision in compliance with Direction 3 of the Banking Act Directions on Corporate Governance.

**3 (1) (xvii) ✓ - Scheme of Self-assessment**

Each member of the Board submitted his/her own self-assessment report to the Board, reporting on the extent of

their respective contributions to the Board and to the Board Subcommittees they were attached to. The reports were shared at the Board meeting and filed of record by the Company Secretary. These facilitated the Board members to assess the extent to which they have fulfilled their duties and responsibilities and further it ensured that appropriate processes are in place to ensure due diligence to planning and oversight over the organisation.

### 3 (2) The Board's Composition

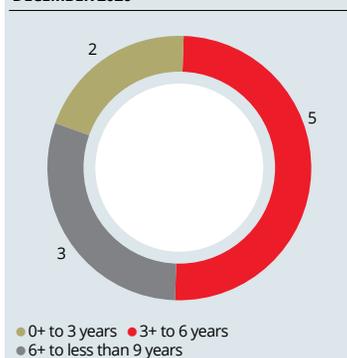
#### 3 (2) (i) ✓ - Board Composition

The Bank is in compliance with this section of the Banking Act Directions, i.e. that the composition of the Board to be not less than 7 and not more than 13. The Board comprised 10 members as at 31st December 2020, as described in the table below.

#### 3 (2) (ii) ✓ - Period of Service of Directors other than a Director who holds the position of CEO

The service period of the Non-Executive Directors on the Board during the year, did not exceed nine years as noted in the following table.

**NUMBER OF NON-EXECUTIVE DIRECTORS WHO HAVE COMPLETED THE FOLLOWING TENURES OF DIRECTORSHIPS AS AT 31ST DECEMBER 2020**



#### 3 (2) (iii) ✓ - Appointment of Executive Directors

Director/Chief Executive Officer, Mr K P Ariyaratne was the only Executive Director on the Board during the year. Thus complying with this direction which states that executive directors on the board shall not exceed one third of the total number.

#### 3 (2) (iv) ✓ - Independent Directors

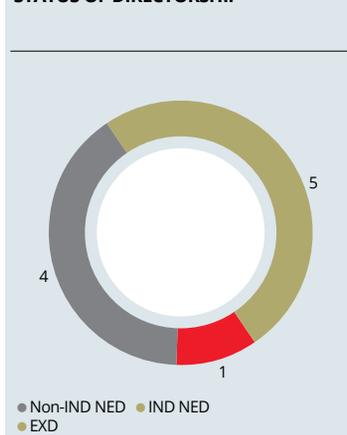
This Direction states that the minimum requirement of independent non-executive directors shall be 3 or one-third of the total number of directors on the board, whichever is higher. Therefore, based on the number of Directors on the Board of the Bank, the requirement would be

minimum 3 or  $10 \times \frac{1}{3} = 3.33$ , i.e. 4. However, the Bank's Board comprised five Independent Non-Executive Directors.

### Determination of Independence

The Board determined the independent and non-independent status of the Non-Executive Directors based on the declarations submitted by the Directors annually, in accordance with the criteria defined in the Banking Act Direction No. 3(2)(iv) and also in terms of the Section 7.10.4 of the Rules of the Colombo Stock Exchange.

**STATUS OF DIRECTORSHIP**



#### 3 (2) (v) ✓ - Alternate Directors

Mr R D Tissera functioned as the Alternate Director to Non-Independent Non-Executive Director, Mr W D K Jayawardena

No.	Director	Status*	Date of Appointment	Period served as at 31st December 2020
1.	Mr W M R S Dias	Non-IND NED /Chairman	29 May 2015	5 years, 7 months
2.	Mr W D K Jayawardena	Non-IND NED / Deputy Chairman	1 August 2013	7 years, 5 months
3.	Ms M C Pietersz	IND NED /Senior Director	23 September 2013	7 years, 3 months
4.	Mr K P Ariyaratne	EXD/Chief Executive Officer	16 February 2015	5 years, 10 months
5.	Mr P L S K Perera	IND NED	23 September 2013	7 years, 3 months
6.	Mr S V Corea	Non-IND NED	14 May 2015	5 years, 7 months
7.	Mr A S Wijesinha	IND NED	1 December 2016	4 years, 1 month
8.	Ms S K Salgado	IND NED	1 December 2016	4 years, 1 month
9.	Mr D M D K Thilakaratne	Non-IND NED	1 October 2018	2 years, 3 months
10.	Mr D R Abeyesuriya	IND NED	17 October 2018	2 years, 2 months

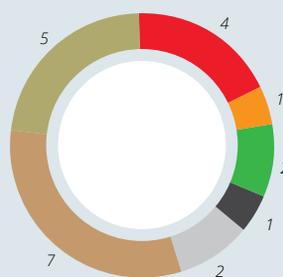
\*NED – Non-Executive Director; IND – Independent; EXD – Executive Director

until February 2020 whilst Ms V G S S Kotakadeniya was appointed in his place with effect from June 2020. Mr Tissera attended one Board meeting and Ms Kotakadeniya attended four meetings of the Board during the year, on behalf of Mr Jayawardena. Mr R D Tissera's and Ms V G S S Kotakadeniya's status of Alternate Directorships were deemed Non-Independent Non-Executive.

### 3 (2) (vi) ✓ - Profiles of the Non-Executive Directors

The Board firmly believes that a diversified board will bring forth divergent leadership skills, thinking, risk predilections and behaviours. The Directors on the Board were professionals with extensive experience, skills and proven track records, in the field of banking, finance, management, accounting, auditing, law, economics, research, marketing, strategic communications, etc. Their profiles can be perused on pages 67 to 70 in the Annual Report. Their knowledge and expertise brought comprehensive oversight to the operations of the Bank with a broader focus on financial, compliance and reputational risks, thus supporting a greater supervision on the Board and in the evaluation and decision-making process. The importance of these attributes were taken into account in determining the optimum composition of the Board of Seylan Bank and the requirements have been set out in its 'Policy for Appointment of Directors'.

#### AREAS OF EXPERTISE OF THE BOARD MEMBERS



- Banking and Finance
- Management
- Strategic Development
- Marketing and Strategic Communication
- Audit and Accounting
- Law
- Economics, Research and Advisory

**Gender Diversity** – This was another aspect that the Board took into consideration when nominees were considered for Board appointments. The Board of Directors comprised 20% female Directors and 80% male Directors.

### 3 (2) (vii) ✓ - Non-Executive Directors' composition at Board Meetings

Meetings of the Board held during the year were duly constituted with the required quorum and the presence of majority of the Non-Executive Directors.

### 3 (2) (viii) ✓ - Identification of status of Directors in corporate communications

The status of directorships has been expressly identified in all corporate communications including the Annual Reports. Designations of Directors who were designated with identified positions such as, Chairman, Deputy Chairman, Senior Director and Chief Executive Officer have also been duly stated in such communications.

### 3 (2) (ix) ✓ - Procedure for Appointment of Directors

The Board approved Policy Governing Directors' Appointment which is in place acts as a guideline to the Board when appointments to the Board are considered. The Board Nomination Committee is vested with the responsibility of identifying new directors and/or considering the suitability of directors nominated by any other Board member.

### 3 (2) (x) ✓ - Election of Directors appointed to fill casual vacancy on the Board

In terms of Article 89 of the Articles of Association, a director who is appointed after an Annual General Meeting (AGM) of the Bank is subject to election by the shareholders at the AGM that follows his or her appointment. No directors were appointed to fill casual vacancies during the period between the AGM in 2019 and the AGM in 2020 and hence did not entail election at the AGM held during the year 2020.

### 3 (2) (xi) ✓ - Resignation/ Removal/Cessation of Directorship

Upon the Board accepting and/or recording the resignation or retirement of a Director it is informed to the regulatory authorities (namely the Central Bank of Sri Lanka and the Registrar of Companies) and to the shareholders through an announcement made to the Colombo Stock Exchange by the Company Secretary. Such information includes statements that may be relevant to be brought to the information of the regulatory authority and/or to the shareholders.

### 3 (2) (xii) ✓ - Appointments in any other Bank

No Director and no employee of the Bank has been appointed, elected or nominated as a director of another Bank. This is a requirement stipulated in the Policy Governing Directors' Appointment and in the letters of appointment of employees and related employee manuals and policies of the Bank.

### 3 (3) Criteria to assess the fitness and propriety of directors

All appointments to the Board were made after obtaining approval of the Director, Bank Supervision, Central Bank of Sri Lanka in terms of Section 42 of the Banking Act No.30 of 1988 (as amended). Affidavits of the continuing Directors were forwarded to the Director, Bank Supervision, prior to the Annual General Meeting in 2020 for perusal and approval.

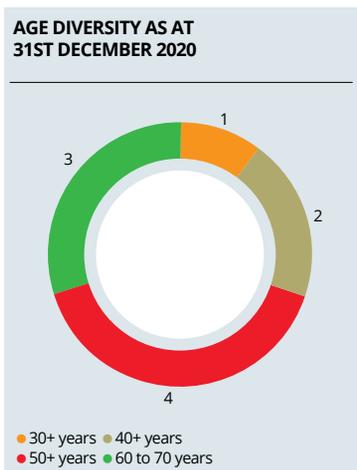
The declarations submitted to and accepted by the Director, Bank Supervision confirm that the Directors meet the criteria of fitness and propriety as per Section 42 of the Banking Act No.30 of 1988 (as amended) and its Directions.

The Board has also put in place a Fit and Proper Policy in accordance with the guidelines issued by the Securities and Exchange

Commission of Sri Lanka and the Board members submitted affidavits attesting their fitness and propriety in terms of the said guidelines as well which were perused by the Board Nomination Committee and the Board.

**3 (3) (i) ✓ - Retirement Age of Directors**

The related section of the Banking Act Direction stipulates that a person who is over 70 years of age shall not serve as a Director. No Directors on the Board exceeded the age of 70 during the year.



**3 (3) (ii) (amended by Direction No.3 of 2013) ✓ - Directorships in other companies/institutions**

No Director held directorships in more than 20 companies/entities/institutions inclusive of the subsidiary of the Bank. Please refer Annexure to the Report of the Board of Directors in the Annual Report for details on other directorships held by the Board members.

**3 (3) (iii) (incorporated pursuant to Direction No.9 of 2019) ✓ - Appointment of Directors or a Chief Executive Officer who has held office in another licensed commercial bank**

There were no appointments to the Board or appointment of a Chief Executive Officer during the year.

The requirement under this Direction will be noted by the Board when such appointments are considered by the Board in the future, i.e. a director or a chief executive officer of another licensed bank operating in Sri Lanka will not be considered for appointment before the expiry of a period of 6 months (cooling period) from the date of cessation of his/her office at the licensed bank in Sri Lanka and that any variations thereto in exceptional situations will be subject to the prior approval of the Monetary Board.

**3 (4) Management functions delegated by the Board of Directors**

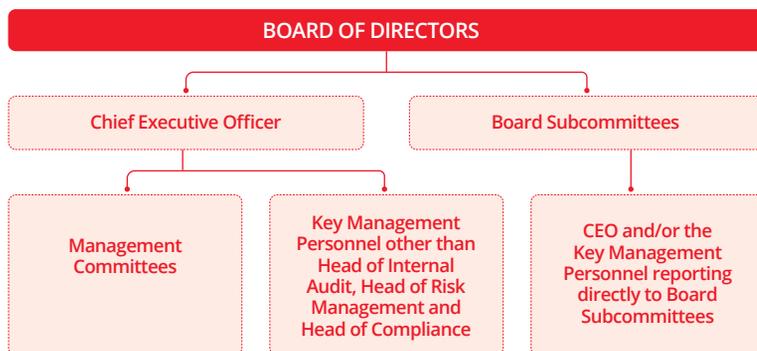
**3 (4) (i) (iii) ✓ - Board delegation arrangements in place**

The Board is empowered by the Articles of Association to delegate any of its powers to the Board Subcommittees consisting of such member or members as the Board thinks fit, or to the Chief Executive Officer and/or to the key management personnel (KMPs) as appropriate.

The Board has delegated matters pertaining to the affairs of the Bank to the Board Subcommittees within the respective scopes of the Board approved Terms of Reference of the Subcommittees and to the CEO and other KMPs who work within the Board approved delegated authority limits and the scope of their approved job descriptions.

New delegation processes or revisions to the existing delegation processes as proposed and recommended by the CEO and the relevant KMPs took into account business needs and structural changes and with the recommendations of the Subcommittees overlooking the subject matter (where applicable) were considered and approved/decided by the Board. The Board ensured that the delegation processes do not hinder or reduce the Board's overall powers to effectively discharge its responsibilities and thereby reserves certain powers for itself.

The Delegation Process of the Bank.



**3 (5) Chairman and the Chief Executive Officer**

**3 (5) (i) ✓ - Roles of the Chairman and the Chief Executive Officer (CEO)**

The role and responsibilities of the Chairman and that of the CEO of the Bank are specified in the Corporate Governance Framework of the Bank. The role and responsibilities of the Bank's Chairman and that of the CEO are separate and distinct. However, they both execute their respective roles in coordination with each other and arriving at high-level decisions to achieve the goals of the Bank.

### 3 (5) (ii) ✓ - Independent status of the Chairman

Chairman, Mr W M R S Dias is a Non-Executive Director. He was determined as not 'independent', since he was nominated to the Board by the Sri Lanka Insurance Corporation Ltd, material shareholder of the Bank. Therefore, Independent Non-Executive Director, Ms M C Pietersz was appointed as the Senior Director by the Board with effect from the date of the Chairman's appointment on 9th May 2016, with a Board approved Terms of Reference.

### 3 (5) (iii) ✓ - Disclosure of the identity and relationship of the Chairman and the CEO and other Board Members

The declarations submitted by the Directors upon appointment and annually by the continuing Directors as well as the declaration submitted by the CEO confirm that no relationship of any nature (including financial, business, family or other material/relevant relationships) existed between the Chairman and the CEO (who is also a member of the Board) and also did not exist amongst the members on the Board, during the year 2020 other than in respect of the following:

- *Directors, Mr W D K Jayawardena and Mr D M D K Thilakarathne were nominated to the Board by the Bank's material shareholders, Brown & Company PLC and LOLC Investments Ltd.*
- *Directors, Mr W M R S Dias and Mr S V Corea were nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Ltd.*

### 3 (5) (iv)-(x) ✓ - Chairman's Role

The primary role of the Chairman is to provide leadership to the Board and ensuring that the Board is effective in its task of setting and directing the Bank's strategy. Chairman's role during the year included the following:

- (iv) *Providing leadership and governance of the Board so as to create the conditions for overall*

*Board's and individual Director's effectiveness and ensures that all key and appropriate issues are discussed by the Board in a timely manner.*

- (v) *Ensuring that the agenda for the Board Meetings preparation of which is delegated to the Company Secretary, takes into account important issues facing the Bank and concerns of all Directors and that adequate time is available for thorough discussion of critical and strategic issues*
- (vi) *Ensuring that Board papers covering adequate information is circulated to the Directors well in advance of the date scheduled for the meeting. Also ensured Directors, especially new Directors on the Board are duly briefed on issues arising at Board meetings.*
- (vii) *Promoting effective relationships and open communication, to create an environment that allows constructive debates and challenges between Non-Executive Directors and the management.*
- (viii) *Encouraging all Directors to make an active contribution and ensures that the deliberations and decisions of the Board are in the best interest of the Bank. Non-Executive Directors who chair Board Subcommittees and/or are members of the Board Subcommittees play an active role in executing the responsibilities delegated by the Board to the committees in the best interest of the Bank.*
- (ix) *Not engaging in direct supervision of the key management personnel or in any other executive duties, given that the Chairman's directorship on the Board was in a non-executive capacity.*
- (x) *Ensuring that effective communication with shareholders was maintained and that an understanding of the stakeholder views was in place. The general meetings of the Bank were the main forums utilised by the Board as well as the shareholders of the Bank for an effective dialogue with one another while other channels of communication were also being used to ensure that shareholders*

*and all interested parties have equal access to corporate information in the public domain. Corporate announcements and information will be disseminated in accordance with the legal and regulatory requirements applicable to the Bank.*

*The Bank has adopted a Shareholder Communication Policy which is published on its corporate website, the objective of which is to enhance long term shareholder value through regular communication with shareholders.*

*([https://www.seylan.lk/modules/investorrelation/pdf/shareholder\\_com\\_policy.pdf](https://www.seylan.lk/modules/investorrelation/pdf/shareholder_com_policy.pdf))*

### 3 (5) (xi) ✓ Chief Executive Officer

Mr K P Ariyaratne is the CEO of the Bank and is also a Board member. He reports directly to the Board of Directors and is accountable to the Board on the performance of the Bank.

**Role of the CEO** – The CEO is responsible for the overall management of the business and leads the management in the day to day operations of the Bank in accordance with the Bank's business strategies and plans. With the support of the management, he implements the strategies and policies as approved by the Board and its committees in pursuit of its' objectives. He leads the management to ensure effective working relationships with the Board by meeting or communicating with the Chairman on a regular basis to review key developments, issues, opportunities and concerns.

### 3 (6) Board Appointed Committees

#### 3 (6) (i) ✓ - Subcommittees appointed by the Board

The Board has established eleven Board Subcommittees (as listed below); five of which were as required in these directions and/or by the Rules of the Colombo Stock Exchange and further six Subcommittees for purposes referred to in their scope and objectives.

**Committees established as per the Banking Act Directions**

- Board Audit Committee
- Board Nomination Committee
- Board Human Resources and Remuneration Committee
- Board Integrated Risk Management Committee

**Committees established as per the Rules of the Colombo Stock Exchange and as per the code of Best Practise on Corporate Governance 2017, issued by the ICASL**

- Board Audit Committee
- Board Nomination Committee
- Board Human Resources and Remuneration Committee
- Related Party Transactions Review Committee

**Additional Committees established by the Board**

- Board Credit Committee
- Board Governance and Compliance Committee
- Board Information Technology Committee
- Board Marketing and Product Development Committee
- Board Sustainability Committee
- Board Strategic Plan Committee

These Board appointed Subcommittees functioned within Board approved Terms of Reference and reported to the Board. All Committees were chaired by Independent Non-Executive Directors. The Company Secretary was the Secretary to these Committees except the Board Integrated Risk Management Committee, to which

the Head of Risk Management Unit/Chief Risk Officer functioned as the Secretary, during the year. Reports and papers that required the Board's attention and/or decisions were followed up and circulated to the Board along with copies of confirmed minutes of the Committee meetings by the Secretaries concerned. The following table

provides a summary of the scope and objectives, composition and membership of Directors of the eleven Subcommittees. Reports of the five mandatory Subcommittees required as per the Banking Act Directions and the Rules of the Colombo Stock exchange (listed above) have also been individually published in the Annual Report.

Scope and Objectives of the Committee	Composition / Membership / Quorum	Highlights of activities during the year
<p><b>Board Audit Committee</b></p> <p>Overview of responsibilities for the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations and the Code of conduct.</p>	<p><b>Independent Non-Executive Directors</b> Ms M C Pietersz, Mr P L S K Perera and Mr D R Abeyseriya</p> <p><b>Non-Independent Non-Executive Directors</b> Mr W D K Jayawardena</p> <p><b>Executive Directors</b> Nil</p> <p><b>Chairperson</b> Ms M C Pietersz, Independent Non-Executive Director/ Senior Director</p> <p><b>Quorum</b> two members</p> <p>The Head of Internal Audit reports directly to the Committee</p>	<ul style="list-style-type: none"> <li>• Reappointment of M/s KPMG, Chartered Accountants as the External Auditors.</li> <li>• Review and Assessment of the Internal Audit Plan and the revision of the plan consequent to the lockdown situation due to the COVID-19 pandemic.</li> <li>• Reviewed the implications of the financial reporting consequent to the COVID-19 and pursuant to the regulatory directions, instructions and guidelines.</li> <li>• Revised the Terms of Reference of the Committee.</li> </ul> <p>Please also refer section 3 (6) (ii) in this Corporate Governance Report and also the Report of the Committee on page 99 for more disclosures.</p>
<p><b>Board Integrated Risk Management Committee</b></p> <p>To assess all risks facing the Bank and its reputation, namely, credit, market, liquidity, operational and strategic Risks on a regular basis through appropriate risk indicators and management information and also to assess the risks faced by the subsidiary.</p>	<p><b>Independent Non-Executive Directors</b> Mr D R Abeyseriya, Ms M C Pietersz and Mr P L S K Perera</p> <p><b>Non-Independent Non-Executive Directors</b> Mr W M R S Dias</p> <p><b>Executive Directors</b> Mr K P Ariyaratne</p> <p><b>Management</b> Mr L A S Fernando - Chief Risk Officer</p> <p><b>Chairman</b> Mr D R Abeyseriya, Independent Non-Executive Director</p> <p><b>Quorum</b> two members</p> <p>The Head of Risk (Chief Risk Officer) and the Head of Compliance reports directly to the Committee.</p>	<ul style="list-style-type: none"> <li>• Review/Revision of the Integrated Risk Management Framework and Policies.</li> <li>• Assessment of the impact of COVID-19 on the operations, cyber security, health precautionary practices and the Bank's preparedness to meet any emergencies.</li> <li>• Assessment of any Data Leakage Prevention during the COVID-19 lockdown period.</li> <li>• Physical security assessment of the Bank's head office building.</li> <li>• Approval of the Compliance Activity Plan 2020.</li> <li>• Compliance Assessment of the Bank's Subsidiary, Seylan Developments PLC.</li> <li>• Revised the Terms of Reference of the Committee.</li> </ul> <p>Please also refer section 3(6)(ii) in this Corporate Governance Report and also the Report of the Committee on page 102.</p>

Scope and Objectives of the Committee	Composition / Membership / Quorum	Highlights of activities during the year										
<p><b>Board Human Resources and Remuneration Committee</b></p> <p>To assist and make recommendations to the Board of Directors in exercising its' oversight role and responsibilities on matters related to human resource strategies and policies and determination of compensation, benefits and remuneration for the Directors, the Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Ms M C Pietersz, Ms S K Salgado and Mr D R Abeysuriya</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Mr S V Corea and Mr D M D K Thilakaratne</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Ms M C Pietersz, Independent Non-Executive Director/ Senior Director</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Director/CEO and Head of Human Resources were present on invitation except when matters relating to them were being discussed.</p>	Independent Non-Executive Directors	Ms M C Pietersz, Ms S K Salgado and Mr D R Abeysuriya	Non-Independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakaratne	Executive Directors	Nil	Chairman	Ms M C Pietersz, Independent Non-Executive Director/ Senior Director	Quorum	two members	<ul style="list-style-type: none"> <li>Revision of the KPIs evaluation approach and evaluation format for key management personnel.</li> <li>Initiation of a workplace culture assessment and transformation.</li> <li>Approved the Human Resources Roadmap for 2021-2023.</li> <li>Approval of Training and Development Plan for 2020/2021.</li> <li>Guidance on Collective Negotiation Process for Salary Revisions</li> <li>Revised the Terms of Reference of the Committee.</li> </ul> <p>Please also refer section 3(6)(iii) in this Corporate Governance Report and also the Report of the Committee on page 100.</p>
Independent Non-Executive Directors	Ms M C Pietersz, Ms S K Salgado and Mr D R Abeysuriya											
Non-Independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakaratne											
Executive Directors	Nil											
Chairman	Ms M C Pietersz, Independent Non-Executive Director/ Senior Director											
Quorum	two members											
<p><b>Board Nomination Committee</b></p> <p>To assist the Board in fulfilling the role and responsibilities involving appointment of Directors and Key Management Personnel of the Bank.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Ms M C Pietersz, Mr P L S K Perera and Mr A S Wijesinha</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Mr W M R S Dias and Mr W D K Jayawardena</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Ms M C Pietersz, Independent Non-Executive Director/ Senior Director</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Director/CEO and Head of Human Resources were present on invitation except when matters relating to them were being discussed.</p>	Independent Non-Executive Directors	Ms M C Pietersz, Mr P L S K Perera and Mr A S Wijesinha	Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr W D K Jayawardena	Executive Directors	Nil	Chairman	Ms M C Pietersz, Independent Non-Executive Director/ Senior Director	Quorum	two members	<ul style="list-style-type: none"> <li>Training and development programs based on the succession planning for key management personnel (KMPs).</li> <li>Succession and organisational restructure and changes to the KMP functional responsibilities.</li> <li>Recommendations for the re-election of Directors.</li> <li>Recommendations for appointments and promotions to the KMP positions.</li> <li>Revised the Terms of Reference of the Committee.</li> </ul> <p>Please also refer section 3(6)(iv) in this Corporate Governance Report and also the Report of the Committee on page 101.</p>
Independent Non-Executive Directors	Ms M C Pietersz, Mr P L S K Perera and Mr A S Wijesinha											
Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr W D K Jayawardena											
Executive Directors	Nil											
Chairman	Ms M C Pietersz, Independent Non-Executive Director/ Senior Director											
Quorum	two members											
<p><b>Related Party Transactions Review Committee</b></p> <p>To review Related Party Transactions as required by the Listing Rules of Colombo Stock Exchange (and any amendment from time to time) and the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka .</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Mr P L S K Perera, Ms M C Pietersz and Mr A S Wijesinha</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Mr S V Corea</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Mr P L S K Perera, Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Director/CEO and Head of Compliance were present on invitation.</p>	Independent Non-Executive Directors	Mr P L S K Perera, Ms M C Pietersz and Mr A S Wijesinha	Non-Independent Non-Executive Directors	Mr S V Corea	Executive Directors	Nil	Chairman	Mr P L S K Perera, Independent Non-Executive Director	Quorum	two members	<ul style="list-style-type: none"> <li>Review of recurrent and non-recurrent related party transactions. Non-recurrent transaction included the renewal of terms of the sub-tenancy agreement with the Bank's subsidiary, Seylan Developments PLC.</li> <li>Revised the Terms of Reference of the Committee.</li> </ul> <p>Please also refer section 3(7) in this Corporate Governance Report and also the Report of the Committee on page 103.</p>
Independent Non-Executive Directors	Mr P L S K Perera, Ms M C Pietersz and Mr A S Wijesinha											
Non-Independent Non-Executive Directors	Mr S V Corea											
Executive Directors	Nil											
Chairman	Mr P L S K Perera, Independent Non-Executive Director											
Quorum	two members											
<p><b>Board Credit Committee</b></p> <p>To improve the business and soundness of the Bank and to promote and reinforce a robust and pervasive credit risk acceptance and management culture by reviewing and guiding (as appropriate);</p> <ul style="list-style-type: none"> <li>For approval/ recommendation of credit facilities or recommending;</li> <li>improving credit policies, procedures and lending guidelines and their implementation;</li> <li>processes for recoveries, empowerment and accountability for credit decision making.</li> </ul>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Mr A S Wijesinha</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Mr S V Corea and Mr D M D K Thilakaratne</td> </tr> <tr> <td>Executive Directors</td> <td>Mr K P Ariyaratne</td> </tr> <tr> <td>Chairman</td> <td>Mr A S Wijesinha, Independent Non-Executive Director -</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Head of Treasury and Head of Risk were coopted to the Committee. Heads of the business units attended the meetings on invitation.</p>	Independent Non-Executive Directors	Mr A S Wijesinha	Non-Independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakaratne	Executive Directors	Mr K P Ariyaratne	Chairman	Mr A S Wijesinha, Independent Non-Executive Director -	Quorum	two members	<ul style="list-style-type: none"> <li>Approvals and recommendations or decisions to decline credit pursuant to evaluation of the proposals recommended by line management.</li> <li>Recommendation of the Delegated Authority Limits for Lending Officers.</li> <li>Single Borrower Limits overall and on Related party exposures.</li> <li>Sector outlook and risk appetite, assessing risks and opportunities in the different sectors.</li> <li>Reviewed status of non-performing accounts of facilities approved under the Credit Support Schemes for SMEs.</li> <li>Reviewed internal mechanism and guidelines on facilitation of debt moratorium extensions for COVID-19 affected businesses and individuals.</li> <li>Revised the Terms of Reference of the Committee.</li> </ul>
Independent Non-Executive Directors	Mr A S Wijesinha											
Non-Independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakaratne											
Executive Directors	Mr K P Ariyaratne											
Chairman	Mr A S Wijesinha, Independent Non-Executive Director -											
Quorum	two members											

Scope and Objectives of the Committee	Composition / Membership / Quorum	Highlights of activities during the year										
<p><b>Board Marketing and Product Development Committee</b></p> <p>To review the overall Marketing plans of the Bank to ensure that the plans aim at optimising value creation for the Bank and support the Strategic goals. Assess all deposit, lending and investment products of the Bank on a regular basis and satisfy itself that the Bank is actively pursuing new product opportunities and developing viable products with the aim of achieving business growth.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Ms S K Salgado and Mr A S Wijesinha</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Mr W M R S Dias and Mr D M D K Thilakarathne</td> </tr> <tr> <td>Executive Directors</td> <td>Mr K P Ariyaratne</td> </tr> <tr> <td>Chairman</td> <td>Ms S K Salgado, Independent Non-Executive Director,</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Head of Marketing and Chief Financial Officer attended the meetings on invitation.</p>	Independent Non-Executive Directors	Ms S K Salgado and Mr A S Wijesinha	Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr D M D K Thilakarathne	Executive Directors	Mr K P Ariyaratne	Chairman	Ms S K Salgado, Independent Non-Executive Director,	Quorum	two members	<ul style="list-style-type: none"> <li>• <i>In-depth deliberations on products performance.</i></li> <li>• <i>Focused on initiatives during the lockdown.</i></li> <li>• <i>Way-forward initiatives and plan for implementation post-lockdown.</i></li> <li>• <i>Review and Revision of the Marketing Budget 2020.</i></li> <li>• <i>Revised the Terms of Reference of the Committee.</i></li> </ul>
Independent Non-Executive Directors	Ms S K Salgado and Mr A S Wijesinha											
Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr D M D K Thilakarathne											
Executive Directors	Mr K P Ariyaratne											
Chairman	Ms S K Salgado, Independent Non-Executive Director,											
Quorum	two members											
<p><b>Board Sustainability Committee</b></p> <p>To make decisions on behalf of the Board within the framework of the authority and responsibility and work closely with the representatives of the Executive Sustainability Committee.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Ms S K Salgado</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Mr S V Corea and Mr D M D K Thilakarathne</td> </tr> <tr> <td>Executive Directors</td> <td>Mr K P Ariyaratne</td> </tr> <tr> <td>Chairman</td> <td>Ms S K Salgado, Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Head of Marketing; Chief Financial Officer and the Sustainability Manager attended the meetings on invitation.</p>	Independent Non-Executive Directors	Ms S K Salgado	Non-Independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakarathne	Executive Directors	Mr K P Ariyaratne	Chairman	Ms S K Salgado, Independent Non-Executive Director	Quorum	two members	<ul style="list-style-type: none"> <li>• <i>Reviewed the Progress made on the implementation of the 'Seylan Pehesara' project for 250 school libraries.</i></li> <li>• <i>Approved the Sustainability Strategy for the Bank integrated to the business model of the Bank .</i></li> </ul>
Independent Non-Executive Directors	Ms S K Salgado											
Non-Independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakarathne											
Executive Directors	Mr K P Ariyaratne											
Chairman	Ms S K Salgado, Independent Non-Executive Director											
Quorum	two members											
<p><b>Board Governance and Compliance Committee</b></p> <p>To assist the Board in adopting appropriate governance standards for the Bank in fulfilling the Board's responsibility for oversight of the corporate governance processes and practices and compliance practices of the Bank consistent with relevant rules, regulations and directions and principles in force and that may come into force from time to time.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Mr P L S K Perera and Ms M C Pietersz</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Mr W M R S Dias and Mr S V Corea</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Mr P L S K Perera, Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Director/CEO and Head of Compliance were present on invitation.</p>	Independent Non-Executive Directors	Mr P L S K Perera and Ms M C Pietersz	Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr S V Corea	Executive Directors	Nil	Chairman	Mr P L S K Perera, Independent Non-Executive Director	Quorum	two members	<ul style="list-style-type: none"> <li>• <i>Reviewed the results of the Board Performance Evaluations carried out by the Board for the year ended 2019.</i></li> <li>• <i>Agreed on specific objectives to be focused by the Committee during the year and followed up on the implementation.</i></li> <li>• <i>Reviewed/revised (where needed) and recommended/approved (as appropriate) the following:</i> <i>Stakeholder Engagement Policy</i> <i>Shareholder Communication Policy</i> <i>Terms of Reference of the Senior Director</i> <i>Anti-Bribery and Corruption Policy</i> <i>Board meetings and Board Subcommittee meetings procedures</i> <i>Terms of Reference of the Committee</i></li> <li>• <i>Subsidiary, Seylan Developments PLC's Internal Audit assurance on the company's compliance with regulatory requirements.</i></li> <li>• <i>Internal Policy Framework of the Bank.</i></li> </ul>
Independent Non-Executive Directors	Mr P L S K Perera and Ms M C Pietersz											
Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr S V Corea											
Executive Directors	Nil											
Chairman	Mr P L S K Perera, Independent Non-Executive Director											
Quorum	two members											
<p><b>Board Strategic Plan Committee</b></p> <p>Overseeing, monitoring and providing the necessary guidance to the management to drive and achieve the objectives of the Strategic Plan within the set timelines.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Mr A S Wijesinha, Ms S K Salgado and Mr D R Abeyuriya</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Executive Directors</td> <td>Mr K P Ariyaratne</td> </tr> <tr> <td>Chairman</td> <td>Mr A S Wijesinha, Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>Senior Management and heads of strategic business units attended the meetings on invitation.</p>	Independent Non-Executive Directors	Mr A S Wijesinha, Ms S K Salgado and Mr D R Abeyuriya	Non-Independent Non-Executive Directors	Nil	Executive Directors	Mr K P Ariyaratne	Chairman	Mr A S Wijesinha, Independent Non-Executive Director	Quorum	two members	<ul style="list-style-type: none"> <li>• <i>Reviewed the progress made on the implementation of the new/rolled over initiatives 2020/2021 which included restructuring branch management structure, restructuring credit evaluations process; Digital Channels and Digital Banking Strategy and IT Strategy.</i></li> <li>• <i>Reviewed and recommended the adoption of the new Corporate Strategy of the Bank to be rolled over through 2020 to 2023.</i></li> <li>• <i>Revised the Terms of Reference of the Committee.</i></li> </ul>
Independent Non-Executive Directors	Mr A S Wijesinha, Ms S K Salgado and Mr D R Abeyuriya											
Non-Independent Non-Executive Directors	Nil											
Executive Directors	Mr K P Ariyaratne											
Chairman	Mr A S Wijesinha, Independent Non-Executive Director											
Quorum	two members											



### 3 (6) (ii) Board Audit Committee (BAC)

#### 3 (6) (ii) (a) - (ii) (b) ✓ - Members and Chairperson of the Board Audit Committee

Ms M C Pietersz (BSc, MBA, ACA, FCA, FCMA) is an Independent Non-Executive Director. She was appointed to the BAC as its Chairperson with effect from 27 September 2013. Ms Pietersz counts over 30 years' experience in finance, banking, accounting and audit.

The BAC comprised four Non-Executive Directors during the year 2020, three of whom were independent, namely, Ms M C Pietersz, Mr P L S K Perera and Mr D R Abeyasuriya. The fourth member, Mr W D K Jayawardena was a Non-Independent Non-Executive Director. The Company Secretary of the Bank functioned as the Secretary to the Committee during the year.

#### 3 (6) (ii) (c) - (ii) (d) ✓ - External Auditors

The BAC reviewed and/or made relevant recommendations in this regard which included the following:

- *M/s KPMG's appointment as the Auditors for the financial year 2020 which was approved by the shareholders at the Annual General Meeting held on 24 June 2020.*
- *The implementation of guidelines issued by the Central Bank of Sri Lanka, the application of relevant accounting standards, including the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) and complying with such standards in all material respects.*
- *The incumbent Audit partner was engaged from the financial year 2019. The Audit Partner was not engaged in the Bank's audit prior to the current engagement.*
- *Representations made by the External Auditors stating their independence, the objectivity and effectiveness of the audit processes in accordance with applicable standards and best practices in respect of the audit for the financial year 2020.*

The Committee also determined the independence of the External Auditors, M/s KPMG, Chartered Accountants as per the provisions of the Companies Act and the ICASL's Code of Professional Conduct and recommended their reappointment as the Auditors of the Bank for the financial year 2021 subject to the concurrence of its recommendation by the Board and approval of the Shareholders at the forthcoming Annual General Meeting.

#### 3 (6) (ii) (e) ✓ - Non-Audit Services

The BAC reviewed the non-audit services provided by the External Auditors and was of the view that such services were not within the category of services identified as restricted under the guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties in terms of section 39 of Banking Act No 30 of 1988 (as amended). The Policy relating to the engagement of non-audit services was reviewed and renewed during the year.

#### 3 (6) (ii) (f) ✓ - Scope of External Audit

The nature, scope and approach of audit in respect of the financial year 2020 was presented by the External Auditors, discussed and agreed upon at a meeting held with the Auditors in the last quarter of 2020. The scope also covered the assessment of Bank's compliance with the Banking Act Directions on Corporate Governance and the management's internal controls over financial reporting; the preparation of financial statements in accordance with the relevant accounting principles and reporting obligations and compliance with Banking Act instructions, guidelines and directions. The audit of the Bank's subsidiary was also carried out by the same External Auditor and therefore, there was no requirement for coordination with more than one audit firm.

#### 3 (6) (ii) (g) ✓ - Review of the Bank's Financial Information

The drafts of the interim unaudited financial statements for the 3 months ended 31 March 2020 and 9 months ended 30 September 2020 were reviewed by the Internal Auditors whilst the audited financial statements for the half-year ended 30 June 2020 and the year ended 31 December 2020 were reviewed by the External Auditors, all of which were prepared from the Bank's accounting records, in accordance with the Accounting Standards and relevant legal and regulatory guidelines. Observations/ comments and appropriate changes recommended by the Auditors were taken into consideration and incorporated to the financial statements before they were submitted to the BAC by the Chief Financial Officer. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the financial statements, focusing on applicable accounting principles, reasonableness of significant adjustments and estimates, major judgmental areas, etc. and assisted the Board in its oversight and decision on the financial statements to evidence a true and fair view on financial position and performance of the Bank.

#### 3 (6) (ii) (h) ✓ - Meeting with the External Auditors

The BAC met with the External Auditors without the presence of the management and the Director/ CEO twice during the year and discussed important issues and areas of concerns arising from the interim and final audits to ensure that there was no limitation of scope in relation to the audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The Committee noted to follow up with management, areas of concerns.

The External Auditors were also invited to meetings of the BAC at which they presented and discussed with the Committee key audit findings from the year-end

and half-year end audit reviews and also the scope and approach for the 2020 audit review.

### **3 (6) (ii) (i) ✓ - Management Letter of the External Auditors**

The BAC reviewed and discussed the Management Letter in respect of the Audit conducted for the financial year ended 31 December 2020 and the responses of the management and their agreed action thereto. The BAC also reviewed the External Auditors' findings and observations on the Interim Audit conducted on the financials for the six months ended 30 June 2020 and issued appropriate recommendations and guidance to ensure that issues were duly addressed by the management.

### **3 (6) (ii) (j) ✓ - Internal Audit Scope and Functions**

The BAC reviewed the adequacy of the internal audit function and ensured that it conformed to the principles of the Internal Audit Charter which defines the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that assist and direct/guide the Internal Audit Department (IAD) to discharge its functions effectively. The Internal Audit Charter was reviewed and approved by the Committee during the year.

### **3 (6) (ii) (j) II ✓ - Internal Audit Plan**

The IAD carried out its activities in line with the approved Internal Audit Plan for the year 2020. The IAD reported on the audits carried out and also updated the Committee on the status and extent of resolution of findings of the audits carried out. The BAC reviewed and issued appropriate recommendations to ensure that the relevant line management take steps to address and resolve the audit findings.

The Bank has adopted a risk-based audit approach towards assessing the effectiveness of the internal control procedures in place to identify and manage all significant risks. Reports on the same were submitted to the Committee,

discussed and instructions issued to management calling assurances on the remedial action in respect of identified risks to maintain the effectiveness of internal control procedures.

The Internal Audit Plan in respect of the year 2020 was approved by the BAC at a meeting held in the last quarter of 2019 and the performance of the IAD against the approved plan was reviewed at the first quarter meeting in 2020. The IAD completed the audit assignments which were in progress prior to the lockdown situation due to the COVID-19 pandemic during the second quarter of the year. The IAD also vigilantly reviewed the transactions during the lockdown period by deploying the limited audit staff in a prudent manner following health guidelines. The Internal Audit Plan was consequently reviewed by the Committee in June 2020 and the Revised Audit Plan was adopted with effect from July 2020.

### **3 (6) (ii) (j) III ✓ - Appraisals/ assessments of performance of Senior Staff of the Internal Audit**

The performance appraisals of the senior staff of the Internal Audit Department was presented to the Committee by the Head of Internal Audit and their performance was discussed. The Committee also evaluated the performance of the Head of Internal Audit and the second in line to the Head of Internal Audit during the year 2020. The KPIs for the year 2021 of these two personnel were also reviewed and agreed by the BAC.

### **3 (6) (ii) (j) IV and V ✓ - Adequacy of human resources for Internal Audit function**

The BAC reviewed the adequacy of the resources for the internal audit functions including resignations and retirements of senior staff members during the year and provided relevant advice.

### **3 (6) (ii) (j) VI ✓ - Independence of the Internal Audit function**

The BAC ensured that the Internal Audit function was independent of the activities it audits and that it was performed with impartiality,

proficiency and due professional care.

### **3 (6) (ii) (k) ✓ - Findings of the Internal Audit**

Internal Audit and investigation findings with attention on major findings were reported to the BAC and taken up at the BAC Meetings that followed which reviewed the status including management responses and made appropriate recommendations where necessary.

### **3 (6) (ii) (l) ✓ - Invitees to the Meetings of the BAC**

The Head of Internal Audit and the Chief Financial Officer attended the regular meetings of the BAC during the year. The Chief Executive Officer, the Chief Manager, Internal Audit and heads of Operational and business units, Information Technology, Compliance and Human Resources were invited to the Meetings when the Committee required their presence to report and/or respond to queries on related audit findings and related matters. The BAC also met with the External Auditors on two occasions in the absence of the Director/CEO (Executive Director) and the management members.

### **3 (6) (ii) (m) ✓ - Authority to Investigate**

The Terms of Reference of the BAC provides the BAC the authority to investigate into any matter within the scope of its terms of reference; obtain the resources which it needs to carry out the investigation; full access to information; authority to obtain external professional advice; and to invite outsiders with relevant experience to be involved, if necessary.

### **3 (6) (ii) (n) and 3 (6) (ii) (P) ✓ - Meetings of the BAC**

The BAC held twelve meetings during the year with due notice. These included separate meetings for reviewing the quarterly financial statements and meetings with the External Auditors. Additionally, the Committee held two one-on-one meetings, one with the Head of Internal Audit and the other with the Chief Financial Officer to

discuss their areas of functions and concerns and provided appropriate advice.

The Agenda and the papers for discussions and consideration/ approval were circulated prior to the Meeting. The minutes of the proceedings of the Meetings were recorded in sufficient detail and maintained by the Company Secretary who functioned as the Secretary to the Committee.

### 3 (6) (ii) (o) - Report of the BAC

A Report of the BAC signed by the Chairperson is included on page 99 of the Annual Report outlining the scope and responsibilities as well as activities of the BAC. The number of meetings and appropriate reference to the attendance of the members at the meetings held during the year is given under Section 3(6)(i) of this Report.

### 3 (6) (ii) (q) - Reporting of Concerns about Possible Improprieties / Whistle Blowing

The Committee continuously emphasised on the requirement to uphold ethical values of the staff members. In this regard, in addition to the Employees' Code of Ethics and Code of Conduct, the Bank has put in place a Policy on Whistle Blowing. Relevant line management has been advised to ensure that highest standards of corporate governance and adherence to the Bank's Code of Ethics is maintained. The Policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

The BAC ensured that all employees are duly informed and duly advised of the effective use of the whistle blowing process if they suspect wrong doings or other improprieties.

All appropriate procedures have been put in place to conduct independent investigations by both the Human Resources Department and the Internal Audit Department on complaints/ incidents reported directly through

whistle blowers, or other identified means. The investigations carried out on such complaints/incidents were reported to the BAC by the Head of Internal Audit including appropriate recommendations/ follow up action.

### 3(6)(iii) Board Human Resources and Remuneration Committee (BHRRC)

#### 3 (6) (iii) (a) - Determination of the Remuneration Policy

This is a key responsibility of the Board Human Resources and Remuneration Committee (BHRRC). The BHRRC on behalf of the Board aims to establish a transparent procedure for determining the remuneration, salaries, allowances and other financial or non-financial benefits, perquisites, special incentives, etc., to Directors, the Chief Executive Officer (CEO), the Key Management Personnel (KMPs) as well as other employees of the Bank. A Board approved Remuneration Policy is in place.

Based on the recommendation of the Committee, Directors collectively decide on the remuneration and benefits for the CEO as well as professional fees and benefits (if any) to the Non-Executive Directors. The Committee seeks independent advice to determine revisions and compensation packages when deemed necessary to discharge these responsibilities. No Director or KMP is involved in deciding his or her remuneration.

#### 3 (6) (iii) (b) - Goals and Targets

The Key Performance Indicators (KPIs/goals and targets) of CEO for the year 2020 were tabled and approved by the Board upon being recommended by the Committee. The KPIs for the KMPs were thereafter submitted to the meeting of the Committee and agreed upon.

#### 3 (6) (iii) (c) - Evaluations of the performance of the CEO and the KMPs

The BHRRC considered the evaluations of the performance of the CEO and the KMPs against

the approved KPIs for the year 2019 and determined the revision of remuneration and profit/ performance based bonus in respect of the year 2019.

#### 3 (6) (iii) (d) - Proceedings at Meetings of the BHRRC

Six meetings of the Committee were held during the year. The CEO attended the meetings of the Committee by invitation. He was not present at meetings of the Committee, when matters relating to him were being discussed.

#### 3 (6) (iv) Board Nomination Committee (BNC)

##### 3 (6) (iv) (a) - Procedure Selection/Appointment of Directors, Chief Executive Officer (CEO) and Key Management Personnel (KMPs)

Appointment of the CEO and the KMPs is within the scope and responsibilities of the Board Nomination Committee (BNC) as specified in its Terms of Reference. The BNC has adopted a Board approved Policy Governing Appointment of Directors for this purpose.

##### 3 (6) (iv) (b) - Re-election of current Directors

The BNC considered and recommended the re-election of Directors who were due to retire in accordance with the Bank's Articles of Association taking into account their contribution to the Board. Upon obtaining the Board's concurrence to the BNC's recommendation, they were included in the Agenda of the Annual General Meeting (AGM) proposing and seeking shareholders' approval for the re-election.

Non-Executive Directors who were subject to retirement by rotation and re-elected by the shareholders at the AGMs held during the last three years were as follows:

2018	Mr I C Nanayakkara, Mr S P S Ranatunga and Mr P L S K Perera
2019	Mr W M R S Dias and Mr S V Corea

2020	Mr A S Wijesinha, Ms S K Salgado and Mr W D K Jayawardena
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### Re-election of Directors in 2021

The BNC and the Board have recommended the proposals for the re-election of Non-Executive Directors, Ms M C Pietersz, Mr P L S K Perera and Mr D M D K Thilakaratne, who are due to retire by rotation in terms of Article 82 at the AGM scheduled to be held in 2021. The proposals for their re-election have been included in the Notice of the AGM to seek shareholders' approval.

### 3 (6) (iv) (c) ✓ - Criteria for eligibility – CEO and KMPs

The Committee reviews and agrees on the criteria for eligibility such as qualifications, experience and key attributes for appointments or promotions to the positions of key management personnel and CEO. These are documented in the respective job descriptions of the CEO and of the KMPs.

### 3 (6) (iv) (d) ✓ - Fitness and Propriety of Directors, CEO and KMPs

Affidavits and Declarations to assess the fitness and propriety of Directors, CEO and KMPs in terms of the Banking Act and its Directions were obtained prior to the appointment of Directors and at the time of appointing Key Management Personnel (KMPs) or promoting to the KMP positions. Prior to the date of the AGM of the Bank in 2020, Affidavits submitted by the continuing Directors, were forwarded to the Director, Bank Supervision for review and approval. Directors also submitted Affidavits in compliance with the Bank's Fit and Proper Policy in place as per the Guidelines of the Securities and Exchange Commission of Sri Lanka.

### 3 (6) (iv) (e) ✓ - Succession Plan

The BNC considered and discussed matters relating to new expertise and succession arrangements for the CEO and for the KMPs at its meetings held during the year.

### 3 (6) (iv) (f) ✓ - Composition and Chairman of BNC

The BNC comprised five Non-Executive Directors during the year 2020, the majority of whom were independent. The BNC was chaired by Independent Director, Ms M C Pietersz. The CEO attended the meetings of the BNC on invitation.

### 3 (6) (v) Board Integrated Risk Management Committee

#### 3 (6) (v) (a) ✓ - Composition of the Committee

The Board Integrated Risk Management Committee (BIRMC) comprised six members; three Independent Non-Executive Directors, one Non-Independent Non-Executive Director, the Chief Executive Officer and the Chief Risk Officer. The Committee was chaired by Independent Director, Mr D R Abey Suriya. The Chief Risk Officer is the Key Management Personnel in charge of supervising broad risk categories, i.e., market, liquidity, operations, credit reputational and strategic risks and reports directly to the Committee. The Head of Compliance and Chief Financial Officer were co-opted to the Committee and they attended the regular meetings of the Committee. Other Key Management personnel and management attended the Meetings when invited by the Committee.

#### 3 (6) (v) (b) ✓ - Assessment of Risks

The Risk Management Unit (RMU) is responsible to create, to manage and to implement a pervasive bank-wide risk culture. Towards meeting this requirement, the three executive subcommittees of the BIRMC, namely the Assets and Liability Management Committee (ALCO), the Executive Credit Risk Management Committee (ECRMC) and the Executive Market and Operational Risk Management Committee (EMORMC) functioned during the year. These Committees assessed and reviewed the respective categories of risks, namely, credit, market, liquidity and operational risks coming under their respective purview

at their regular meetings. Key matters and issues arising from the same were reported to the BIRMC at its quarterly meetings. The BIRMC reviewed such reports and gave appropriate advice and guidance to the management. The Integrated Risk Management Policy and other risk management policies which were reviewed and recommended by the BIRMC and approved by the Board provide a framework for assessment and management of the overall risks to the Bank.

The BIRMC also reviewed the risk assessments of the Bank's only subsidiary, Seylan Developments PLC, the principal activities of which are property development and management.

#### 3 (6) (v) (c) ✓ - Effectiveness of Management Level Committees

The reports submitted by the Chief Risk Officer to the BIRMC pursuant to the proceedings of the ALCO, the ECRMC and the EMORMC as well as the minutes of the said Committees were reviewed and the effectiveness of these Committees were assessed by the BIRMC at its regular quarterly meetings.

#### 3 (6) (v) (d) ✓ - Actions to mitigate specific risks

The BIRMC advises on corrective action by the management to mitigate the effects of specific risks where such risks are at levels beyond the prudent levels approved by the Committee or where they are not in line with the Bank's policies and/or regulatory requirements.

#### 3 (6) (v) (e) ✓ - Frequency of Meetings

In accordance with the Terms of Reference, the Committee met quarterly during the year 2020.

#### 3 (6) (v) (f) ✓ - Action against those who fail to identify specific risks

Officers responsible at branches and/or departments failing to identify specific risks and the consequent impact to the Bank

were identified during the internal audit reviews. If such actions required audit investigations, they were carried out accordingly. Depending on the nature of the offence they are reported to the line management and/or to the Head of Human Resources and/or to the Chief Executive Officer and/or to the Disciplinary Unit for appropriate action.

Reports on high-risk offences including line management's action taken to prevent such lapses in the future, were submitted to the BIRMC if deemed appropriate for information and advice or instructions.

### 3 (6) (v) (g) ✓ - Risk Assessment Report to the Board

Risk Assessment Reports were submitted to the Board meetings that were held after the quarterly BIRMC meetings. Copies of the confirmed Minutes of the Committee and recommendations of the Committee were also submitted to the Board meeting that followed the Committee meetings for the Board's perusal and appropriate decisions/concurrence.

### 3 (6) (v) (h) ✓ - Compliance Function

The Bank has in place an independent compliance function headed by the Head of Compliance, who is a key management personnel and reporting directly to the BIRMC. She submitted status reports and risk reports on compliance, quarterly to the BIRMC and monthly updates to the Board. The BIRMC provided appropriate guidance and advice pursuant to closely scrutinising the status of compliance with mandatory banking and other statutory requirements and also the systems and procedures that are in place to ensure compliance with such requirements.

### 3 (7) Related Party Transactions

#### 3 (7) (i) ✓ - Avoidance of Conflicts of Interest

A Board approved Policy and Process on Related Party

Transactions and Avoidance of Conflicts of Interest (hereinafter referred to as the Policy or Policy on RPTs) of the Bank is in place. The Directors were aware of their responsibility towards complying with the requirements of this Policy and they ensured that conflicts of interest did not arise when transactions which were considered at Board and Board Subcommittee meetings in which they had an interest, particularly with related parties of the Bank as defined in Direction No.3(7)(i), which includes any of:

- *Bank's subsidiary companies;*
- *Bank's associate companies;*
- *Directors of the Bank;*
- *Key management personnel (KMP);*
- *a close relation of any of the Bank's Directors or of the KMPs;*
- *a shareholder owning a material interest in the Bank;*
- *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 had a substantial interest*

#### 3 (7) (ii) ✓ - Types of Transactions with related parties

Transactions defined under this direction as well as those defined under Sri Lanka Accounting Standards – LKAS 24, are included in the Bank's Policy on RPTs and any such transactions carried out by the Bank in the normal course of business were closely monitored to assess whether they have deviated from the rules set out in the Policy on RPTs.

#### 3 (7) (iii) ✓ - Favourable Treatment

The Bank did not engage in transactions with related parties, 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 such as; charging of a lower rate of interest than the Bank's lending rate charged to non-related party customers or paying more than the Bank's deposit rate for a comparable transaction

with an unrelated comparable counterparty and; providing services to or receiving services from a related party without an evaluation procedure.

The Board has set a prudent percentage of the Bank's regulatory capital to limit total net accommodation to related parties which said limit is monitored by the Risk Management Unit and the Executive Credit Risk Management Committee, a subcommittee of the Board Integrated Risk Management Committee (BIRMC). The percentage of total accommodation granted to related parties was reported by the Chief Risk Officer to the BIRMC on a quarterly basis.

The Board approved Policy on RPTs emphasises that all employees are aware of the policy and guidelines set out therein. Heads of Divisions/relevant officers who deal in related party transactions follow the Policy guidelines in their evaluations of related party transactions and provide a confirmation when submitting the return of such transactions to the Compliance Unit on a quarterly basis. The Compliance unit has adopted a mechanism to monitor and ensure that the policy guidelines are complied.

#### 3 (7) (iv) ✓ - Accommodation to a Director or to a close relation of a Director

This was granted with the approval of the Board with not less than two-thirds of the number of directors other than the Director concerned, being present at such meeting and voting in favour of the proposed accommodation. The Board ensured that such accommodations were secured by such security as may from time to time be determined by the Monetary Board of the Central Bank of Sri Lanka ("the Monetary Board").

#### 3 (7) (v) ✓ - Obtaining of required security for accommodation granted to a related party of a Director being appointed or to a Director individually prior to such

**Director being appointed**

There was no requirement to comply with this direction during the year. Ms V G S S Kotakadeniya who was appointed as the Alternate Director to Non-Executive Director, Mr W D K Jayawardena, did not have any credit facility accommodation with the Bank at the time of her appointment.

**3 (7) (vi) ✓ - Accommodation to employees or related parties connected to the employees**

No accommodation has been granted on "more favourable" terms such as 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 in respect of accommodations to employees based on the scheme/s applicable to the employees of the Bank or where such accommodation is secured by such security as may be approved by the Monetary Board in respect of accommodation granted.

**3 (7) (vii) ✓ - Prior approval of Monetary Board for Remittance of Accommodation**

There was no requirement to comply with the requirement of this section based on the comments made under Direction 3(7)(v) and 3(7)(vi) above.

**3 (8) Disclosures****3 (8) (i) ✓ - Annual Audited Financial Statements and Quarterly Financial Statements**

The Annual Audited Financial Statements and Quarterly Financial Statements were prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and the Accounting Standards. Annual Audited Financial Statements were published in the Annual Report while the Quarterly Financial Statements were published in an abridged form, in the newspapers in all three languages.

The above Reports were released to the Colombo Stock Exchange (CSE) and uploaded on its website [www.cse.lk](http://www.cse.lk) for the information of the shareholders and the general public prior to publishing in the newspapers. The reports were also made available on the Bank's corporate website [www.seylan.lk](http://www.seylan.lk). Please refer 'Financial Calendar' page in the Annual Report for the relevant dates.

**3 (8) (ii) (a) ✓ - Statement of Directors' Responsibility for Financial Reporting and Statements of the Chief Executive Officer's and Chief Financial Officer's Responsibility for Financial Reporting**

These two reports which have been published in the Annual Report confirm that the Financial Statements for the year ended

31 December 2020 have been prepared in line with applicable standards and regulatory requirements (Reference: pages 144 and 145).

**3 (8) (ii) (b) ✓ - Directors' Statement on Internal Control**

The Statement on Internal Control published in the Annual Report confirms that the financial reporting system provides reasonable assurance regarding the financial report and that the preparation of the financial statements for external purposes has been done in accordance with all relevant accounting principles and regulatory requirements (Reference: pages 104 and 105).

**3 (8) (ii) (c) ✓ - External Auditors' Certification on the Effectiveness of Internal Control**

The Bank has obtained an Assurance Report on the internal controls over financial reporting from the External Auditors in accordance with the "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control" and the same is published in this Annual Report (Reference: page 106).

**3 (8) (ii) (d) ✓ - Details of the Directors**

Please refer the pages of the Annual Report for the respective information as mentioned in table below.

Details	Section of the Annual Report	Page/s
Names, qualifications, expertise	Profile of the Directors	67
Fitness and Propriety	Sections 3(3) and 3(6)(iv)d of this Corporate Governance Report; Report of the Board of Directors	84, 94 and 111
Details on Directors interest in other entities	Annexure to the Report of the Board of Directors	115
Transactions with the Bank/ Related Party Transactions	Note 51 to the Financial Statements	247
Fees/Remuneration paid to Directors	disclosure under Direction 3(8)(ii)(f) of this report.	97

**3 (8) (ii) (e) ✓ - Total Net Accommodations to Related Parties**

Disclosure on accommodations granted to related parties is given in Note 51 to the Financial Statements. The net accommodation as at 31 December 2020, granted to each category of related parties as defined in Direction 3(7)(i) and as per LKAS 24 is given below as a percentage of the Bank's regulatory capital.

Category of Related Party Transactions	Amount (LKR Mn)	% of regulatory capital
Directors, Key Management Personnel and their close relations (Transactions including securities purchased under re-sale agreements and credit card accommodations)	369.96	0.65
Subsidiary, Seylan Developments PLC	175.00	0.31
Material shareholders of the Bank and concerns in which a Director of the Bank or material shareholder has a substantial interest.	13,998.07*	24.51
Other entities including common Directorship Entities	4,079.20**	7.14

\*Includes accommodations Non-funded, undrawn facilities LKR 5,148.35 Mn excluding LKR 50 Mn Debenture Investment held by Seylan Developments PLC, which is accounted in Consolidated Financial Statement. \*\* Includes accommodations Non-funded, undrawn facilities LKR 2,550.33 Mn

### 3 (8) (ii) (f) - Remuneration to Key Management Personnel (KMPs) and Transactions with KMPs and aggregate values of the transactions of the Bank with its KMPs

The aggregate remuneration paid to Key Management Personnel and transactions of the Bank with Key Management personnel during the year 2020 were as follows.

Remuneration / Transaction	Amount (LKR Mn)
Remuneration to Executive Directors and KMPs (as per CBSL definition)*	333.96
Directors' Fees for Non-Executive Directors	28.88
Loans and Advances (including Securities purchased under Re-sale Agreements and Credit Card accommodations to KMPs and Non-Executive Directors)	369.96
Deposits of KMPs and Non-Executive Directors	461.17
Investments by KMPs and Non-Executive Directors –Other Investments (Liability)	130.08

\* Includes cash/non cash benefits and post-employment benefits to Directors and KMPs.

### 3 (8) (ii) (g) - External Auditors Certification of the Compliance with Direction No.11 of 2007 on Corporate Governance

The External Auditors were engaged to perform an agreed-upon procedure in accordance with the principles set out in the Sri Lanka Related Services Practice Statement 4750 and they provided a Factual Findings Report to the Board on the Bank's extent of compliance with the Directions as disclosed in this Corporate Governance Report. Please refer confirmation stated at the end of this report.

### 3 (8) (ii) (h) - Compliance with prudential requirements, regulations, laws and internal controls

Statement of Directors' Responsibility for Financial Reporting and Directors' Statement on Internal Controls published in the Annual Report provide the extent of Bank's compliance in this regard. There was no material non-compliance of prudential requirements, regulations, laws and internal controls which affected the Bank during the year.

### 3 (8) (ii) (i) - Supervisory Concerns

There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director, Bank Supervision, Central Bank of Sri Lanka and directed to be disclosed to the public.

#### Confirmation

In terms of Direction 3(8)(ii)(g) of the Banking Act Direction No. 11 of 2007, on behalf of the Board of Directors, we confirm that the findings of the "Factual Findings Report" dated 22 February 2021 issued by the Auditors, M/s KPMG, Chartered Accountants to the Board of Directors pursuant to the agreed-upon procedure carried out by them in accordance with "Sri Lanka Related Services Practice Statement 4750" are consistent with the matters disclosed in the above Annual Corporate Governance Report on the mandatory compliance with the Banking Act Direction No.11 of 2007 (as amended).



W M R S Dias  
Chairman



(Ms) N N Najumudeen  
Company Secretary

22 February 2021  
Colombo

### Rules of the Colombo Stock Exchange (CSE) relating to Disclosure on Corporate Governance

The Bank being a listed entity is bound by and at all times has complied with the applicable Rules and Circulars of the CSE and the Central Depository Systems (Pvt) Limited as amended or replaced from time to time.

Section 7.10(c) of the CSE Rules states that where a listed entity is required by any law applicable to such listed entity to comply with rules on corporate governance promulgated under such law, such listed entity shall make disclosures of compliance with the corporate governance rules applicable to that sector. Seylan Bank PLC being a Licensed Commercial Bank (LCB) has disclosed its level of compliance under the Banking Act and Banking Act Directions No.11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks of Sri Lanka in this report. The disclosures made include and affirm the Bank's compliance with the relevant sections under the Corporate Governance Rules of the CSE.

### Code of Best Practice on Corporate Governance published by the Institute of Chartered Accountants of Sri Lanka (ICASL)

The Bank's comprehensive disclosures on its compliance with the Banking Act Directions on Corporate Governance and other disclosures published in the Annual Report adequately address the level of compliance with the principles of the Code of Best Practice on Corporate Governance 2017 published by the ICASL. Relevant references to the disclosures required as per Schedule I of the Code are listed below.

Subject	Code of Best Practice Principle Reference	Reference to Section of the Annual Report / Remarks	Page No.
Chairman and CEO	A.2.1 and A.5.7	Corporate Governance (CG) Report - CBSL Direction No.3(5)	85
Board Balance	A.5.5	CG Report - CBSL Direction No.3(2)	83
Nomination Committee	A.7.1	CG Report - CBSL Direction No.3(6) (iv) Report of the Board Nomination Committee	93 101
New Directors Appointed and their details including directorships and status of independence	A.7.3	Profile of Directors CG Report - CBSL Direction No. 3(2)(iv) Annexure to the Report of the Board of Directors	67 83 115
Appraisal of Board Performance	A.9.4	CG Report - CBSL Direction No.3(1) (i)(i)	80
Board Related Disclosures (Profile, status, directorships, attendance, sub-committee membership, etc.)	A.10.1	Profile of Directors CG Report - CBSL Direction Nos.3(1) (vi) and 3(6)(i) Annexure to the Report of the Board of Directors	67 81 and 90 115
Disclosure of Remuneration	B.3 and B.3.1	CG Report - CBSL Direction No. 3(8)(ii)(f)	97
Major and Material Transactions	C.3 and C.3.1	There were neither material transactions which would have materially altered the Bank's or Group's net asset base nor any 'major related party transactions' during the year 2020 warranting disclosure in the Annual Report. Related party transactions are disclosed in Note 51 to the Financial Statements.	247
Audit Committee	D.3.3	CG Report - CBSL Direction No. 3(6)(ii)	91
Code of Business Conduct and Ethics	D.5.1 and D.5.4	CG Report - Section 3(1)(i)(a)	78
Communication with Shareholders	C.2.2 to C.2.7	CG Report - CBSL Direction Nos. 3(1)(i)(d); 3 (5) (X).	79 and 86
Remuneration Committee Report	B.1.3	Report of the Board Human Resources and Remuneration Committee	100
Directors' Report	D.1.4	Report of the Board of Directors on the State of Affairs of the Company	107
Financial Statements – Statement of Responsibility	D.1.5	Statement of Directors' Responsibility for Financial Reporting	144
Related Party Transactions	D.1.8	CG Report - CBSL Direction No. 3(7)	95
Management Report	D.1.6	CEO's Message and Value Creation Story	6 to 63
Corporate Governance Report	D.6.1	Please refer statements in the CG Report	
Compliance with Provisions of the above code of Best Practice			
Audit Committee Report	D.3.2	Report of the Board Audit Committee	99
Related Party Transactions Review Committee Report	D.4.3	Report of the Related Party Transactions Review Committee	103
Statement of Internal Control	D.1.5 and D.2.4	Directors' Statement on Internal Control	104
Internet of Things and Cyber security	G.5	Risk Management (reviewing information risk, integrity and availability)	117
Environment, Society and Governance (ESG) Reporting	H.1.1 to H.1.4	Value Creation Story	49

# REPORT OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee ('BAC' or 'the Committee') of Seylan Bank PLC ('the Bank') presents its report for the year ended 31 December 2020 which was approved by the Board of Directors ('the Board').

## OBJECTIVE AND TERMS OF REFERENCE

The objective of the BAC is to provide insights to the Board to fulfill its oversight responsibilities including but not limited to the financial reporting process, systems of internal control, the audit process and the process for monitoring compliance with laws, regulations and codes of conduct. The authority, composition, conduct of meetings, scope and responsibilities of the BAC is set out in its Terms of Reference. The Terms of Reference was reviewed and recommended by the Committee and approved by the Board during the year.

## COMPOSITION OF THE COMMITTEE DURING THE YEAR

The composition of the Committee was not changed during the year and comprised:

- Ms M C Pietersz, Independent Director/ Senior Director - Chairperson of the Committee
- Mr W D K Jayawardena, Non-Executive Director/Deputy Chairman of the Board
- Mr P L S K Perera, Independent Director
- Mr D R Abeyesuriya, Independent Director

The Chairperson of the Committee, Ms M C Pietersz is an Associate Member of the Institute of Chartered Accountants in England and Wales, Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka. Ms Pietersz counts over 30 years of experience in auditing, finance, accounting and banking, with over 25 years at senior levels. The profiles of the members are given on page 67 of the Annual Report.

The Company Secretary of the Bank functioned as the Secretary to the Committee during the year.

## ACTIVITIES OF THE COMMITTEE DURING 2020

### Meetings

The Committee held twelve meetings during the year, which included two meetings with the External Auditors without the presence of the Director/Chief Executive Officer (CEO) and the management. Additionally, the Committee held two one-on-one meetings, one with the Head of Internal Audit and the other with the Chief Financial Officer to discuss their areas of functions and concerns and provided appropriate advice.

The Head of Internal Audit, Mr Varuna Koggalage, who independently reports to the BAC and the Chief Financial Officer, Ms Champika Dodanwela attended the regular meetings of the Committee during the year. The Director/CEO, Mr Kapila Ariyaratne,

other members of the management of the Bank and the External Auditors were invited to the meetings as and when the Committee required their presence to report and/or respond to queries related to audit findings and related matters.

The attendance of the members during the year was satisfactory and summary of the attendance is presented in the table appearing on page 90 of the Annual Report.

### Internal Controls

Responsibilities carried out included but were not limited to:

- Ensuring an appropriate 'control culture' in place;
- Reviewing and evaluating the internal control systems covering accounting, financial and operational aspects based on the reports of the internal audits conducted in line with the scope of the Internal Audit Plan approved by the Committee;
- Considering the effectiveness of controls, including of information technology security and controls;
- Reviewing and monitoring the effectiveness of business continuity plans of the Bank;
- Understanding the scope of External Auditors' review of internal controls over financial reporting and reviewing their reports on significant findings and recommendations together with management responses.

The Committee also placed additional focus on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognised in the financial statements based on the internal models, management overlay computed based on stress testing the exposures to risk elevated sectors to address the potential implications of the COVID-19 pandemic and the moratorium schemes introduced to support the recovery of the economy.

### Effective Internal Control over Financial Reporting

Management is primarily responsible for the financial statements and for maintaining effective internal control over financial reporting and assessing the effectiveness of such control systems. The Committee maintained vigilance in exercising its oversight role in respect of financial reporting, estimates and judgements made by the management, adoption of the accounting standards, internal controls and the risk management process.

### External Audit

The meetings of the Committee with the External Auditors, M/s KPMG focused on discussing the findings and recommendations arising from the conduct of the annual and half-year audits; the scope of external audit plan for the year

2020 and compliance with the Standards on Financial Reporting. The External Auditors also made a presentation and a briefing to the Committee on the possible implications on financial reporting due to the COVID-19 and the consequent regulatory directions, instructions and guidelines issued by the Central Bank of Sri Lanka.

The Committee met twice with the External Auditors without the presence of the executive management and the Director/CEO during the year. It was ensured that there was no limitation of scope or incidents that could have a negative impact on the effectiveness of the external audit during the year.

The Committee reviewed the non-audit services provided by the External Auditors and was of the view that such services were not within the category of services identified as restricted under the guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties. The Bank's Policy on Non-Audit Services by the Independent External Auditors was reviewed and recommended by the Committee and approved by the Board during the year.

The Committee determined the independence of the External Auditors, M/s KPMG, as per the provisions of the Companies Act and the ICASL's Code of Professional Conduct and recommended their reappointment as the Auditors of the Bank for the financial year ended 2021, subject to the concurrence of its recommendation by the Board and approval of the Shareholders at the forthcoming Annual General Meeting. The present Audit partner was engaged from the financial year 2019.

### Compliance with the Banking Act Direction on Corporate Governance

Responsibilities executed by the Committee and the extent of compliance with the Directions of the Banking Act Direction No.11 of 2007 on Corporate Governance are described under Section 3(6)(ii) of the Corporate Governance Report published in the Annual Report.

### EVALUATION OF THE COMMITTEE

The Board Audit Committee carried out its responsibilities within the scope of its authority of its Terms of Reference. The Committee undertook a self-evaluation/appraisal of the effectiveness of executing these responsibilities and was satisfied that the Committee had carried out its responsibilities effectively during the year, 2020.



**Ms Coralie Pietersz**  
(Independent Director/Senior Director)  
Chairperson - Board Audit Committee

22 February 2021

# REPORT OF THE BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Board Human Resources and Remuneration Committee ("the BHRRC" or "the Committee") presents its report for the year ended 31 December 2020. This report was approved by the Board of Directors ("the Board").

## SCOPE AND OBJECTIVES OF THE BHRRC

The Committee assists and makes recommendations to the Board of Directors in exercising its' oversight role and responsibilities on matters related to human resource strategies and policies and determination of compensation, benefits and remuneration for the Directors, the Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank. The Committee provides necessary guidance and advice on matters of strategic importance related to human resources and remuneration of other employees of the Bank as well.

The Terms of Reference of the Committee covering the structure, scope and responsibilities of the Committee was reviewed and approved by the Board during the year.

## COMPOSITION OF THE COMMITTEE

As at 31 December 2020, the Committee comprised:

- Ms M C Pietersz, Independent Director/ Senior Director - Chairperson of the Committee
- Ms S K Salgado, Independent Director
- Mr D R Abey Suriya, Independent Director
- Mr S V Corea, Non-Executive Director
- Mr D M D K Thilakarathne, Non-Executive Director

The Company Secretary functioned as the Secretary to the Committee during the year.

The Director/Chief Executive Officer (CEO), Mr Kapila Ariyaratne and Deputy General Manager, Human Resources Mr Jayantha Amarasinghe attended the meetings of the Committee on invitation and participated in the deliberations except when matters of their own interest, performance and compensation were discussed.

## MEETINGS

The Committee held six meetings during the year. Copies of the confirmed minutes and recommendations made by the Committee were tabled to the meetings of the Board of Directors for concurrence or approval/decision as appropriate. The attendance of the members at the meetings of the Committee is presented in the table providing Directors' attendance at Subcommittee meetings on page 90 of the Annual Report.

## KEY HIGHLIGHTS OF ACTIVITIES OF BHRRC DURING THE YEAR

- Approval of the Key Performance Indicators (KPIs) of the KMPs for the year under review
- Evaluation of goals and targets (KPIs) of KMPs
- Revised the KPIs evaluation approach and evaluation format for KMPs
- Initiation of a workplace culture assessment and transformation
- Approval of the Human Resources Roadmap 2021-2023
- Approval of Training and Development Plan 2020/2021
- Review and recommendation of many of the human resources related policies
- Guidance on Collective Negotiation Process for Salary Revisions

## REMUNERATION POLICY

The Remuneration Policy of the Bank aims to establish a formal and transparent procedure for determining remuneration, salaries and allowances and other financial benefits and perquisites to Directors, the CEO, the KMPs and all other employees of the Bank. The policy and practices are linked to the achievement of the short term and long term strategic goals and operational objectives of the Bank and aims to attract, motivate and retain qualified and competent persons at all levels.

## DIRECTORS' REMUNERATION AND BENEFITS

The Board as a whole determines the remuneration and/or allowances and fees for both Executive and Non-Executive Directors based on the recommendations of the BHRRC. The Terms of Reference of the BHRRC provides that granting of any special payments and/or benefits to Directors upon their resignation or retirement in addition to normal fees and/or remuneration shall be subject to the recommendation of the Committee and approval of the shareholders. No such circumstances arose during the year that required shareholder approval and/or disclosure in the Annual Report.

## AGGREGATE REMUNERATION TO DIRECTORS, CEO AND THE KMPs

Aggregate remuneration paid to the Directors, CEO and the KMPs are disclosed under section 3(8)(ii)(f) in the table reporting compliance with the Banking Act Directions on Corporate Governance on page 97 of this Annual Report.

## RESPONSIBILITIES OF THE BHRRC

The responsibilities of the Committee and the extent of compliance with directions 3(6)(iii)(a) to 3(6)(iii)(d) of the Banking Act Directions on Corporate Governance No.11 of 2007 have been disclosed in the relevant sections of the Corporate Governance Report published in the Annual Report on page 93.

## SELF-EVALUATION OF THE COMMITTEE

The BHRRC carried out a self-evaluation of its performance during the year and was satisfied that it had carried out its responsibilities in a satisfactory manner.



**Ms Coralie Pietersz**  
(Independent Director/Senior Director)

*Chairperson - Board Human Resources and Remuneration Committee*

22 February 2021

# REPORT OF THE BOARD NOMINATION COMMITTEE

The Board Nomination Committee ("Committee") presents its Report for the year ended 31 December 2020. This report was approved by the Board of Directors ("the Board").

## OBJECTIVE OF THE COMMITTEE

The primary objective of the Board Nomination Committee is to assist the Board in fulfilling its' role and responsibilities involving the appointment of Directors and Key Management Personnel (KMPs) of the Bank.

## COMPOSITION OF THE BOARD NOMINATION COMMITTEE

The Committee comprised the following as members of the Committee during the year:

- Ms M C Pietersz, Independent Director/ Senior Director - Chairperson of the Committee
- Mr W M R S Dias, Non-Executive Director/Chairman of the Board
- Mr W D K Jayawardena, Non-Executive Director /Deputy Chairman of the Board
- Mr P L S K Perera, Independent Director
- Mr A S Wijesinha, Independent Director

The Company Secretary functioned as the Secretary to the Committee during the year.

## MEETINGS

The Committee held five meetings during the year. Copies of the confirmed minutes of the meetings and recommendations of the Committee were submitted to the Board for perusal and comments or appropriate decisions. Attendance of the members at the meetings of the Board Nomination Committee is presented in the table providing Directors' attendance at Subcommittee meetings on page 90 of the Annual Report. Director/Chief Executive Officer, Mr Kapila Ariyaratne and Deputy General Manager, Human Resources, Mr Jayantha Amarasinghe attended the Meetings of the Committee on invitation.

## SCOPE OF WORK AND RESPONSIBILITIES

The extent of the Committee's compliance with Direction Nos. 3(6)(iv)(a) to 3 (6) (iv) (f) of the Banking Act Directions on Corporate Governance No.11 of 2007 have been disclosed in the Corporate Governance Report on page 93 of the Annual Report.

## KEY ACTIVITIES OF THE COMMITTEE

- Reviewed and approved structural changes and reporting lines in line with the Bank's strategic requirements.
- Advised and made recommendations on the appointment of key management personnel, pursuant to assessing their suitability to hold such positions.
- Recommended the re-election of Directors in terms of the Articles of Association of the Company, taking into account the performance and contribution made by the Directors concerned towards the overall discharge of the Board's responsibilities;
- Reviewed and approved development plan and mentoring programme for identified successors to KMP positions.

## EVALUATION OF THE COMMITTEE

The Board Nomination Committee carried out a self-evaluation of its performance during the year under review and was satisfied that the Committee had carried out its responsibilities in a satisfactory manner.



**Ms Coralie Pietersz**  
(Independent Director/Senior Director)

*Chairperson – Board Nomination Committee*

22 February 2021

# REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board Integrated Risk Management Committee ("BIRMC" or "the Committee") presents its Report for the year ended 31 December 2020. The Report was approved by the Board of Directors ("the Board").

## SCOPE AND OBJECTIVE OF THE COMMITTEE

The scope and objective of the BIRMC is to assess on a regular basis through appropriate risk indicators and management information, all risk categories including credit, market, liquidity, operational and strategic risks facing the Bank and its reputation and also to assess the risks faced by its associates and subsidiary companies. The mandate of the BIRMC as defined in its Terms of Reference is to ensure that the Bank implements an approved policy framework with defined procedures and systems for identifying, measuring, monitoring and controlling such risks. An Integrated Risk Management Policy and other risk management related policies approved by the Board provide a comprehensive framework towards meeting the objectives of the Committee.

## COMPOSITION OF THE BIRMC

During the year 2020, the Committee comprised the following members:

- Mr D R Abeysuriya, Independent Director - Chairman of the Committee
- Mr W M R S Dias, Non-Executive Director/ Chairman of the Board
- Ms M C Pietersz, Independent Director/ Senior Director
- Mr P L S K Perera, Independent Director
- Mr K P Ariyaratne, Director/Chief Executive Officer
- Mr L A S Fernando, Chief Risk Officer

Profiles of the Directors holding membership in the Committee are provided in page 67 of the Annual Report.

The Chief Risk Officer (CRO), Mr L A S Fernando as the Head of the Risk Management Unit functioned as the Secretary to the Committee during the year whilst the Company Secretary was in attendance at the special meeting held in the first quarter for the performance evaluation of the two direct reports to the Committee, namely the CRO and the Head of Compliance.

## MEETINGS OF THE BIRMC

Four regular meetings on a quarterly basis and one special meeting in the first quarter (without the presence of the CRO and Head of Compliance) were held during the year. Copies of the confirmed Minutes of meetings were made available to the Board of Directors for information whilst recommendations of the Committee were submitted to the Board for review and appropriate decisions.

All members of the Committee were present at all five meetings during the year. The Head of Compliance who reports directly to the BIRMC as well as the Chief Financial Officer attended the regular meetings of the Committee whilst other management members were present when invited by the Committee. Two out of the above mentioned five regular quarterly meetings of the Committee in June 2020 and December 2020 were held on-line, via a virtual platform due to the COVID-19 pandemic in the country.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE DIRECTIONS

The execution of responsibilities of the Committee and the extent of the Committee's compliance with the Banking Act Directions on Corporate Governance No.11 of 2007 have been briefed under sections 3(6)(v)(a) to 3(6)(v)(h) of the Corporate Governance Report published in the Annual Report.

## RISK MANAGEMENT UNIT

The Risk Management Unit (RMU) is an independent unit headed by the CRO. The Unit is responsible to create, to manage and to implement a pervasive bank-wide risk culture. The BIRMC reviewed the adequacy of the activities of the RMU and focused on improving communication and implementation of risk management responsibilities at all levels within the Bank. Towards meeting this requirement, the three Subcommittees of the BIRMC, namely, the Executive Credit Risk Management Committee, the Executive Market and Operations Risk Management Committee and the Assets and Liability Management Committee continued to function during the year. Minutes of the meetings of these Committees were tabled to the BIRMC whilst recommendations/decisions of these Committees were also submitted by the CRO to the BIRMC's regular quarterly meetings for review and discussion.

A comprehensive Risk Management Report presented by the RMU, disclosing the Bank's level of risk management and assessment including the levels of risk under different risk categories is presented in the Annual Report.

## COMPLIANCE FUNCTION

The Head of Compliance, Ms Dilani Sooriyaarachchi reports directly to the BIRMC. She is responsible for ensuring due compliance of the Bank with laws, regulations, internal controls and policies and industry best practices. Periodic updates to the BIRMC were provided by the Head of Compliance on the regulatory developments and their impact to the Bank; outcome of compliance assessments, corrective measures and precautionary measures taken where required; findings of internal audit, external audit and regulatory audits, etc. The BIRMC provided advice and recommendations on the compliance

risks identified, proposed policies and new developments to the compliance function.

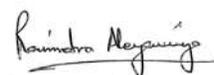
## INTEGRATED RISK MANAGEMENT FRAMEWORK AND IMPLEMENTATION

Some of the key and supplementary activities carried out and/or endorsed by the Committee during the year included (but not limited to);

- Assessment of credit, market, liquidity, operational, information security and strategic risks;
- Review and recommendation of policies related to risk management and compliance;
- Review and assessment of the extent of independent credit risk reviews, business continuity planning, disaster recovery testing, information security risk controls, outsourced activities, Risk Control and Self-Assessment (RCSA) Process exercise;
- Review of various reports submitted on assessment of compliance risks;
- Review and assessment of status updates on the implementation of activities as per the Compliance Activity Calendar;
- Review of the risk assessments and controls of the Bank's subsidiary, Seylan Developments PLC;
- Physical security assessment of the Bank's head office building;
- Assessment of Data Leakage Prevention during the COVID-19 lockdown period;
- Assessment of the impact of COVID-19 on the banking operation vis-à-vis the loan book, liquidity position, cyber security and implementing of health precautionary practices across the branch network etc. and the Bank's preparedness to meet any emergency including operational capacity at the Disaster Recovery Operating Centre and providing relevant guidance and recommendations to withstand any plausible emergencies.

## EVALUATION OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Members of the BIRMC carried out a self-assessment of the Committee's performance. The Committee was satisfied that it had carried out its responsibilities in an effective manner during the year.



**D R Abeysuriya**  
(Independent Director)

**Chairman - Board Integrated Risk Management Committee**

22 February 2021

# REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee ("the Committee" or "RPTRC") which is a Subcommittee of the Board of Seylan Bank PLC ("the Bank") presents its report for the year ended 31 December 2020. This Report was approved by the Board of Directors ("the Board").

## SCOPE AND TERMS OF REFERENCE

The Terms of Reference of the Committee has set out the scope and objective of the Committee in accordance with the Listing Rules of Colombo Stock Exchange (CSE).

## COMPOSITION

The Committee comprised the following members as at 31 December 2020:

- Mr P L S K Perera - Independent Director - Chairman of the Committee
- Ms M C Pietersz - Independent Director/ Senior Director
- Mr S V Corea - Non-Executive Director
- Mr A S Wijesinha- Independent Director

The Company Secretary functioned as the Secretary to the Committee.

The Director/Chief Executive Officer and the Head of Compliance attended the meetings of the Committee on invitation.

## MEETINGS OF THE RPTRC

The Committee held four meetings during the year on a quarterly basis. The meeting scheduled for the first quarter 2020 was postponed and held in early April 2020 due to the lockdown situation. Copies of confirmed minutes of meetings and recommendations of the Committee were submitted to the ensuing meetings of the Board of Directors for perusal and decision.

Details of attendance of the members at the meetings are presented in the table providing Directors' attendance at subcommittee meetings on page 90 of the Annual Report.

## REVIEW OF RELATED PARTY TRANSACTIONS BY THE COMMITTEE

Review of Related Party Transactions is a key scope and responsibility of the Related Party Transactions Review Committee as set out in its Terms of Reference. The Committee ensured compliance with Section 9 of the Listing Rules of the CSE. Summarised Lists of recurrent related party transactions which were approved by the Board of Directors were presented by the Company Secretary to the ensuing regular meetings of the Committee. Non-recurrent related party transactions which required prior recommendation of the Committee were tabled and decided upon by the Committee prior to submitting to the Board.

The aggregate value of non-recurrent related party transactions did not exceed 10% of the equity or 5% of the total assets of the Bank during the year requiring disclosure in terms of Section 9.3.2(a) of the Listing Rules of the CSE whilst the aggregate value of the recurrent related party transactions did not exceed 10% of the gross revenue/income of the Bank during the year requiring disclosure in terms of Section 9.3.2(b) of the Listing Rules of the CSE.

The Bank has in place a Related Party Transaction and Avoidance of Conflict of Interest Policy and Process Document. The Committee regularly reviewed the mechanism/process for recording, monitoring and reporting related party transactions and provided necessary guidance and advice to ensure the effectiveness of the process. The Compliance Unit carried out regular audits of related party transactions carried out by the Bank (both recurrent and non-recurrent) and reported its observations and findings to the Committee. It was observed that there were no preferential treatments offered to related parties.

## EVALUATION OF THE COMMITTEE

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee and was satisfied that it had carried out its responsibilities in an effective manner during the year.



**Kumar Perera**  
(Independent Director)

**Chairman - Related Party Transactions Review Committee**

22 February 2021

# DIRECTORS' STATEMENT ON INTERNAL CONTROL

## RESPONSIBILITY

This report on internal control mechanism of the Bank is presented by the Board of Directors in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No 11 of 2007.

The Board of Directors ("Board") is responsible for the Bank's system of internal controls and for reviewing its design and operating effectiveness. However, such a system will mitigate but may not completely eliminate the risk of failure in achieving the business objectives of the Bank. Hence, the system of internal controls can only provide a reasonable but not absolute assurance against material misstatement of financial information and records.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Bank and this process provides for modifying the system of internal controls in response to changes in business and regulatory environment. The process is reviewed regularly by the Board, taking into account principles for the assessment of the internal control system as given in the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The process is in compliance with the requirements set out in this document.

The Management assists the Board in implementing its policies and procedures on risk and control by identifying and assessing the relevant risks faced by the Bank and in designing, implementing, operating and monitoring of appropriate internal controls to mitigate and control such risks. The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide a reasonable assurance on reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Management's Responsibility Key features of the process in place for reviewing the design and effectiveness of the internal controls system over financial reporting

Key processes that are presently in place for reviewing the design, operating effectiveness and the integrity of the system of internal controls relevant to financial reporting are set out below:

- The Board is assisted by the Board Committees established by the Board in ensuring the effectiveness of the Bank's daily operations in terms of alignment with the corporate strategies, objectives and the annual budget and in approving the policies and business directions as required.
- The Board Audit Committee of the Bank evaluates the adequacy and effectiveness of the risk management and internal control systems and monitors the internal control issues identified by the regulatory authorities, Internal Audit Department, External Auditors and the Management. They also review the internal audit function with emphasis on the coverage, scope and the quality of internal audits. Minutes of the Audit Committee meetings are tabled at Board meetings of the Bank on a periodic basis. Activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 99.
- Apart from the Audit committee, several Board committees have been established with a mandate to ensure effective management and supervision of the Bank's core areas of business operations. These Committees include the Board Integrated Risk Management Committee, Governance and Compliance Committee, Human Resource and Remuneration Committee, Nomination Committee, Credit Committee, Sustainability Committee, Strategic Plan Committee, Marketing and Product Development Committee, Related Party Transactions Review Committee and Information Technology Committee.
- Management/ 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 Asset and Liability Management Committee (ALCO), Executive Credit Risk Management Committee, Executive Market and Operational Risk Management Committee, Executive Crisis Management Committee, Corporate Management Committee, Performance Review Committee, Information Technology Steering Committee and the Business Process Re-engineering Steering Committee.
- The Internal Audit Department of the Bank reviews the effectiveness of the internal control systems and the design of and compliance with the policies and procedures on an on-going basis. Audits are carried out on all business units, functions and branches. Frequency and the scope of audits are determined by the level of risk assessed. The key objectives of such audits are to provide an independent and objective assessment on operational and management activities of the business units, functions and branches. The annual internal audit plan is reviewed and approved by the Audit Committee and all the findings of the audits are escalated to the Audit Committee.
- Policies and procedures for ensuring compliance with internal controls and the relevant laws and regulations are set out in operation manuals, guidelines and the directives issued by the Bank which are reviewed and updated from time to time.
- All controls, including the IT general controls and the branch level application controls, were documented by respective departments, on relevant formats prescribed in the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" in the Sri Lanka Standard on Assurance Engagements 3050, issued by The Institute of Chartered Accountants of Sri Lanka.
- In assessing the internal control system over financial reporting, the Management of the Bank captured all procedures and controls that are connected with significant accounts and disclosures in the Financial Statements of the Bank. These are reviewed by the Internal Audit Department for adequacy of design and operating effectiveness on an on-going basis.
- The bank adopted SLFRS 9 from 1 January 2018 and made an assessment of the objective of the business model classification of financial assets as it best reflects the way the business is managed and information is provided to management. With the introduction of "expected credit loss" under SLFRS 9, the Bank developed models to calculate Expected Credit Losses (ECLs). A number of key assumptions were made by the Bank in applying the requirements of the SLFRS 9 to the models including selection and input of forward looking information. These models are inherently complex and judgement is applied in determining the correct construction of the same. These models are reviewed by the management periodically and amendments are made where necessary to reflect the recent and updated data and such amendments made were independently reviewed by external auditors.

During the year the existing models were further refined to incorporate the potential implications of COVID-19 pandemic and the moratorium schemes introduced to support the recovery of the economy, based on stress testing the exposures to risk elevated sectors and adjustments made to economic factors. The Board Audit Committee reviewed the amendments made to the policies, methodologies and the underlying assumptions during the year 2020 taking into consideration of potential implications of the COVID-19 pandemic situation.

The Bank will continue to focus on strengthening the review and testing process of the said models and the Internal Audit Department will commence reviewing these refinements made to the

models and the management overlay incorporated into the computation of ECL based on the estimates and judgements, from next financial year.

- The Bank has documented procedures and policies relating changes made to underlying assumptions during 2020 and obtained approval of the Board Audit Committee and the Board.

The computation of impairment losses from loans and receivables has not been automated yet. Considering the complexity and level of estimation involved in this process, the Board is in the process of evaluating the options available for automation.

Recommendations made by the External Auditors with regard to the internal control system in the financial year ended 31 December 2019 were taken into consideration and appropriate measures were taken to incorporate the recommendations in to the internal controls. Recommendations by the External Auditors with regard to the internal control system made during the financial year ended 31 December 2020 will be addressed in the ensuing year.

### 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 on the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS) and regulatory requirements of the Central Bank of Sri Lanka. This confirmation excludes the subsidiary of the Bank.

### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control of the Bank for the year ended 31 December 2020 and reported to the Board that nothing has come to their attention that causes them to believe that the above Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on page 106 of this Annual Report.

By order of the Board of Directors of  
Seylan Bank PLC



**W M R S Dias**  
*Chairman*



**K P Ariyaratne**  
*Director/Chief Executive Officer*



**Ms Coralie Pietersz**  
*Chairperson - Board Audit Committee*

22 February 2021

Colombo

# AUDITORS' REPORT ON INTERNAL CONTROL



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : [www.kpmg.com/lk](http://www.kpmg.com/lk)

## TO THE BOARD OF DIRECTORS OF SEYLAN BANK PLC

We were engaged by the Board of Directors of Seylan Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 2020 set out in pages 104 to 105 in this annual report.

## Management's Responsibility for The Statement on Internal Control

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

## Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Inquired the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.
- Reviewed the documentation prepared by the directors to support their Statement made.
- Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- Obtained written representations from directors on matters material to the Statement on Internal

Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 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 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.

## 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 have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

**Chartered Accountants**  
Colombo

22 February 2021

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

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

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

**Principals** - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA

# REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

The Board of Directors of Seylan Bank PLC (hereinafter referred to as 'the Board' or 'the Directors') presents its Report on the State of Affairs of Seylan Bank PLC (hereinafter referred to as 'the Bank' or 'the Company') together with the audited financial statements of the Bank, the consolidated financial statements of the Group and the Auditors' Report on those financial statements for the financial year ended 31 December 2020. This Report hereinafter will also be referred to as 'the Report', 'Report of

the Directors' or 'Report of the Board of Directors'.

This Report and the aforementioned financial statements which are published in the Annual Report of the Bank for the year ended 31 December 2020 (hereinafter referred to as 'the Annual Report') were reviewed and approved by the Board of Directors on 22 February 2021.

The disclosures in this Report conform to the requirements of the Companies Act No.7 of 2007;

the Banking Act No.30 of 1988 (as amended) and the Directions issued by the Monetary Board under the Banking Act; the Listing Rules of the Colombo Stock Exchange (CSE) and the recommended best practices on corporate governance.

Information and disclosures as required under Section 168 of the Companies Act No.7 of 2007 in respect of the year 2020 are published in the following pages/ sections of this Report and/or the Annual Report.

Section	Information Required to be disclosed	Compliance and/or Disclosure Reference	Page/s in the Annual Report
168(1)(a)	The nature of the business of the Company and the Subsidiaries.	Item Nos. 2 and 4 of this Report	(pages 107 and 108)
168(1)(b)	Signed Financial Statements of the Company for the Accounting Period completed in accordance with Section 152.	Financial Statements of the Bank	(pages 151 and 256)
168(1)(c)	Auditor's Report on Financial Statements of the Company and the Group.	Independent Auditors' Report	(pages 146 to 150)
168(1)(d)	Changes in Accounting Policies made during the accounting period.	Notes to the Financial Statements	(page 162)
168(1)(e)	Particulars of the entries in the interest register made during the accounting period.	Item No. 23 of this Report	(page 111)
168(1)(f)	Remuneration and other benefits paid to Directors during the accounting period.	Note 14 and 51.1.1 to the Financial Statements	(pages 200 and 247)
168(1)(g)	Total amount of donations made by the Company during the accounting period.	Item No. 13 of this Report and Note 14 to the Financial Statements	(pages 109 and 200)
168(1)(h)	Information on Directorate of the Company during and at the end of the accounting period and persons who ceased to hold office as directors during the accounting period.	Item No. 20 of this Report	(page 110)
168(1)(i)	Amounts payable to the Auditors as audit fees and fees for other services rendered during accounting period as a separate disclosure.	Note 14 to the Financial Statements	(page 200)
168(1)(j)	Auditor's relationship or any interest with the Company and its subsidiaries.	Item No. 41 of this Report	(page 114)
168(1)(k)	Annual Report of the Board signed on behalf of the Board of Directors	Signed with an acknowledgement by two Directors and the Company Secretary at the end of this Report.	(page 114)

## 1. ABOUT THE BANK /THE COMPANY

Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka on 28 August 1987 under the Companies Act No.17 of 1982 and is a licensed commercial bank registered and operating under the Banking Act No.30 of 1988 (as amended). The Company was re-registered as required under the provisions of the Companies Act No. 7 of 2007 on 30 May 2007 (Company Registration No. PQ9). The Registered Office and the Head Office of the Bank is situated at 'Seylan Towers', No.90, Galle Road, Colombo 03.

The Bank was listed on the Colombo Stock Exchange (CSE) on 5 January 1989. The Bank's ordinary shares (both voting and non-voting) and its Unsecured, Redeemable Debentures issued in the years 2014 (fully redeemed as at December 2020), 2016, 2018 and 2019 were listed in the CSE. During the year under review, Fitch Ratings Lanka Ltd affirmed the Bank's National Long-Term Rating at A(lka) with a stable outlook and affirmed the issued senior unsecured debentures of the Bank at A(lka) whilst assigning BBB+(lka) for the subordinated debentures.

## 2. PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and provision of related financial services which mainly include acceptance of deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, corporate and retail credit, margin trading, pawn broking, project financing, lease financing, credit card facilities, money remittance services, factoring, dealing in government securities and treasury related products, etc.

There were no significant changes in the nature of the principle activities

## REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

of the Bank and its' subsidiary during the financial year under review.

### 3. VISION AND MISSION AND CORPORATE CONDUCT

#### 3.1 Vision and Mission

**Vision:** "To be Sri Lanka's leading financial services provider – as recognised by all its' stakeholders."

#### Mission:

- We provide our Customers with financial services that meet their needs in terms of value, pricing, delivery and service.
- We will do so through a team of Seylan Bankers who are recognised and rewarded for results orientation.
- We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.

#### 3.2 Corporate Conduct

The Bank conducts its business activities at a high level of ethical standard in achieving its vision and mission. The Board of Directors of the Bank as well as its' employees have pledged to abide by and comply with the Codes of Conduct and Ethics of the Bank.

### 4. GROUP STRUCTURE

The only subsidiary of the Bank is Seylan Developments PLC (SDP). SDP is a public limited liability company incorporated in 1992 and listed on the Colombo Stock Exchange. The principle activities of Seylan Developments PLC are property development and management. The Bank held a 70.51% stake in Seylan Developments PLC as at 31 December 2020. Please refer Section 29 of this Report for information on the Board of Directors of SDP.

The Bank received a dividend of LKR 114,765,323.20 paid by the subsidiary during the year under review.

### 5. BRANCH NETWORK

As at 31 December 2020, the Bank's branch network comprised 172 banking centres and 98 Student Savings Centres, island-wide. Locations and details of the banking centres as at the date of this Report as well as locations of off-site ATMs are given in the Annual Report.

### 6. REVIEW OF PERFORMANCE IN 2020 AND FUTURE DEVELOPMENT PLANS

The Chairman's Message, the Chief Executive Officer's Review and the reports that followed in the Annual Report provide an overall assessment and review of the operations and financial performance of the Bank during the year 2020 aligned to the information in the audited financial statements of the Bank for the year ended 31 December 2020. Those reports also speak about the Bank's future development plans. Such development proposals have been laid out in the new corporate strategy (Strategic Plan) of the Bank for the next three years 2021-2023 which was approved by the Board.

### 7. FINANCIAL STATEMENTS AND FINANCIAL REPORTING

The financial statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS) and the Sri Lanka Financial Reporting Standards (SLFRS). The necessary quantifications and disclosures have also been made based on LKAS/SLFRS. The Financial Statements which are published in the Annual Report are followed by the related notes to the Financial Statements and significant Accounting Policies adopted in the preparation of the Financial Statements.

The Audited Financial Statements for the year ended 31 December 2020 was certified by the Chief Financial Officer and signed by two Directors in terms of Section 151, 152 and 168(I)(b) of the Companies Act No.07 of 2007 as published in this Annual Report and form an integral part of this Report.

### 8. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements and the Notes thereto have been prepared in conformity with the requirements of the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, the Banking Act No 30 of 1988 (as amended) and relevant directions and determinations thereof, and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibility for Financial Reporting which appears in the Annual Report forms an integral part of this Report of the Directors.

### 9. AUDITORS' REPORT

The Auditors of the Company, M/s KPMG, Chartered Accountants carried out the audit of the consolidated financial statements for the financial year ended 31 December 2020 and the Auditors' Report is published in the Annual Report.

### 10. FINANCIAL RESULTS

The income and profit of the Bank and those of the Group for the year ended 31 December 2020 are given in the table below. An analysis of the income is given in the Notes to the Financial Statements published in the Annual Report:

Income	2020		2019	
	Bank LKR' 000	Group LKR' 000	Bank LKR' 000	Group LKR' 000
Gross Income	58,439,838	58,443,392	61,369,654	61,356,249
Operating Income	25,415,261	25,723,074	24,354,261	24,643,613
Profit before Income Tax	4,111,247	4,295,636	5,098,640	5,267,110
Less : Income Tax	1,099,947	1,197,578	1,418,378	1,468,858
Profit after Income Tax	3,011,300	3,098,058	3,680,262	3,798,252
Other Comprehensive Income net of Tax	1,832,025	1,865,107	2,233,532	2,322,388
Total Comprehensive Income for the year	4,843,325	4,963,165	5,913,794	6,120,640

## 11. TAXATION

Provision for taxation has been computed as indicated in Note 16 to the Financial Statements.

## 12. CAPITAL EXPENDITURE

The total capital expenditure incurred on the acquisition of Property, Plant and Equipment of the Bank and the Group is given below and further described in Notes 30 and 33 to the Financial Statements.

Capital Expenditure approved and contracted for after the year ended 31 December 2020 is also given in Note 49 to the Financial Statements.

	Bank		Group	
	2020 LKR' 000	2019 LKR' 000	2020 LKR' 000	2019 LKR' 000
Property, Plant and Equipment and Intangible Assets	689,965	1,507,629	706,005	1,559,895
Net book value of freehold properties	1,523,743	1,537,355	4,203,753	4,213,417

All freehold land and buildings of the Bank were valued in 2016 by professionally qualified independent valuers (Chartered Valuers/Licensed Surveyors) engaged by the Bank to its Panel of Valuers and brought into the financial statements. Details of freehold properties owned by the Bank are given in Note 30 to the Financial Statements.

## 13. DONATIONS

During the year, the Bank made donations amounting to LKR 10,788,000/- (Donations made in 2019 amounted to LKR 97,000/-). The donation mainly included contribution to the Presidential Fund for COVID-19 and for the improvement of the intensive care and critical care facilities at Colombo East Base Hospital for Covid19 patients.

## 14. RECOMMENDATION OF ORDINARY DIVIDEND AND SOLVENCY CERTIFICATION

The Directors have recommended a First and Final Ordinary Dividend of LKR 1.50 per share (both Ordinary Voting and Ordinary Non-voting) for the year ended 31 December 2020 in the form of a scrip dividend. This recommendation is subject to the approval of the shareholders at the Annual General Meeting of the Bank scheduled to be held on 30 March 2021 and upon such approval, the dividend will be issued to the shareholders registered as at 30 March 2021 (entitlement date).

The Board of Directors was satisfied that the Bank would meet the solvency test in terms of the provisions of Section 57 of the Companies Act No.7 of 2007 immediately after the payment of the proposed dividend. A Certificate of Solvency was also obtained by the Bank from the External Auditors in compliance with Section 56(2) of the Companies Act, confirming the Board's declaration of solvency.

The Bank paid a first and final ordinary dividend of LKR 2.00 per share for the financial year ended 31 December 2019 on 24 June 2020. The dividend of LKR 2.00 per share consisted of LKR 1.00 per share in the form of cash dividend and LKR 1.00 per share in the form of a scrip dividend.

## 15. RESERVES

Total reserves (including Statutory Reserve Fund) as at the end of the financial year of the Bank and the Group, were as follows:

Bank		Group	
2020 LKR' 000	2019 LKR' 000	2020 LKR' 000	2019 LKR' 000
31,418,628	27,582,550	33,221,476	29,334,742

## 16. STATED CAPITAL

**16.1** The Stated Capital of the Bank as at 31 December 2020 was LKR 17,548,347,003.01 (Stated Capital as at 31 December 2019 was LKR 17,044,722,726.90).

**16.2** The number of shares issued by the Bank increased during the year due to the issue of scrip dividends (which resulted in the increase in the Stated Capital).

As at 31 December Class of Shares	2020	2019	2020	2019
	Number of Shares		Number of Shareholders	
Ordinary voting shares	256,716,994	251,477,872	10,255	10,041
Ordinary non-voting shares	260,305,975	252,145,914	7,423	7,784

## REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

**17. INVESTORS' INFORMATION**

Information including earnings, profitability, dividend, net assets and market value per share is given in the Financial Highlights of this Annual Report. Information pertaining to share prices and debenture prices is given on pages 264 and 265 in the Annual Report.

**17.1 Minimum Public Holding Requirement**

The Bank was compliant under Option 3 of the Section 7.13.1 of the Rules of the Colombo Stock Exchange in respect of the above as at 31 December 2020 as described below.

Criteria	2020	2019
Float adjusted market capitalisation	LKR 6,477 Million	LKR 7,240 Million
Public Holding Percentage	54.85%	54.84%
Number of public shareholders	10,235	10,021
Option	3	3

**17.2 Analysis of the Shareholding Distribution and Major Shareholders**

An analysis of the distribution of shareholdings and lists of twenty largest ordinary voting and ordinary non-voting shareholders of the Bank as required in the Rules of the Colombo Stock Exchange are published in this Annual Report.

**18. DEBENTURES****18.1 Debentures in Issue**

Value of Debentures as at 01 January 2020	LKR 19,040,040,000/-
Allotment of new debentures	-
Redemption of Debentures 2014 (6 year category) on 23 December 2020	LKR 2,806,040,000/-
Total value of Debentures as at 31 December 2020	LKR 16,234,000,000/-

Further information on the debenture issues are provided in the Investor Information section in this Annual Report.

**18.2 Proposed Debenture Issue**

The Board decided to raise a maximum sum of Rupees Ten Billion (LKR 10,000,000,000.00) by way of a public issue of the following debentures and shareholders' approval was obtained at an

Extraordinary General Meeting of the Bank held on 4 November 2020 for the Basel III compliant debentures described in (ii) below:

- (i) Senior, Listed, Rated, Unsecured, Redeemable Debentures and
- (ii) Basel III compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a feature for Non-Viability Conversion to Ordinary Voting Shares by the Company

The Bank also submitted a listing application to the Colombo Stock

Exchange seeking approval for the listing of the above mentioned debentures upon subscription and allotment to the investors. However, taking into consideration the market conditions the Board decided to postpone the issue and decide on the timeline for the issue during the 1st or 2nd quarter of 2021 pursuant to a review of the market conditions by such time.

**19. EQUITABLE TREATMENT OF SHAREHOLDERS AND EFFECTIVE SHAREHOLDER COMMUNICATION**

The Bank has at all times ensured that shareholders are treated equitably. The general meetings of the Bank are the main forum utilised by the Board as well as the shareholders of the Bank for an effective dialogue with one another while other channels of communication were also being used to ensure that shareholders and all interested parties have equal access to corporate information in the public domain. The Bank has adopted a Shareholder Communication Policy which is published on its corporate website, the objective of which is to enhance long term shareholder value through regular communication with shareholders.

**20. DIRECTORATE****20.1 Directors who held office as at 31 December 2020**

Name of Director	Status of Directorship
Mr W M R S Dias	Non-Executive Director/Chairman
Mr W D K Jayawardena	Non-Executive Director/Deputy Chairman
Ms M C Pietersz	Independent Non-Executive Director/Senior Director
Mr K P Ariyaratne	Director/Chief Executive Officer
Mr P L S K Perera	Independent Non-Executive Director
Mr S V Corea	Non-Executive Director
Mr A S Wijesinha	Independent Non-Executive Director
Ms S K Salgado	Independent Non-Executive Director
Mr D M D K Thilakarathne	Non-executive Director
Mr D R Abeyseriya	Independent Non-Executive Director
Ms V G S S Kotakadeniya	Alternate Director to Non-Executive Director, Mr W D K Jayawardena

The Profiles of the Directors who were on Board as at the date of this Report including their membership/s in Board Subcommittees are given on pages 67 to 70 of the Annual Report.

**20.2 Change of Directorate**

Mr R D Tissera, Alternate Director to the Non-Executive Director, Mr W D K Jayawardena resigned from the Board on 28 February 2020 and Ms V G S S Kotakadeniya was appointed in his place, with effect from 26 June 2020.

### 20.3 Declarations by Directors - Independent/Non-independent Status and Declaration of Relevant Relationships

All Non-Executive Directors have submitted signed declarations confirming their independent/non-independent status in compliance with Rule 7.10.2 and 7.10.4 of the Colombo Stock Exchange Rules on Corporate Governance as well as in compliance with Section 3(2)(iv) of the Banking Act Direction No.11 of 2007.

### 20.4 Declarations by Directors - 'Fit and Proper' Status of Continuing Directors

Signed Affidavits in terms of Section 42 of the Banking Act (as amended) issued by the Directors declaring their 'fit and proper' status, prior to the Annual General Meeting held in 2020 were submitted to the Director, Bank Supervision, Central Bank of Sri Lanka. The Central Bank approved the continuation of office of those Directors.

The Directors also signed Affidavits in terms of the Bank's Fit and Proper Policy formulated by the Bank in compliance with the Guidelines issued by the Securities and Exchange Commission of Sri Lanka on Fitness and Propriety.

### 20.5 List of Directorships of the Directors in other Entities

Directorships held by the Directors in other entities and their substantial/material shareholdings if any, as at 31 December 2020, are provided in the Annexure that follows this Report of the Directors. The list has also identified the status of directorships (executive/non-executive/independent status) and the status where an entity is a listed entity.

### 21. RECOMMENDATIONS FOR RE-ELECTION OF DIRECTORS

In terms of Article 82 of the Articles of Association, Independent Directors, Ms M C Pietersz and Mr P L S K Perera and Non-Executive Director, Mr D M D K Thilakarathne retire by rotation at the forthcoming Annual General Meeting (AGM) of the Bank and offer themselves for re-election pursuant to the Board

Nomination Committee and the Board of Directors evaluating and recommending their re-election as Directors.

### 22. MEETINGS OF THE BOARD OF DIRECTORS

Twelve Regular monthly meetings and two special meetings of the Board of Directors were held during the year. The special meetings were held to consider and decide on important and urgent issues. A schedule of Directors' attendance at Board meetings and a schedule of Directors' attendance at Board Subcommittee meetings are presented in the Corporate Governance Report published in the Annual Report.

### 23. DIRECTORS' INTEREST IN CONTRACTS AND DIRECTORS' INTEREST REGISTER

The Bank maintains a Directors' Interest Register as required under Section 168(1)(e) of the Companies Act No. 7 of 2007. The Directors submitted their declarations to

the Board through the Company Secretary disclosing their interests in contracts from time to time in accordance with Section 192(2) of the Companies Act No. 7 of 2007. Such disclosures are reported to the Board and minuted by the Company Secretary and thereafter recorded in the Directors' Interest Register. The Directors' Interest Register is available for inspection by the shareholders or their authorised representatives as required under Section 119(1)(d) of the Companies Act No.7 of 2007.

The Directors abstained from the meetings (both Board and Board Subcommittees) when matters in which they were interested (related party interest or directorship interest) were considered and they did not vote on such matters.

### 24. DIRECTORS' INTEREST IN SHARES AND DEBENTURES OF THE BANK

Directors' holdings in Shares and Debentures of the Bank as at 31 December 2020 are given below:

Name of Director	31.12.2020	31.12.2019	Shares /Debentures
Mr W M R S Dias	50,000	50,000	Debenture Issue 2018
Mr W D K Jayawardena	Nil	Nil	-
Ms M C Pietersz	50,000	50,000	Debenture Issue 2019
Mr K P Ariyaratne	64,502	63,186	Ordinary Voting shares
	214,150	207,437	Ordinary Non-voting shares
	32,700	32,700	Debenture Issue 2016
	200,000	200,000	Debenture Issue 2018
	300,000	300,000	Debenture Issue 2019
Mr P L S K Perera	Nil	Nil	-
Mr S V Corea	99	97	Ordinary Voting shares
Mr A S Wijesinha	Nil	Nil	-
Ms S K Salgado	Nil	Nil	-
Mr D M D K Thilakarathne	Nil	Nil	-
Mr D R Abeyesuriya	Nil	Nil	-
Ms V G S S Kotakadeniya	Nil	Nil	-

#### Percentage Shareholding of Directors:

Ordinary voting shares	0.025%	0.025%
Ordinary non-voting shares	0.08%	0.08%

No change occurred in the Directors' interest in shares and debentures after 31 December 2020 and before the date of this Report of the Board of Directors.

## REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

**25. DIRECTORS' REMUNERATION**

Details of Directors' emoluments paid in respect of the Bank and the Group for the year 2020 are given as a note to the Financial Statements in the Annual Report.

**26. INSURANCE AND INDEMNITY**

As authorised by the Articles of Association of the Bank and as approved by the Board of Directors, the Bank obtained a Directors and Officers Liability Insurance Cover in respect of the year 2020/2021.

**27. BOARD SUBCOMMITTEES**

The Board is empowered by the Articles of Association to delegate any of its powers to the Board appointed Subcommittees within the scope of the respective Board approved Terms of Reference. The Subcommittees consist of members appointed as the Board thinks fit subject to meeting the criteria (if any) specified in the respective Terms of Reference. The following Board Subcommittees were functional as at 31 December 2020. A table summarising the scope, composition and responsibilities of these Subcommittees is provided in the Corporate Governance Report published in the Annual Report.

- 1) *Board Audit Committee*
- 2) *Board Integrated Risk Management Committee*
- 3) *Board Human Resources and Remuneration Committee*
- 4) *Board Nomination Committee*
- 5) *Board Credit Committee*
- 6) *Board Marketing and Product Development Committee*
- 7) *Board Sustainability Committee*
- 8) *Board Governance and Compliance Committee*
- 9) *Related Party Transactions Review Committee*
- 10) *Board Strategic Plan Committee*
- 11) *Board Information Technology Committee*

**28. RELATED PARTY TRANSACTIONS**

The Board of Directors has vested the responsibility for ensuring compliance with Section 9 of the Rules of the Colombo Stock Exchange (CSE) and the SEC Code on Related Party Transactions to the Related Party Transactions Review Committee of the Bank. During the

year, the Bank did not carry out any recurrent or non-recurrent related party transaction which required shareholder approval and/or disclosure required in terms of Rule 9.3.1 and 9.3.2 of the CSE Rules.

The aggregate value of non-recurrent related party transactions did not exceed 10% of the equity or 5% of the total assets of the Bank during the year requiring disclosure in terms of Section 9.3.2(a) of the Listing Rules of the CSE.

The aggregate value of the recurrent related party transactions did not exceed 10% of the gross revenue/income of the Bank during the year requiring disclosure in terms of Section 9.3.2(b) of the Listing Rules of the CSE.

**29. DIRECTORATE OF THE SUBSIDIARY, SEYLAN DEVELOPMENTS PLC**

The Board of the Bank's Subsidiary, Seylan Developments PLC as at 31 December 2020 comprised five Non-Executives, namely, Messrs, K P Ariyaratne (Chairman), S Palihawadana (Deputy Chairman), R J Jayasekara, P D Hennayake and S De Silva who continued to be on the Board as at the date of this Report. Mr S De Silva is the Senior Independent Non-Executive Director and Mr S Palihawadana and Mr P D Hennayake are Independent Non-Executive Directors. The other two Directors were deemed not independent since they were employees of the Bank.

**30. HUMAN RESOURCES**

During the year under review, with numerous challenges posed by the COVID-19 pandemic in the 'new normal' on the operations of organisations across the globe, the Bank adopted a human centric culture approach to deal with the enhanced challenges which demanded new work arrangements to drive the business forward amidst the pandemic.

The Board played a vital advisory role on the need to ensure uninterrupted banking operations whilst ensuring the well-being of the employees at all levels. Some of the strategic initiatives which were primarily intended for people management and business transformation were postponed. Overall emphasis was placed on areas of managing

employees and deploying them at optimum levels for critical functions and operations at branches and business units. This ensured uninterrupted services to the customers whilst at the same time ensured the safety and health of the employees and other stakeholders.

The Board directed the facilitation of knowledge acquisition and competency development of employees via online and E-learning platforms in a structured manner through identification of key competency gaps and bridging the gaps in competency levels in line with the current and future requirements of the Bank.

**Board Evaluation**

A performance evaluation designed to improve the Board's effectiveness and that of its Committees was conducted in line with good Corporate Governance practices during the year. Further, each member of the Board carried out a self-assessment of his/her own effectiveness and the effectiveness as a team member of the Board.

**31. CORPORATE GOVERNANCE**

The year 2020 was a challenging year for businesses as well as the banks due to the COVID-19 pandemic. The Board of Directors played an active role in ensuring that the interests of its various stakeholders, namely the shareholders, customers, employees, regulators, general public, etc., were handled in a way that was consistent with its obligations to these groups and with the long-term health of the Bank. The Board ensured that the systems and procedures established were adequately and practically adopted and followed by the management.

The extent of compliance with the regulatory directions, rules and best practice guidelines on corporate governance have been disclosed in the Corporate Governance Report published in the Annual Report.

The External Auditors carried out an agreed upon procedure in accordance with the Sri Lanka Related Services Practice Statement (SLRSPS 4750) with regard to the Bank's compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance and confirmed that the findings were

consistent with the matters reported in the Corporate Governance Report in the Annual Report.

### **32 RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS**

#### **32.1 Risk Management**

The Board Integrated Risk Management Committee (BIRMC) was vested with this responsibility by the Board and the BIRMC ensured the implementation of a sound risk management framework by means of an ongoing process to identify, evaluate and manage the risks that may be faced by the Bank. The Chief Risk Officer reported and updated the status of the Bank's overall risks to the Committee at its regular quarterly meetings. The Report of the BIRMC and a detailed report on Risk Management of the Bank are published in the Annual Report.

#### **Capital Management**

The Bank has an ongoing process to evaluate the adequacy of capital in line with strategic aspirations and to comply with the Basel III guidelines. The detailed review on Capital Management is discussed in the Risk Management Report published in the Annual Report.

#### **32.2 System of Internal Control**

The Board recognises that a robust internal control mechanism is an indispensable component of the governance framework adopted by the Bank. Internal controls is a process, carried out at various levels in the Bank aiming to provide a reasonable certainty of achievement of the objectives; safeguarding of assets; efficiency and effectiveness of operating activities; reliability of accounting information and compliance with laws and regulations. The internal control framework of the Bank consists of organisational structures; effectively designed, documented and periodically reviewed business processes with inbuilt control mechanisms, instructions and guidelines and duly approved delegated authority levels. An effective internal controls system is a key decisive factor for the sustainability of the Bank in the long run in terms of market share, service quality, profitability and stakeholder confidence.

The Board confirms the existence of an effective system of internal controls for managing the risks

faced by the Bank by taking timely risk mitigation actions and ensuring operational effectiveness of such internal controls, which had been in place throughout the year under review up to the date of approval of this Report and have been consistently reviewed.

### **33. COMPLIANCE WITH LAWS AND REGULATIONS**

The Bank has not engaged in any activities contravening any laws and regulations currently in force. Key management personnel confirm compliance with all applicable laws and regulations and their confirmations are reported to the Board on a monthly basis by the Head of Compliance.

### **34. OUTSTANDING LITIGATIONS**

In the opinion of the Directors and external legal counsels retained by the Bank, litigations currently pending against the Bank as disclosed in Note 48 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

### **35. SHARE TRUST COMPANIES AND THE SEYLAN BANK EMPLOYEES' GRATUITY TRUST FUND**

Six share trust companies ("companies") were established by the Bank in 1995, 1999 and 2000 which have acquired shares of the Bank ("subject shares") from time to time at the market prices prevailing at that time. The Bank was the Settlor of the trusts and the purchase of the subject shares were fully funded by the Bank. These companies held a total of 4,155,121 ordinary voting shares of the Bank as at 31 December 2019 which constituted 1.65% of its ordinary voting shares.

During the course of 2020, there were more current employees and former employees satisfying certain criteria who reached agreement with the Bank for the receipt of an 'enhanced gratuity' based on one-month basic salary for each year of service and for the Bank to settle such liability by utilising the proceeds from the disposal of the shares held in the companies. Consequently, the Bank has transferred further shares to the Seylan Bank PLC A/C No 4 Employees Gratuity Trust Fund during 2020 for such purpose through the trading floor of the Colombo Stock Exchange.

There now, remains in the six trust companies as at 31 December 2020 a total of 3,873,037 ordinary voting shares of the Bank which constitutes 1.51% of its ordinary voting shares.

### **36. ENVIRONMENTAL PROTECTION**

The Bank has not engaged in any activity that is harmful or hazardous to the environment and has always taken measures on environmental protection and its sustainability.

The Board has approved the implementation of the Environmental, Social and Governance (ESG) Framework across the Bank. The Environmental and Social Management System ensures that it pursues an environmentally resilient business growth and emerging opportunities to foster a positive impact in a win-win value proposition. The Bank has directed the customers identify and manage environmental and social risks that are pertinent with their businesses to which the Bank finance.

### **37. STATUTORY PAYMENTS**

The Directors are satisfied that all statutory payments including all taxes, duties and levies payable by the Bank and its Subsidiary, to the government, regulatory institutions and related to the employees have been made or where relevant provided for.

### **38. EVENTS AFTER THE REPORTING DATE**

No events have occurred after the reporting date which would require adjustments to or disclosure in the Accounts, other than those given in Note 50 to the Financial Statements.

### **39. GOING CONCERN**

The Directors are satisfied that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code and potential implications of COVID-19, the Bank has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Bank have accordingly been prepared on a going concern basis.

### **40. AUDITORS**

The Bank's Auditors during the period under review were M/s KPMG, Chartered Accountants. The current Audit Engagement Partner was assigned for the Bank's

## REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

external audit with effect from the financial year, 2019. The audit fees and consolidated audit fees for the accounting period are given in Note 14 to the Financial Statements.

Based on the declaration made by M/s KPMG and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Company or its subsidiary other than the provision of audit and non-audit and related services as given in the said Note 14.

The retiring Auditors, M/s KPMG have expressed their willingness to continue in office and a resolution to re-appoint them as Auditors and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

#### 41. INDEPENDENCE OF THE AUDITORS

Based on an assessment carried out by the Board Audit Committee, the Board concluded that the External Auditors, M/s KPMG can be deemed to be independent for all intents and purposes considering the following factors:

- No partner from the Firm is on the Board of Seylan Bank or on the Board of its subsidiary.
- The audit and non-audit fees paid/payable to the Auditors are negotiated and are not above industry norms and they do not receive fees from other assignments except as stated in the Note 14 to the Financial Statements.
- M/s KPMG is a firm of high repute and the firm had the necessary skills to competently carry out the non-audit related assignments entrusted to them.
- Partner and Audit-team rotation was complied with in the financial year 2019.

#### 42. NOTICE OF ANNUAL GENERAL MEETING

Notice of Meeting relating to the Thirty Fourth (34th) Annual General Meeting of the Bank scheduled to be held on Tuesday, 30 March 2021 at 11.00 a.m, the Form of Proxy and related circulars to shareholders will be despatched to the shareholders and also uploaded on the websites of the Colombo Stock Exchange ([www.cse.lk](http://www.cse.lk)) and that of the Company ([www.seylan.lk](http://www.seylan.lk)). The Annual Report of the Company will also be uploaded in the said websites and hardcopies of the Annual Report will be issued by the Company Secretary to any shareholder on receiving a formal request.

We, the undersigned acknowledge the contents of this Report and its' Annexure and have placed our signatures for and on behalf of the Board of Directors of Seylan Bank PLC, at Colombo, this 22nd day of February, 2021.



**W M R S Dias**  
Chairman



**K P Ariyaratne**  
Director/Chief Executive Officer



**(Ms) N N Najumudeen**  
Company Secretary

# ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

## DIRECTORS' INTEREST REGISTER AND DIRECTORS' INTEREST IN TRANSACTIONS AS AT 31 DECEMBER 2020

The Bank carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Bank is the Chairman or a Director of such entities. Please refer Note 51 to the Financial Statements for information on related party transactions.

The entities in which the Directors of the Bank held directorships and substantial shareholdings as at 31 December 2020 are disclosed below.

Entity	Directorships (Executive/ Non-Executive status)	Substantial Shareholding % (if any)
<b>Mr W M R S Dias (Non-Executive Director/Chairman)</b>		
<b>Listed Entities</b>		
1. Carson Cumberbatch PLC	Independent Non-Executive Director	-
2. Senkadagala Finance PLC	Independent Non-Executive Chairman	-
3. Tokyo Cement Co (Lanka) PLC	Independent Non-Executive Director	-
<b>Unlisted Entities</b>		
4. Ceylon Tea Marketing (Pvt) Ltd	Independent Non-Executive Chairman	-
5. Jay-Cey-Tea (Pvt) Ltd	Non-Executive Chairman	-
6. South Asia Textiles Ltd	Independent Non-Executive Director	-
7. Superfine Teas (Pvt) Ltd	Non-Executive Chairman	-
8. Tokyo Super Cement Company Lanka (Pvt) Ltd	Non-Executive Director	-
9. Tokyo Cement Power Lanka (Pvt) Ltd	Non-Executive Director	-
10. Tokyo Eastern Cement Company (Pvt) Ltd	Non-Executive Director	-
11. Tokyo Supermix (Pvt) Ltd	Non-Executive Director	-
<b>Mr W D K Jayawardena (Non-Executive Director/Deputy Chairman)</b>		
<b>Listed Entities</b>		
1. Brown & Co PLC	Non-Executive Director	-
2. Browns Investments PLC	Non-Executive Director	-
3. Eden Hotel Lanka PLC	Non-Executive Chairman	-
4. LOLC Development Finance PLC	Non-Executive Director	-
5. LOLC Holdings PLC	Managing Director/CEO	-
6. Palm Garden Hotels PLC	Non-Executive Chairman	-
<b>Unlisted Entities</b>		
7. Ceylon Graphene Technologies (Pvt) Ltd	Non-Executive Director	-
8. Leapstitch Technologies (Pvt) Ltd	Non-Executive Director	-
9. LOLC Advanced Technologies (Pvt) Ltd	Non-Executive Director	-
10. LOLC Africa Holdings (Pvt) Ltd	Non-Executive Director	-
11. LOLC Asia (Pvt) Ltd	Non-Executive Director	-
12. LOLC General Insurance Ltd	Non-Executive Chairman	-
13. LOLC International (Pvt) Ltd	Non-Executive Director	-
14. LOLC (Pvt) Ltd	Non-Executive Director	-
15. LOLC Securities Ltd	Non-Executive Chairman	-
16. Riverina Resort (Pvt) Ltd	Non-Executive Director	-
<b>Ms M C Pietersz (Independent Director/Senior Director)</b>		
<b>Listed Entities</b>		
1. Bogala Graphite Lanka PLC	Independent Non-Executive Director	-
2. People's Leasing & Finance PLC	Independent Non-Executive Director	-
<b>Unlisted Entities</b>		
3. Compass Advisory Services (Pvt) Ltd	Executive Director	-
4. Hemas Pharmaceuticals (Pvt) Ltd	Independent Non-Executive Director	-
5. Tambapanni Academic Publishers (Pvt) Ltd	Executive Director	-
<b>Mr K P Ariyaratne (Director/Chief Executive Officer)</b>		
<b>Listed Entities</b>		
1. Seylan Developments PLC	Chairman /Non-Executive Director	-
<b>Unlisted Entities</b>		

**ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS  
ON THE STATE OF AFFAIRS OF THE COMPANY**

Entity	Directorships (Executive/ Non-Executive status)	Substantial Shareholding % (if any)
2. Esots (Pvt) Ltd	Non-Executive Chairman	-
3. Lanka Financial Services Bureau Ltd	Non-Executive Director	-
4. Sesot (Pvt) Ltd	Non-Executive Chairman	-
5. Seyshop (Pvt) Ltd	Non-Executive Chairman	-
6. Seybest (Pvt) Ltd	Non-Executive Chairman	-
7. Seyfest (Pvt) Ltd	Non-Executive Chairman	-
8. Sotse (Pvt) Ltd	Non-Executive Chairman	-
<b>Mr Anushka S Wijesinha (Independent Director)</b>		
<b>Unlisted Entities</b>		
1. BizEx Consulting (Pvt) Ltd	Executive Director	-
2. Capital Alliance Investments Ltd	Independent Non-Executive Director	-
3. FairFirst Insurance Ltd	Independent Non-Executive Director	-
4. HNB Finance PLC	Independent Non-Executive Director	-
<b>Ms Sandya K Salgado (Independent Director)</b>		
<b>Unlisted Entities</b>		
1. Carnival Movies Lanka Ltd	Executive Director	-
2. Film Island (Pvt) Ltd	Non-Executive Director	55.0%
3. Jigsaw International (Pvt) Ltd	Executive Director	50.0%
4. WAD International (Pvt) Ltd	Non-Executive Director	25.0% [indirect]
5. The Drug Shop	Partner	50.0% (partnership)
<b>Mr D M D Krishan Thilakaratne (Non-Executive Director)</b>		
<b>Listed Entities</b>		
1. Commercial Factors PLC	Non-Executive Director	-
2. Commercial Leasing & Finance PLC	Director/Chief Executive Officer	-
<b>Unlisted Entities</b>		
3. Commercial Insurance Brokers (Pvt) Ltd	Non-Executive Director	-
4. LOLC Myanmar Micro Finance Company Ltd	Non-Executive Director	-
<b>Mr D Ravindra Abeysuriya (Independent Director)</b>		
<b>Listed Entities</b>		
1. HNB Assurance PLC	Non-Executive Director	-
<b>Unlisted Entities</b>		
2. Bio-Foods (Pvt) Ltd	Non-Executive Director	-
3. SenFin Asset Management (Pvt) Ltd [former name : Candor Asset Management (Pvt) Ltd]	Non-Executive Director	-
4. Candor Capital (Pvt) Ltd	Executive Director	-
5. Candor Equities Ltd	Executive Director	-
6. Candor Shared Services (Pvt) Ltd	Executive Director	-
7. Straight Sale (Pvt) Ltd	Non-Executive Director	-
<b>Ms V G S Sunjeevani Kotakadeniya (Alternate Director to Non-Executive Director, Mr W D K Jayawardena)</b>		
<b>Listed Entities</b>		
1. Agstar PLC	Alternate Director (Non-Executive Director)	-
<b>Unlisted Entities</b>		
2. Ajax Engineers (Pvt) Ltd	Non-Executive Director	-
3. Browns Engineering & Construction (Pvt) Ltd	Non-Executive Director	-
4. Browns Hotels & Resorts Ltd	Non-Executive Director	-
5. Browns Metal & Sands (Pvt) Ltd	Non-Executive Director	-
6. Browns Power Holdings (Pvt) Ltd	Non-Executive Director	-
7. Browns Properties (Pvt) Ltd	Executive Director	-
8. BI Commodities and Logistics (Pvt) Ltd	Non-Executive Director	-
9. Creation Wooden Fabrication (Pvt) Ltd	Non-Executive Director	-
10. F L P C Management (Pvt) Ltd	Executive Director	-
11. General Accessories and Coating (Pvt) Ltd	Non-Executive Director	-
12. Gurind Accor (Pvt) Ltd	Non-Executive Director	-
13. LOLC General Insurance Ltd	Non-Executive Director	-
14. LOLC Motors Ltd	Non-Executive Director	-
15. Maturata Plantations Ltd	Executive Director	-
16. NPH Investment (Pvt) Ltd	Non-Executive Director	-
17. Sagasolar Power (Pvt) Ltd	Non-Executive Director	-
18. Samudra Beach Resorts (Pvt) Ltd	Non-Executive Director	-

*Independent Director, Mr P L S K Perera and Non-Executive Director, Mr S V Corea did not hold any directorships or substantial shareholdings in other entities as at 31 December 2020.*

# RISK MANAGEMENT

**Seylan Bank undertakes risk management with the primary aim of adopting and advocating an enterprise-wide approach towards the management of risks. The Bank takes a holistic approach towards risk management which enables both the pursuit of business objectives and the fulfillment of stakeholder expectations efficiently and effectively while withstanding the evolving challenges in the external environment.**

The risk management process provides a cohesive structure and framework to identify, assess, prioritise and manage the current and inherent risks of business activities. The risk management process is designed to embed risk management behaviours within every aspect of the Bank's operations in such a way as to fit the complexity and size of the organisation while allowing for sustainable future growth. Additionally, the Bank has also developed a Risk Governance Framework which underpins the risk culture of the Bank as a means to safeguard the environment in which risk management can exist and prosper.

## THE THREE LINES OF DEFENCE

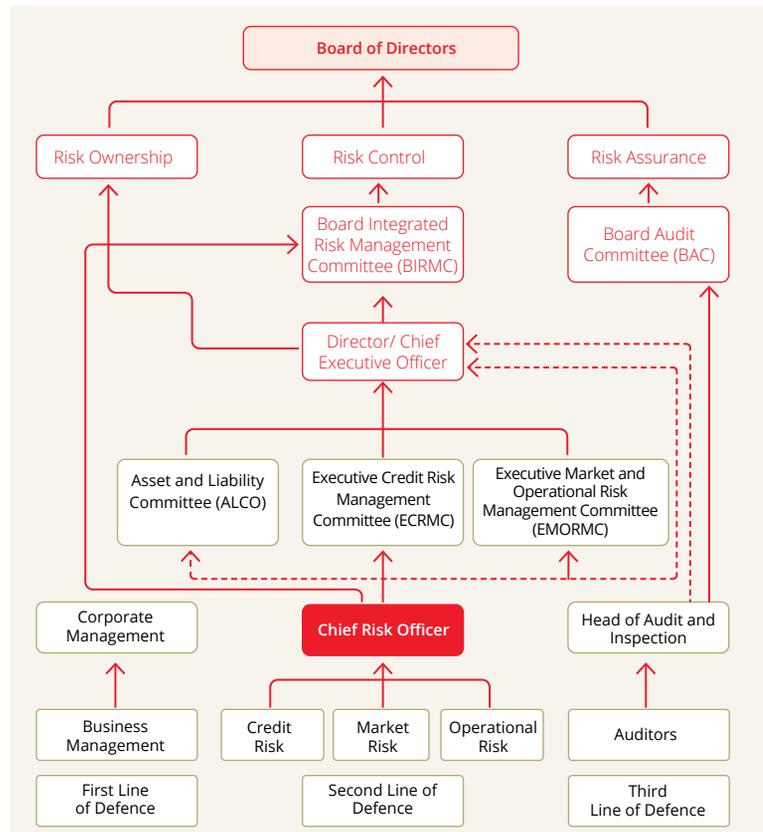
Seylan Bank manages its business risks using the 'Three Lines of Defence' model. This approach ensures that each employee is fully aware of their responsibilities in management of risks, irrespective of whether their role is in a commercial, policymaking or control function. The Three Lines of Defence approach also ensures that risk management responsibilities are properly aligned to strategic plans and corporate objectives, thereby directing the actions of all employees who must perform an important role in the risk management process.

The first line of defence includes the branches, business units and departments which are responsible for managing the risks related to day-to-day operations. The Director/Chief Executive Officer and the Corporate Management team is responsible for managing and steering the relevant business units which ensures proper risk management and controls are adhered to and complied with.

The second line of defence is a separate but integral part of the first line of defence. The second line ensures that risks are appropriately identified, monitored, assessed and managed. The second line is established mainly at the Head Office but works hand in hand with the business units to ensure business operations are carried out with due diligence and in a risk mitigated environment. The second line of defence is comprised of the Risk Management Unit and Compliance Department, with responsibilities to create and maintain the corporate risk governance framework, risk management systems and the policies and procedures which provide the boundaries within which business activities will be carried out. The second line also performs the risk control function. The third line of defence is the

Internal and External Audit function which provides an independent and objective assurance of the Bank's corporate governance and internal control systems and processes. This includes the effectiveness and efficiency of the internal controls in the first and second lines of defence.

This approach to managing risks has enabled the Bank's risk management function to evolve to become stronger over the years while complying with local and global best practices in risk management. It has supported the development of risk management policies and procedures which are adaptable to emerging trends in the operating environment while taking into consideration business needs as well as regulatory requirements and recommendations.



## RISK CULTURE

The risk management culture is embedded within the larger organisational culture. The essence of our mission and business model supports to mitigate the risks and seek opportunities allowing the Bank to develop a resilient business that is able to play its part in the sphere of banking in a more diverse, sustainable and transparent manner.

In addition, our internal governance structure provides a sound basis to enable an effective risk culture; the 'Three Lines of Defence' model in particular, ensures a merging of responsibilities across the organisation in terms of business, risk and compliance; and internal audit ensuring each employee understands the boundaries of their responsibilities and how their position fits into the organisation's internal control and risk management framework. This also relates to the aspect of segregation of duties, which is an important element of the internal governance and organisational structure. The Board Intergrated Risk Management Committee (BIRMC) performs its 'oversight' role by setting the 'Tone at the Top'. They lead in the development of the key elements of the internal control and risk management framework, including setting of risk appetite, strategy, targets, values and company culture, approval of risk and compliance frameworks, overall policies and the approval of internal control system over financial reporting.

## RISK PROFILING



The main Board has delegated decision-making authority to the following risk committees at a central level:

### Financial Risks

The financial risks of the Bank are denoted by Credit Risk, Liquidity Risk and Market Risk

- **Credit Risk** – The Executive Credit Risk Management Committee (ECRMC) headed by the Director/CEO manages the credit process throughout the Bank. It also formulates clear credit policies and makes recommendations for the Board approval. The ECRMC ensures that the Board of Directors and the BIRMC have all the credit risk related information needed for decision making. However, it is the Board Credit Committee (BCC) that has the authority to review and where appropriate, approve credit facilities and recommend them to the Board of Directors which is the final approving authority.
- **Liquidity and Market Risk** - The Asset and Liability Committee (ALCO) has authority to decide on acceptable exposures and how to manage market, interest

rate and liquidity risks, while the final approval is vested with the BIRMC.

### Non-Financial Risk

- The Executive Market and Operational Risk Management Committee (EMORMC) has the authority to oversee and approve on all Operational Risk, Information Security Risk, Market and Liquidity Risk and Compliance Risk matters related to the Bank's business activities

The committee is responsible to co-ordinate the processes of implementing and managing the effectiveness of Operational Risk Management Policies, Information Security Risk Management Policies and Market Risk Management Policies which are formulated and approved by the Board of Directors

The Organisational Structure clearly defines the roles and responsibilities of the executives involved in managing risk, the risk appetite, strategy and related risk limits for non-credit risks for approval by the Board Integrated Risk

Management Committee (BIRMC)/Board taking into account the Bank's Corporate Plan.

- The New Product Development Committee has the authority to approve new products and are responsible for reviewing updates and changes to existing products.

### Business Risk

- In addition to the financial and non-financial risks, the BIRMC has the authority to review the strategic and reputational risks of the Bank and resolve any issues.
- The committee is chaired by an Executive Board member and ensures consistent decision making on material risks of the Bank's wider strategy including business risk and any other risks that may have adverse effects on the Bank's sustainable operations.

## THE RISK APPETITE STATEMENT

The risk appetite outlines the amount of risk the Bank is willing to accept in the pursuit of its long-

term objectives. The Bank has set comprehensive and robust risk tolerance limits based on the Risk Appetite of the Bank. The Board of Directors are responsible for approving the risk appetite limit structure which is reviewed annually to align with business growth and strategy.

The Bank sets risk tolerance limits for its key risk indicators pertaining to credit risk, market risk, liquidity risk, operational risk and information security risk.

Seylan Bank's risk appetite incorporates, at a minimum, the following dimensions:

Bank-wide Risks	Credit Risk	Market Risk	Liquidity Risk	Operational Risk	Information Security Risk
Target credit rating	NPL ratio - Increase/decrease in NPL	Negative Maturity Gap less than one year to total liabilities	Statutory Liquid Asset Ratio for DBU and FCBU	Pawning - operational losses as a percentage of pawning capital outstanding	Hacking Attacks
Capital adequacy	Overdrafts without limits	Government securities to total Int. Bearing assets	Advances to Deposits Ratio in DBU and FCBU	Non-rectified high risk audit findings over total high risk audit findings	Password Compromises
Profitability	Large exposures to core capital	Market value of equity investments to total Int. Bearing Assets	Advances to Stable Funds	Cheque returns as a percentage of total cheques in clearing	Blocked Card Numbers
Growth	Specific provision cover to Gross NPL	Net Open Position	Swap Funding	Value of external fraudulent transactions relating to credit cards as a percentage of credit card interest income	ATM down time
	Watch list to performing advances	Interest Rate Risk in the Banking Book			
	Related-party lending to core capital				
	Geographical and industry concentration				

The Bank puts forth and follows a comprehensive risk appetite agenda in managing all risks emanating from banking operations. The risk appetite statement takes a holistic view of the way in which risks are managed and mitigated.

### Key Risk Indicators of the Bank

		Limit	2020	2019
1	Gross NPA Ratio	5.3%	7.49%	6.49%
2	Gross NPA Ratio (Net of IIS as per CBSL)	4.74%	6.43%	5.76%
3	Overdue +NPA/Total Advances	12%	18.08%	13.78%
4	Specific provision/Gross NPL	45%	50.00%	33.30%
5	Watch list/Total Performing Advances	9%	11.94%	8.15%
6	Performing Overdrafts without limits (LKR Mn)	500	171	162
7	Large exposures (over LKR 500 Mn)/Total capital	8 Times	6.06 Times	5.83 Times
8	Exposures on the Related parties/Total Capital	max of 55%	31.43%	38.19%
9	Open Credit Exposure	Less than 17.50%	31.96%	33.17%
10	Total Government Security Investments to Total Assets (Interest Earning)	Less than 30%	20.80%	17.54%
11	Equity Investment Value(Quoted CSE) to Total Assets (Interest Earning)	Less than 1%	0.57%	0.17%
12	Net Open Position (USD Mn)	+10/-16	-1.285	0.55
13	Statutory Liquidity Ratio - Domestic Banking Unit	Greater than 21.00%	31.31%	21.40%
14	Statutory Liquidity Ratio - Foreign Currency Banking Unit	Greater than 21.00%	22.47%	21.81%
15	Advances to Deposits Ratio Bank	Less than 97.50%	92.96%	97.32%
16	Advances to Deposits + Debentures	Less than 95.00%	89.49%	92.72%
17	Advances to Stable Funds	Less than 100.00%	90.04%	96.84%
18	SWAPs (USD Mn)	175	103.75	74.50
19	External Borrowings (LKR Bn)	50	16.55	25.77

## MANAGING THE IMPACT OF COVID-19

The World Health Organisation (WHO) declared COVID-19 as a global public health emergency and subsequently a pandemic in January 2020. The Government of Sri Lanka took drastic measures in mid-March 2020 to protect citizens and to contain the spread of COVID-19. Keeping in line with the actions taken by the Government, the Bank also formed a taskforce consisting of key stakeholders representing all operational divisions to successfully handle the emerging threats to the Bank's business operations from COVID-19. This taskforce met under the chairmanship of the Director/CEO and decided to activate the Bank's Business Continuity Plan (BCP) and to commence a parallel run of the operations of critical Head Officer units at the Disaster Recovery Centre (DROC) which is located at Borella.

Accordingly, the critical Head Office units were advised to segregate employees into teams and arrange for employees to work on a roster at the DROC while one team was allocated to work at the Head Office with the intention of minimising the spread of or the possibility of contracting COVID-19.

To maintain advocated social distancing measures, the Bank enabled approximately 400 employees to Work from Home (WFH). Arrangements were made to open only selected branches, while only limited (30%-50%) branches remained operational with minimum staffing in curfew/lockdown areas to cater to the financial needs of customers. The Bank also operationalised its Mobile ATMs in the suburbs to enable customers to withdraw much needed funds safely and without undue exposure to the virus. The Bank increased awareness of its internet and mobile banking platforms to allow customers to fulfill their financial obligations and undertake necessary and urgent banking needs safely from their homes.

During this pandemic period, the Bank has ensured to carry out banking operations in compliance with the health and safety guidelines issued by the Government and to safeguard the health of customers and employees. The Bank endeavoured to continue its operations and provide uninterrupted services to customers while taking all necessary precautions against the spread and contraction of COVID-19.

As of 31 December 2020, 9% of the Bank's loan portfolio was under the Moratorium scheme introduced by CBSL for COVID-19 impacted customers.

### SLFRS 9 – AMENDED GUIDELINES ON STAGING OF FACILITIES DUE TO THE IMPACT OF COVID – 19

In view of the current economic downturn in the country, as a result of the prevailing COVID-19 pandemic, the Central Bank of Sri Lanka has issued the Circular No. 09 of 2020 dated 28.10.2020 amending the earlier instructions given under the Circular No. 04 of 2018 dated 31 December 2018 on the Adoption of Sri Lanka Accounting Standards – SLFRS9. The salient features of the said amendments are as follows;

1. *The licensed banks may exercise judgment on case-by-case basis, to determine whether to classify facilities as Stage 3 facilities or not, considering the borrower's inability to revive the business and generate sufficient cash flows to repay the exposure once the restrictions on economic activities are removed.*
2. *The licensed banks may exercise judgment on case-by-case basis to determine whether to categorise facilities under "Stage 3", if such facilities have been restructured more than twice due to adverse economic consequences of the COVID-19 outbreak or the Easter Sunday Attack in April 2019.*

Further the subject CBSL Circular No. 09 of 2020 requires the

licensed banks to develop clear guidelines on staging of loans and advances for impairment purposes in the related policies, amidst the extraordinary circumstances caused by the COVID-19 outbreak, with the approval of the Board of Directors of the Bank. Accordingly, the following procedure is adopted by the Bank on Staging of Loans Pertaining to Moratorium Requested Customers.

#### Step 1 - Identify the Risk Elevated Industries.

Whilst the prevailing COVID-19 pandemic is having a negative effect on the overall economic performance of the country, its adverse impact on certain industry segments appear to be far higher. In our opinion, the risk level of various industry segments due to the current pandemic and the expected time for recovery would be as follows:

**Step 2 -** Segregate the Moratorium requested customers in the Risk Elevated Industries.

**Step 3 -** Identify the Individually Significant (exposures over LKR 25.0 Mn) Non-impaired customers and Individually non-significant (exposures below LKR 25.0 Mn) Moratorium requested customer from the above Risk Elevated Industries.

**Step 4 -** Segregate the customers who are in the Stage 1 at the moment from the customers identified under Step No.3.

Considering that the moratorium scheme is still ongoing and the fact that it is still premature to assess the severity of COVID-19 impact on the business operations and industries, the Bank intends to carry out the staging exercise only for customers in Stage 1 in order to identify the exposures that needs to be moved to Stage 2.

**Step 5 -** identify what customers in the Stage 1 that needs to be moved to Stage 2.

Thereafter the Business Units to critically analyse the Moratorium

requested for Individually Significant (Non-impaired) customers.

#### Step 6 - Carrying out of Provisioning.

For customers who have collateral (immovable) and if the value of such collateral is more than the outstanding balance of the underlying facilities, there will not be any additional provisioning.

However, for customers with no collateral or if the collateral value is below the current outstanding value of the underlying facilities, additional provisioning should be carried out. If the customers in this category belongs to a reputed business conglomerate and have sufficient Group support then such customer would be excluded from making additional provisioning (such clients will not be moved to Stage 2).

**Step 7** - It is proposed that the total outstanding of customers under the Stage 1 of Individually non-significant (i.e. below LKR 25.0 Mio.) Moratorium requested facilities to be moved to Stage 2 and to make provisioning accordingly.

Furthermore, the Bank will carry out the current practice of categorising facilities under "Stage 3", if facilities have been restructured more than twice.

## MANAGING CREDIT RISK

Credit risk is defined as the risk of a potential loss to the Bank, when a counterparty fails to perform on an obligation, in accordance with the agreed terms; or its ability to perform such obligation is impaired resulting in a loss to the Bank. In essence, the proper management of credit risk underpins a Bank's financial stability, growth prospects and profitability and as such Seylan Bank has developed a well-structured credit risk management process in order to maintain the quality of the credit portfolio of the Bank at an optimal level.

Accordingly, credit risk is managed through a comprehensive

framework which includes well-defined policies and procedures comprising clearly structured approval hierarchies and different committees to oversee various aspects of credit risk management processes. In addition, the Bank manages its credit exposures through diversification strategies across products, geographies, industries and customer segments.

The Bank's Credit Standards and Policy Manual outlines the fundamental standards and disciplines that must be implemented to actively manage credit risk across our lending book. The Lending Guidelines conversely outlines the Bank's strategic risk/reward objectives in the light of evolving market conditions by clearly setting out the preferred industries and lending types to be targeted for lending growth during each calendar year.

These standards, policies and guidelines lay down key roles and responsibilities of those required to originate, identify, analyse, rate, review, price, report, diversify, control/mitigate and manage credit risks and are applicable to all lending activities undertaken by the Bank.

In addition to setting up exposure limits for individual customers, the Bank manages counterparty credit exposures, using the 'one obligor principle', so that all facilities to a group of borrowers wholly or substantially owned or controlled by common or related parties are aggregated and evaluated together under the coordination of a designated lead relationship manager.

The monitoring of credit concentration is an integral part of the credit risk monitoring process at Seylan Bank. Accordingly, the Bank constantly reviews its credit concentration on a number of areas such as geography, product type, industrial sectors and maturity. Close monitoring of key ratios/internal thresholds on a continuous basis and stress testing of the credit portfolios form another strategy to measure and monitor the credit concentration risk of the Bank's loan portfolio.

Additionally, the Bank's credit risk management strategy includes identifying emerging customer risks which can impact on business activities well in advance. This ensures that the credit facility or the relationship returns the expected profitability while the close monitoring of the usage of working capital facilities to prevent diversion of funds into unintended areas ensures timely repayment of the facilities.

### Assessment of Credit Risk

In order to grow the Bank's loan book through high quality loans and advances, there is a clear segregation of duties between transaction originators in business areas and approving authorities under the risk function. All credit exposure limits are approved within a well-defined credit approval authority framework. Credit risk evaluation and approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers entrusted with the higher levels of delegated authority. All high value credit propositions above a certain threshold level are approved by the Internal Credit Committee, Board Credit Committee, or the Board of Directors; as relevant.

The Bank has delegated credit approval authority to individual lending officers based on a consistent set of standards such as experience, judgement and ability. These authority levels are subject to review annually. If an individual lending officer's authority is insufficient to establish, materially change, or restructure the required credit limits; the proposals are escalated to an officer or committee having the required higher delegated authority. In addition, the individual credit exposure limits of customers are subject to a critical review annually and require the approval at the appropriate authority level. Managers recommending, reviewing, or approving facilities are held accountable for the outcome.

### Credit Risk Mitigation

In mitigating credit risk, the Bank primarily relies on a rigorous assessment of credit applicants, the strength of their business model, sustainable financial conditions and our ability to meet their current and future financial requirements. Further, the lending proposals are typically required to show more than one independent credible source of repayment. The primary source is established through a conservative evaluation of whether the borrower's realistic projected cash flows will be sufficient to repay their debts. The Bank normally requires this to be supported by at least one alternative way of settling the debt in the event of unforeseen adverse circumstances, but firmly believes that the availability of collateral does not in itself make an unacceptable lending proposition acceptable.

In instances where the Bank accommodates highly reputable and financially strong corporate borrowers whose performance is regularly and rigorously reassessed on the basis of reliable financial information; we exceptionally grant facilities on an unsecured basis solely based on their cash flows.

The Bank uses various techniques and controls to limit and mitigate credit risk exposures and reduce potential credit losses. These include documenting credit transactions with adequate terms, conditions and covenants in a comprehensive and legally enforceable basis; and obtaining of guarantees, financial or other collaterals to provide a secondary recourse to minimise credit losses. Such guarantees serve to mitigate the inherent risk due to credit default and minimise any related losses by either substituting the borrower default risk or improving recoveries.

The Bank nets off collateralised cash deposits against the on-balance sheet non-performing advances in the instances where the relevant documentation which is legally binding on all parties and enforceable across all jurisdictions are available.

In the standardised approach, collateral recognition is limited to eligible financial collateral such as gold only, but this approach provides a preferred (lower) risk weight for 'SME exposures secured by immovable property' and 'claims secured by residential property'. Though the Bank relies on the individual and corporate guarantees in granting credit facilities, the Bank has not relied upon any credit derivative instruments to transfer the credit risk assumed on customers.

Collateral impairment haircuts are applied to security valuations, based on conservative and predetermined Loan/Collateral ratios in compliance with the Banking Act Direction No. 03 of 2008, "Classification of Loans and Receivables, Income Recognition and Provisioning"

### Non-performing advances by collateral type (net of IIS)

	2020	2019
Collateral type (Secured)	LKR '000	LKR '000
Cash/Shares	690,689	1,116,559
Clean	3,888,678	2,005,146
Immovable property	17,050,101	14,233,116
Movable assets	963,259	1,376,311
Other Securities	3,750,189	3,684,755
Pawned articles	22,608	96,945
<b>Grand Total</b>	<b>26,365,524</b>	<b>22,512,832</b>

### Monitoring, Reporting and Disclosure of Credit Risk

Respective Business Unit Heads are primarily responsible for monitoring the performance of their lending to ensure that the Bank's credit portfolio profitability and lending quality objectives are achieved. Credit risk management uses a comprehensive range of quantitative tools and Bank-wide credit limits to monitor lending, contingent commitments and other off-balance sheet exposures, profitability, quality trends and concentrations and identifies whether the Bank is growing undue exposure concentrations and whether credit risks are adequately remunerated. The Risk Management Unit makes recommendations for suitable amendments if required, after reviewing the existing credit policy framework.

The Chief Risk Officer (CRO) reports these concentrations regularly together with his recommendations for corrective actions to the ECRM and escalates the significantly important matters to the attention of the BIRMC. This rigorous process enables the Board of Directors to oversee the Bank's credit risk exposures, ensuring that the Bank quickly identifies emerging risks and risks that are not aligned with the Board approved credit risk appetite while initiating timely corrective measures.

### Loan Review Mechanism

In line with the Banking Act Direction No. 07 of 2011 under the "Integrated Risk Management Framework", the Bank has adopted a Loan Review Mechanism (LRM) which stands as an effective tool for constantly evaluating the quality of the loan book and bringing about qualitative improvements in credit administration.

Under the purview of the CRO, the Credit Risk Review Unit conducts independent risk reviews of high value loans (LKR 500.0 Mn and above)/small and mid-tier facilities (through Regional Risk Officers)/product portfolio reviews. Independent risk reviews are conducted within three months of sanction/renewal of facilities covering at least 30%-40% of the loan portfolio within a calendar year.

For the year 2020, the Credit Risk Review Unit has performed a total of 338 reviews to the value of LKR 139.8 Bn which covers 31% of the Net Loans and Receivables of the Bank.

The main focus of the independent risk reviews is on the approval process, accuracy and timelines of credit ratings assigned by loan officers, adherence to internal policies and procedures, applicable laws/regulations, compliance with covenants and conditions, post sanction follow-up, sufficiency of documentation and portfolio quality.

The findings of the reviews and the recommendations for improving the portfolio quality are presented to the ECRMC and to the attention of the BIRMC.

## Qualitative Disclosures

### Definition of Past due and Impaired Based on CBSL Guidelines

A Non-Performing Loan is any loan that is 90 days or more past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- *Loans renegotiated before 90 days past due and on which no default in interest payments or loss of principal is expected.*
- *Loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation and against which no loss of principal is expected.*

Impaired Loans comprise both individually and collectively identified loans for the assessment of impairment allowances. These loans also include collateralised loans or loans where indebtedness has already been written down to the expected realisable value. This category includes all loans that have been transferred to legal/recovery departments. The impaired loan category may include loans, which, while impaired, are still performing.

The accruing past due 90 days or more loan category comprises loans that are 90 days or more past due with respect to principal or interest. An impairment allowance will be raised against these loans, if the expected cash flows discounted at the effective interest rate are less than the carrying value.

The Impaired and Restructured Loans category comprises loans which are not included above, where for economic or legal reasons related to the debtor's financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results in the expected cash flows discounted at the effective interest rate being less than the loan's carrying value, an impairment allowance will be raised.

### Approach on Individually Significant and Collective Loan Loss Provisioning

The Bank's loan loss provisions are established to recognise impairment losses incurred either on specific loan assets or within a portfolio of loans and receivables.

Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high volume groups of homogeneous loans that are not considered individually significant. Individually impaired loans are those loans against which individual impairment provisions have been raised.

Estimating the amount and timing of future recoveries involves significant judgement and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the Statement of Financial Position

date are determined on a portfolio basis and considers Expected Credit Loss (ECL) experienced as a result of uncertainties arising from the economic environment and defaults based on portfolio trends. Under SLFRS/LKAS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary. Impairment allowances are measured individually for assets that are individually significant and collectively where a portfolio comprises homogeneous assets and where appropriate statistical techniques are available.

As per SLFRS 9, calculation of the impairment has been assessed and disclosed based on Stages I, II and III of the portfolios and such disclosures are explained in Note 25.3.1 of Financial Statements.

## Credit Risk

### Concentrations with Limits

Credit concentration risk may arise where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in the inability to meet contractual obligations being similarly affected by changes in economic or environmental conditions. Concentration risk is mitigated to a large extent by stipulating prudent credit risk limits on various parameters. CBSL also has specified certain guidelines on maximum exposures in respect of single/related party borrower limits and large exposures.

### Related Party Lending

Related parties include the Major Shareholders, Subsidiary Directors and Key Management Personnel of the Bank and their close family members (CFM). The Bank has set an internal limit on the overall exposure to the related parties and ensures that credit decisions are made on a rational basis, as per the relevant legislation, approved policies and procedures; and is based on market terms, with no preferential treatment.

### Over Exposure to Geographical Areas, Economic Sectors and Lending Products

Exposure to a single sector of the economy or lending product or to a narrow geographical region is another dimension of risk concentration. Borrowers may be vulnerable in the event of an economic or market downturn affecting their economic sector, which in turn can affect their ability to service the loans. In order to mitigate this risk, the Bank sets individual concentration limits for exposure to various sectors. The Bank closely monitors the quantum and quality of lending by geography (area).

### Quantitative Disclosures

#### Credit Exposure by Product Types as at 31 December 2020

The core banking products such as term loans and overdrafts account for more than 70% of total advances. The specialised products are closely monitored to mitigate inherent risks. Refer Note 25 in financial statements.

### Age analysis of non-performing loans by product distribution 31 December 2020 based on CBSL Directions

Loan Category	3-6 months NPA special mention	6-12 months NPA substandard	12-18 months NPA doubtful	18 months and above NPA loss	NPA grand total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Credit cards	77,916	91,175	157,825	181,732	508,648
Housing	388,617	223,164	669,788	814,313	2,095,882
Leasing	191,565	143,214	198,411	397,492	930,682
Overdraft	352,471	315,455	734,963	3,671,551	5,074,440
Pawning	-	-	-	21,801	21,801
Staff Term Loans	23,104	11,829	-	20,390	55,323
Term Loans	1,648,942	2,200,063	2,298,107	9,997,678	16,144,790
Trade Finance	683,827	49,634	163,506	636,991	1,533,958
<b>Grand Total</b>	<b>3,366,442</b>	<b>3,034,534</b>	<b>4,222,600</b>	<b>15,741,948</b>	<b>26,365,524</b>

### CREDIT RISK MANAGEMENT OUTLOOK FOR 2021

- The Bank in 2021 is planning to implement a robust Early Warning System (EWS). An EWS would enable the early detection of customers with potential cash flow concerns allowing the Bank to take pro-active measures to prevent such customers being categorised as NPA.
- The Customer Credit Risk Rating system will also be revamped to reflect the financial and non-financial data which is required to generate an effective and reliable customer rating.

### MANAGING MARKET RISK

The Bank defines Market Risk as the risks taken in relation to price fluctuations in the financial markets which would have an adverse impact on the trading exposures and the foreign exchange Net Open Exposure as well as the risk that would impact the on-balance-sheet and Off-

Balance-sheet risk triggered by interest rate fluctuations.

Market Risk is generally defined as the risk of the market value of portfolio's, instruments or investments increase or decrease as a result of volatility and unpredicted movement in market factors such as exchange rates, interest rates and prices.

Several types of risk may arise due to market volatility in prices and interest rates and the Bank manages and monitors these risks carefully and diligently

#### Policy and Responsibility

The Board of Directors defines the overall policies / limits for the Bank's market risk exposures,

including the overall risk limits. The limits on market risks are set with consideration of the risk they imply and how they match the Bank's strategic plan. On behalf of the Executive Board, the Risk Committee (EMORMC) and ALCO are responsible for allocating managing the market risk in the Bank's major business areas especially Treasury. As such lines have mainly been granted to Treasury to manage the Market risk. In the first line of defence; Treasury is responsible in monitoring and managing the Bank's market risks and positions. Business Units are closely monitored for their market risk operations but is managed and monitored under the Treasury exposures. The Risk Management Unit (RMU) reports market risks to ALCO on a monthly basis. RMU reports to EMORMC and to BIRMC on a quarterly basis the risk monitoring process for information and necessary direction of the Corporate management and the Board.

## Controls

Treasury Middle Office (TMO) is the arm of the Market Risk Unit which oversee and monitor the controls put in place by the Board of Directors for Market Risk management

Some of the Monitoring tools set by the Management and Board which enables TMO to adopt a stringent Monitoring mechanism;

- A set of limits to ensure that risk-takers do not exceed the aggregate risk and concentration parameters set by the Board. Limits are proposed for business units and risk sources by the management and is Board approved.
- Online and real time monitoring of Treasury dealing and trading through the dynamic Treasury Risk Management System
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop losses for trading positions on a timely basis.
- Independent valuation models, such as the Value at Risk (VaR) Modules using the following

- Variance-covariance method
- Historical simulation method
- Structured Monte Carlo method

- A process for assessing the risk of new products.

## Stress Testing

Stress testing is an integral component of our risk and capital management framework. It allows the Bank to assess potential vulnerabilities to the business, models or portfolios. It also helps to understand the sensitivities of the core assumptions in our strategic and capital plans; and improve decision-making through balancing risk and return.

In addition to internal stress test scenarios reflecting the outcome of the annual risk assessments, the Bank also performs regular stress test exercises taking into consideration external stress test scenarios for management insight and timely decision making.

The stress tests are generally carried out applying static balance sheet assumptions either at a close of a month, quarter or the end of a financial year.

The result of the stress test reaffirms the resilience of our business models and the strength of the Banks capital base. Our commitment to maintain a robust, Capital Adequacy Ratio (CAR) in excess of the prevailing requirements as well as to minimise Earning at Risk remains.

The Banks possess a comprehensive Stress testing policy which outlines various scenarios and sensitive analysis to measure the stress levels of exposures of Market and Interest Risk as well as Liquidity Risk scenarios which covers the Bank Specific Risk Impacts and Systemic Risk Impacts which the Bank would have to proactively manage.

Likely effects from changes in holding Value of Exposures Dec 2020 (LKR' 000)				
	Carrying Value '000	Subject to Stress	Impact on Earnings	% Impact on Capital
Equity risk	171,752	154,577	(17,175)	0.00%
Exchange Rate Risk	(240,932)	(265,025)	(24,093)	0.00%
Trading Interest Rate Risk (parallel shift)	276,144	270,643	(5,501)	0.00%

- All share prices fall by 10%.
- All currencies change by 10%
- Upward parallel shift of the yield curve of 100 bps

## Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) arises principally from mismatches of assets and their funding cost (deposit liabilities) as a result of interest rate changes. The aim through the management of IRRBB is to mitigate the effect of prospective interest rate movements that could reduce future net interest income, while balancing the cost of such hedging activities on the net revenue stream. In most instances, the contractual terms of products differ due to customer behaviours. For these products, assumptions are used on behavioural analysis to allow more accurate and feasible risk management techniques to be adopted.

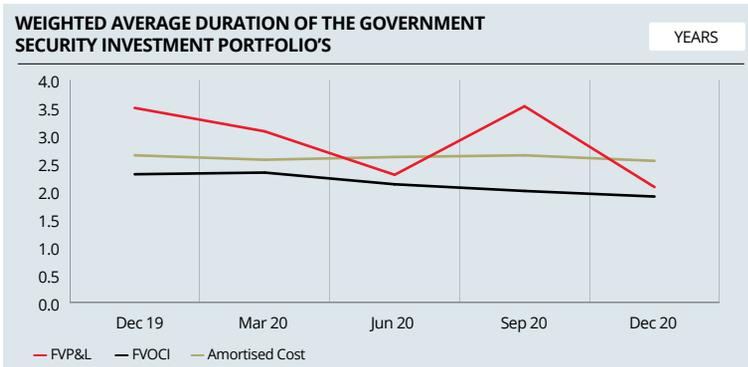
The Bank considers the IRRBB as an essential tool to monitor the risk of product repricing and the impact it has on Earnings as well as Equity.

For structural interest rate risk, the primary focus is achieving a desired overall interest rate profile which may change over time based on management's longer term view of interest rates and economic conditions.

**Portfolio Interest Rate Risk**

The Bank's policy is to invest mostly in Government Securities such as Treasury Bills and Treasury Bonds to meet the liquidity requirements of the Bank and for trading purposes. As a consequence, the Bank holds a large portfolio of Government Security Treasury Bills and Bonds as well as a considerable portion of SLDBs and SLSBs. As a result, most of the Bank's interest rate risk stems from these portfolio's.

The following graph represent the weighted average duration of the Government Security portfolios during 2020:



The Bank adopts a monthly Earnings at Risk (EaR) methodology that estimates the Bank's interest rate risk of the balance sheet, with a given level of confidence, over a one-year horizon. The EaR considers all pertinent risk factors and covers all financial instruments which expose the Bank to interest rate risk across nearly all product groups.

Mostly the interest rate risk is measured as the effects of a percentage point parallel shift of the yield curve. The analysis (Depicted in page 188) represents a change in annual net interest income with the rate change by (+/-) 100 and 200 bps and the balance sheet, presumed to be stable, assumes that the rate sensitive assets and liabilities are bucketed on their reprising maturities, or failing which, on their contractual maturities or assumed maturities.

**Exchange Rate Risk**

The Bank considers that assets and liabilities in other currencies denote an exchange rate risk as they may vary in value over time relative to LKR. The Bank's core business as a commercial bank makes it necessary to have access

to foreign currencies and to hold positions in the most common currencies. Given the uncertainty of currency fluctuations, the Bank's policy is to maintain a low currency risk by holding foreign

currency exposures applying individual currency limits and the overall exposure is managed within the Net Open Position (NOP) limit defined by the regulator. Individual and cumulative intraday limits, daylight limits and overnight limits are defined for the treasury dealers to operate within these boundaries to mitigate the risk stemming through these exposures.

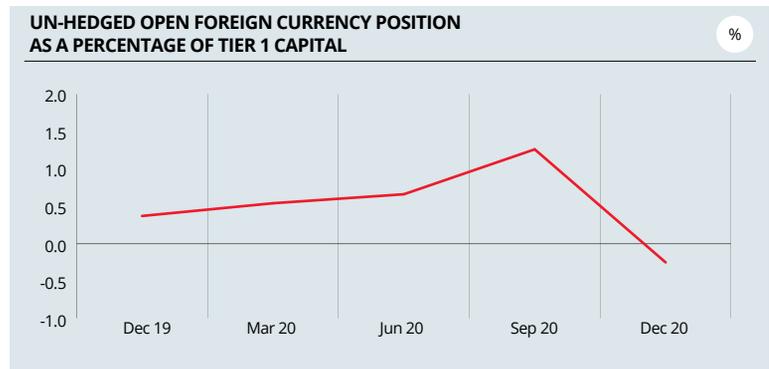
The foreign exchange risk is monitored and reported to the respective management heads daily and is discussed at the ALCO on a monthly basis.

The foreign exchange risk limits are agreed and approved by the Board of Directors.

The Bank's exchange rate risk mainly stems from:

- Customer loans/deposits in foreign currency and
- Treasury's positions in foreign currency,

The following graph presents the NOP as a percentage of the Tier 1 Capital during the year 2020:



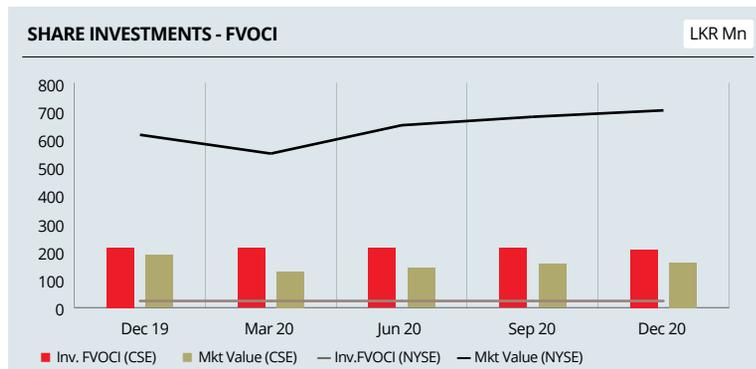
**Share Investment Risk**

The Bank's risk policy restricts equity positions to listed shares invested for trading purposes and shares invested for strategic reasons. The Bank also holds unlisted shares made for reasons such as investing in shares of unlisted banking related companies. These are mainly investments in companies providing financial infrastructure and financial services to the Bank. For some of these investments, the holding is revalued yearly according to the net worth of the companies.

The management of the price risk of equity investments is the responsibility of the Treasury Unit with oversight of the Treasury Investment Committee. The Market Risk Management Unit acts independently in monitoring and reporting the Share Investment Risk and is responsible for reporting the impact on earnings on a daily basis

to the Treasury Investment Committee and the impact on earnings and regulatory capital on a monthly basis to the ALCO and EMORMC and subsequently to BIRMC.

The graph represents the investments in shares and the behaviour of market values of the share investments in the FVOCI portfolio:



## MANAGING LIQUIDITY RISK

Liquidity risk is the risk that the Bank either does not have sufficient financial resources available to meet our obligations as they fall due or can only access these financial resources at an excessive cost.

The Bank's policy is to maintain adequate liquidity at all times to meet local currency requirements and for all other major currencies and hence, to be in a position to meet obligations as they fall due. We manage liquidity risk both on a short-term and medium-term basis. In the short-term, our focus is on ensuring that the cash flow demands can be met when and where required. In the medium term, the focus is on ensuring that the balance sheet remains structurally sound and aligned to the Bank's long-term strategy.

ALCO is the responsible governing body that approves the Bank's liquidity management policies. The Treasury and Risk Management Unit receives authority from the ALCO and is responsible for setting or delegating authority to set liquidity limits and proposing liquidity risk policies. Liquidity is managed within the pre-defined liquidity limits set by the Board and in compliance with internal liquidity policies and practices, as well as local regulatory requirements. The Treasury proposes and oversees the implementation of policies and

other controls relating to liquidity risks.

There have been occasions where exceptional market events have had an adverse impact in the management of liquidity, thereby affecting the Bank's ability to manage liquidity risk to the full potential. However, under the current COVID-19 pandemic situation, the Bank was able to manage liquidity risk at satisfying levels and achieved high liquidity buffers. The regulatory measure in reducing the SRR from 4% to 2% in June 2020 also injected ample amounts of liquidity into the market.

### Control and Management

The Bank considers tapping available sources of liquidity, preserving necessary funding capacity and continuous contingency planning as the essential ingredients in managing liquidity risk. Liquidity targets are maintained to ensure that even under adverse conditions; funds are available to cover customer needs, maturing liabilities and other funding requirements.

Deposits represent the Bank's principal source of funding. Our well-diversified retail deposit portfolio represents a large portion of our funding concentration while a portion of hot money has been raised from corporate and institutional customers. The Bank raises funds, locally or globally,

which includes repurchase agreements and money market instruments.

The principal uncertainties for liquidity risk are that:

- customers withdraw their deposits at a substantially faster rate than expected,
- asset repayments are not received on the expected maturity date, or
- asset growth is much faster than the deposit growth.

To mitigate these uncertainties, our customer deposit base is diversified by type and maturity levels. In addition, the Bank has in place a contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

As envisaged in the ALM policy, while the Liquidity Risk is managed through the stock approach, liquidity risk is also managed through the traditional floor approach better known as the 'Gap Analysis' based on the residual maturity/behavioural pattern of assets and liabilities as prescribed by the CBSL and against prudential (tolerance) limits set for different residual maturity time buckets.

The Maturity Gap Based on Behavioural Analysis is depicted in the following tables:

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total as at 31.12.2020
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>INTEREST EARNING ASSETS</b>						
Loans and Advances	114,710,519	76,567,389	74,651,288	57,987,442	69,849,509	393,766,147
Placements with Banks and Finance Companies	10,730,528	-	-	-	-	10,730,528
Government of Sri Lanka Treasury Bills/ Bonds, Development and Sovereign Bonds	10,543,586	21,631,571	52,596,832	15,720,353	6,675,943	107,168,285
Investments in Debentures	11,863	33,250	141,284	66,500	465,500	718,397
Securities Purchased under Resale Agreements	6,142,893	-	-	-	-	6,142,893
	<b>142,139,389</b>	<b>98,232,210</b>	<b>127,389,404</b>	<b>73,774,295</b>	<b>76,990,952</b>	<b>518,526,250</b>
<b>NON INTEREST EARNING ASSETS</b>						
Cash In Hand	8,286,388	-	-	-	-	8,286,388
Balances with the Central Bank of Sri Lanka	1,285,267	1,732,583	1,528,911	990,749	1,833,693	7,371,203
Balances with Banks	1,749,756	-	-	-	-	1,749,756
Investments in Equities	-	3,232,980	-	-	1,153,602	4,386,582
Group Balances Receivable	-	40,000	-	-	-	40,000
Property, Plant and Equipment/Intangible Assets/Right of Use Assets	-	-	-	-	9,102,642	9,102,642
Assets Held-for-Sale	-	-	-	-	-	-
Deferred Tax Assets	-	-	-	-	-	-
Derivative Financial Instruments	403,984	-	-	-	-	403,984
<b>Other Assets</b>	<b>7,838,845</b>	<b>34</b>	<b>2</b>	<b>81</b>	<b>1,653</b>	<b>7,840,615</b>
	<b>19,564,240</b>	<b>5,005,597</b>	<b>1,528,913</b>	<b>990,830</b>	<b>12,091,590</b>	<b>39,181,170</b>
<b>Total Assets</b>	<b>161,703,629</b>	<b>103,237,807</b>	<b>128,918,317</b>	<b>74,765,125</b>	<b>89,082,542</b>	<b>557,707,420</b>

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total as at 31.12.2020
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>INTEREST BEARING LIABILITIES</b>						
Financial Liabilities at amortised cost due to Depositors	71,916,235	90,048,238	89,337,930	57,891,804	99,153,723	408,347,930
Financial Liabilities at amortised cost due to Debt Securities Holders	2,389,458	186,415	-	-	-	2,575,873
Due to Banks and Other Borrowings	8,460,483	937,500	23,295,827	-	-	32,693,810
Debt Securities Issued	710,681	1,967,127	7,085,750	5,686,000	1,609,000	17,058,558
Group Balances Payable	89,877	3,075	100,000	29,000	-	221,952
Lease Liabilities	77,901	195,793	633,824	273,476	3,265,181	4,446,175
	<b>83,644,635</b>	<b>93,338,148</b>	<b>120,453,331</b>	<b>63,880,280</b>	<b>104,027,904</b>	<b>465,344,298</b>
<b>NON INTEREST BEARING LIABILITIES</b>						
Demand Deposits	12,771,176	11,190,678	-	-	7,993,342	31,955,196
Other Liabilities	8,978,201	-	-	-	-	8,978,201
Derivative Financial Instruments	39,981	-	-	-	-	39,981
Current Tax Liabilities	869,896	-	-	-	-	869,896
Deferred Tax Liabilities	1,469,778	-	-	-	-	1,469,778
Dividend Payable	43,585	-	-	-	-	43,585
Group Balances Payable	39,510	-	-	-	-	39,510
Equity	-	-	-	-	48,966,975	48,966,975
	<b>24,212,127</b>	<b>11,190,678</b>	<b>-</b>	<b>-</b>	<b>56,960,317</b>	<b>92,363,122</b>
<b>Total Liabilities and Equity</b>	<b>107,856,762</b>	<b>104,528,826</b>	<b>120,453,331</b>	<b>63,880,280</b>	<b>160,988,221</b>	<b>557,707,420</b>

**Other Risks Managed Under Market Risk Management**

**Counterparty Credit Risk**

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on amounts owned on a transaction. Financial transactions that derive their value from the performance of assets, interest rates, or currency exchange rates get included in structuring the obligation where debt obligations and deposits, swaps, futures and forward contracts are considered for the combination.

Counterparty credit risk which is managed and monitored by the Treasury Middle Office (TMO) are mostly transactions entered into by the Treasury Unit and a combination of trade transactions entered with foreign and local financial counterparts. The Treasury-related transactions include all foreign currency contracts, money market transactions and outright treasury transactions entered into with local and foreign counterparts. A limit framework is put in place to manage the counterparty credit risk. The TMO monitors on a real-time basis the utilisation of each counterparty against the stipulated limit; and a daily reporting is carried out to appraise the Senior Management of any irregularities in the limits.

**Country Risk Concentration**

The Bank manages the exposure to country risk through a framework of limits, specifically limiting and monitoring its exposures to countries with trade barriers and embargos. Limits are reviewed annually at a minimum, in conjunction with the review of country risk ratings. Country risk limits are approved by the Board and are monitored daily by the TMO.

**Linkage Between Accounting and Regulatory Exposure Amounts**

Exposure to market risk is separated into two portfolios:

- *Trading portfolios comprising positions arising from market*

*making. The instruments classified under this portfolio are Disclosed in Note 24 to the Financial Statements*

- *Non-trading portfolios comprising positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as Fair Value through Other Comprehensive Income (FVOCI) and Amortised Cost. The instruments classified as FVOCI and Amortised Cost are disclosed in Notes 26 and 27 to the Financial Statements.*

**MANAGING OPERATIONAL RISK**

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events such as natural disasters, social or political events that may impact the Bank. Operational risk includes legal risk but excludes strategic and reputational risks.

The Bank has a well-established Operational Risk Management Policy developed in line with the CBSL and Basel guidelines. Under the comprehensive Operational Risk Management Policy, the roles and responsibilities for operational risk have been defined from Board level to business unit levels. The Board of Directors oversee the major aspects of the Bank's Operational Risk as a distinct risk category and approves periodical reviews of this framework.

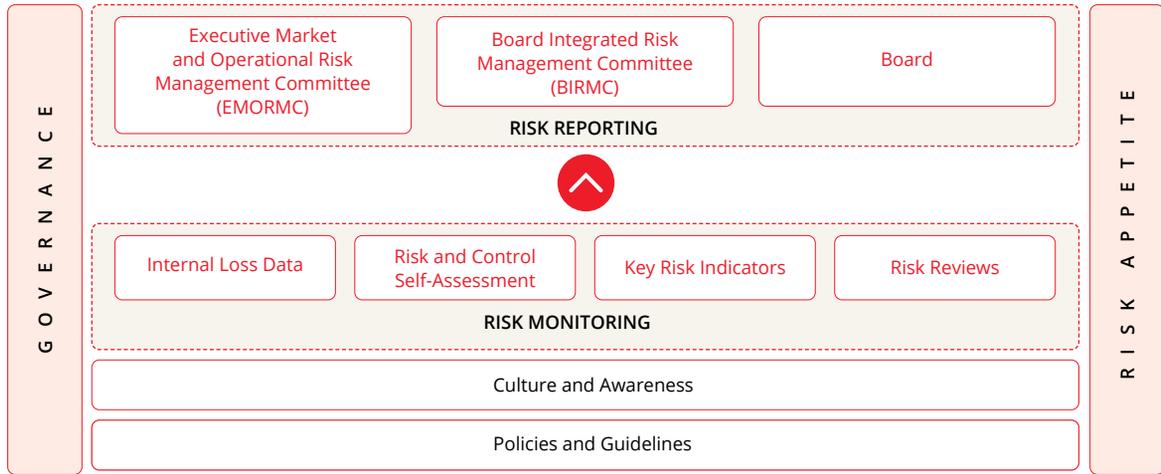


Being the second line of defence, the objective of the Operational Risk Management Unit (ORMU) is to implement and enforce an appropriate framework for identification, assessment, monitoring and reporting of

operational risks. The policies and guidelines listed here in are established within the Bank to manage operational risk effectively.

- Operational Risk Management Policy
- Corporate Information Security Policy
- Business Continuity Management Policy
- Operational Risk Incidents Reporting and Management Policy
- Fraud Risk Management Policy
- Business Process Outsourcing Policy

The Operational Risk Management function is enabled through the day-to-day processes within a predefined framework. The EMORMC is chaired by the Director/CEO of the Bank and consists of members from Operations, IT, Treasury, Finance, Compliance, Internal Audit and Risk Management units. The CRO represents the risk management function at the BIRMC for reporting and accountability. The BIRMC ensures appropriate implementation of its instructions through the defined governance structure.

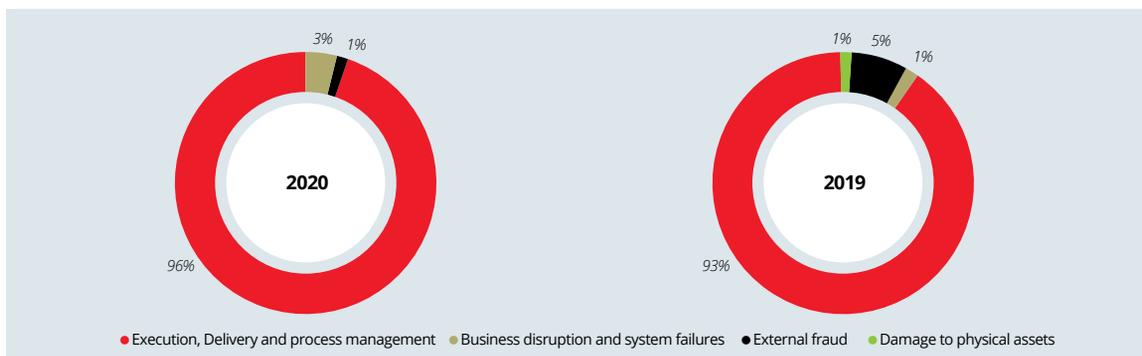


**Operational Risk Management Framework**

The Bank has adopted the following risk management techniques in compliance with the Basel and regulatory guidelines to manage operational risk efficiently and effectively.

Technique	Management/Mitigation
Risk and Control Self-Assessment (RCSA)	RCSA is defined for key business units of the Bank and is reviewed annually to identify the inherent risks proactively. RCSA is a process through which operational risks and the effectiveness of controls are assessed and examined. Findings from the RCSA exercise are used to manage the residual risks through implementation of proper action plans and control improvements.
Key Risk Indicators (KRIs)	Key risk indicators are metrics used in risk management to provide an early signal of increasing risk exposures in various areas of the Bank. KRIs are reported to the EMORMC and the BIRMC by way of a dashboard and monitored against the corresponding threshold levels. The appropriate action plans are directed to mitigate the risks based on those thresholds.
Collecting, Analysing and Reporting Operational Risk Incidents	Incident reporting is encouraged within the Bank and ORMU has developed internal guidelines on incident reporting which is made available on the Intranet for staff. Furthermore, monthly reminders on reporting incidents are circulated among the Unit Operational Risk Coordinators (UORC) and branches. All incidents reported by respective departments are recorded in a database and a root-cause analysis is performed in order to provide recommendations to ensure non-recurrence of the same incidents in the future. As per CBSL guidelines, loss events exceeding LKR 500,000 are reported on a quarterly basis to the CBSL.

**Operational Risk Incidents**



Appointment of Unit Operational Risk Coordinators (UORC)	The ORMU has appointed UORC for all departments/units of the Bank and explained responsibilities through an awareness session. The UORC have to report incidents as and when they occur, provide information for Key Risk Indicators and complete the RCSA annually.
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Technique	Management/Mitigation
Insurance Arrangements	The Bank has taken cover from insurance providers as one form of risk mitigation for high severity, low probability and uncontrollable operational risk events such as natural disasters, or fire, as well as internal and external frauds, errors, omissions, hold-ups, employee infidelity etc. However, insurance has not been used for taking of risks that would otherwise not be undertaken, thereby avoiding moral hazards. This policy is reviewed and enhanced on an ongoing basis to ensure alignment to new developments. The Bank has engaged an insurance broker to source terms, evaluate and add value by using their expertise.
Reviewing New Products/Services/ Processes	The Bank provides risk assurance for newly implemented products through the New Products and Services Policy. This procedure includes proactive risk identification, assessment and introduction of risk mitigation controls for inherent risks of new products, processes, systems and their amended versions; as well as for projects that have a material impact on the Bank's operations.
Reviewing information risk, integrity and availability	<p>The Bank is positioned to identify and respond to suspicious information flow and intruder attacks while observing system readiness through its information risk management practices which use tools and techniques such as firewall technologies, intruder detection and hacking prevention systems.</p> <p>The Bank has introduced sound Data Leakage Prevention (DLP) solution, Data classification software, Security Information and Event Management (SIEM), Web Application Firewall system and Internal Firewall system.</p> <p>The Bank has also undertaken a total refurbishment of the data centre infrastructure with modern physical security controls and introduced a virtual patch management solution for all servers in the data centre.</p>
Effectiveness Business Continuity Plan (BCP) and Disaster Recovery (DR)	<p>The BCP ensures the resilience to business disruption that may arise from internal or external events and focuses on reducing any adverse impact on human safety, business operations as well as profitability and reputation of the Bank. The Bank's well-established Disaster Recovery Site and separate Disaster Recovery Operating Centre (DROC) carries out several drills for critical systems including the core banking system in order to verify the readiness of business continuity related issues. The related Executive Committees and regulators are updated on outcomes of the BCP and DR drills with the appropriate actions.</p> <p>The BCP was effectively enacted in 2020 in light of the COVID-19 pandemic which disrupted normal operations of the Bank due to extended curfews and lockdowns.</p>

### OPERATIONAL RISK OUTLOOK FOR 2021

The Bank has initiated actions to move into Alternative Standardised Approach in quantifying operational risk capital charge. Launch an E-learning module on operational risk management to all employees.

## MANAGING RISKS OF OUTSOURCING ACTIVITIES

Outsourcing involves transferring responsibility for carrying out Information Technology and Business Processing functions (previously carried out internally) to an outsourcer for an agreed charge. The outsourcer provides services to the Bank based on a mutually agreed service level, normally defined in a formal contract. Many commercial benefits have been attributed to outsourcing and the most common amongst these being:

- Reducing costs,
- Greater focus on core banking business by outsourcing non-core functions,

- Access to world-class skills and resources and
- Resource optimisation for limited duration projects.

Despite the potential benefits, information security incidents such as inappropriate access to or disclosure of sensitive information, loss of intellectual property protection or the inability of the outsourcer to live up to agreed service levels, would reduce the benefits and could jeopardise the security posture of the Bank.

### Definition and Applicability

- An "Outsourcing Arrangement" is an agreement between Seylan Bank PLC and a "Service Provider", whereby the service provider performs an activity, function, or process connected with the

operations of Seylan Bank PLC.

- Outsourcing arrangements shall be entered into only with "External Service Providers" who have specialised resources and skills to perform the related activities (In compliance with CBSL Direction No. 2 of 2012).
- The CBSL directions for reporting purposes shall not apply to outsourced arrangements that are not directly related to the provision of financial services such as mail, courier services, catering for employees, housekeeping and janitorial services, security of premises, printing services (e.g. application forms, brochures, etc.), recruitments on contract and temporary basis and communication services (as described under Section 2 (3) of

(CBSL Direction No. 2 of 2012).

### Details of Due Diligence Test of Third-Party Service Providers

The Bank has developed a comprehensive policy in line with CBSL Direction No. 02 of 2012 which is fully implemented. This covers all aspects of due diligence controls such as comprehensive assessment, complaint handling, service quality monitoring and review of information security and business continuity plans of service providers.

## MANAGING CAPITAL RISK

### Current and Future Capital Requirements

#### Capital Planning Overview and Assessment Process

The capital structure of the Bank is rigorously regulated by CBSL in view of the systemic risk that a bank failure carries and loss it can cause to the depositors and also the consequent cost of bail-outs by the Government. Basel III focuses on risk management in the Bank and intends to link the business profile of the Bank to the risk profile and subsequently to the regulatory capital. There is thus an automatic calibration of the business profile to the regulatory capital. Internal capital can, however, be different from the regulatory capital, which may require an equity cushion to the risk profile of the Bank.

In practical terms, the role of capital in the Bank is to provide stakeholder protection. In other words, the role of capital is to act as a buffer against future unexpected losses, thereby protecting depositors and other stakeholders of the Bank. The amount of capital the Bank would hold therefore depends on the Bank's risk appetite, loss distribution (whether arising from credit, market, operational or any other kinds of risk), among other things.

As of 31/12/2020, the Bank was well within the regulatory Capital Adequacy Ratios as depicted below:

Capital Adequacy Ratio	Regulatory Requirement	Bank's Position as at 31/12/2020
Common Equity Tier 1 Capital Ratio	7.00%	11.46%
Total Tier 1 Capital Ratio	8.50%	11.46%
Total Capital Ratio	12.50%	14.30%

Overall, the Statement of Financial Position remains strong.

The total capital base is the summation of the Tier 1 and Tier 2 Capital after adjustments to CET1 Capital, AT1 and Tier 2 Capital as specified in the Banking Act Direction.

### Risk Exposures in Line with the Budget 2021 and Profit / Balance Sheet Forecasts thereafter.

The Bank's Board Approved Capital Augmentation Plan, based on the Budget and the Profit and Balance Sheet Forecasts thereafter has estimated the required Tier 1 and Tier 2 capital infusion during the period till 2023.

Furthermore the Bank's 3 Year Projection on the Performance has projected the capital infusion required from 2021 to 2023.

The Bank is planning to revise the Strategic Plan 2021-2023 considering the Bank's future growth outlook, average industry growth, peer growth and necessary inputs from the CBSL published documents etc. Furthermore, the relevant macroeconomic parameters will be factored in the calculations. Currently, the Bank employs a mix of top-down and bottom-up approach to arrive at the forecasts.

### Basel III minimum capital requirements and buffers

Every licensed bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I of the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.

Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1(CET1).

Components of Capital	Capital Adequacy Ratio to be maintained by Non-D-SIBs	Capital Adequacy Ratio to be maintained by D-SIBs
Common Equity Tier 1 including Capital Conservation Buffer	7.00%	7.00% + HLA
Total Tier 1 including Capital Conservation Buffer	8.50%	8.50% + HLA
Total Capital Ratio including Capital Conservation Buffer	12.50%	12.50% + HLA

Further, as per the CBSL letter dated 27 March, 2020 issued by the Governor on "Extraordinary Regulatory Measures taken by the Central

Bank of Sri Lanka to provide flexibility to the Licensed Banks to support Businesses and Individuals affected by the outbreak of Corona Virus Disease (COVID-19), the Non-DSIBs were permitted to draw down their Capital Conservation Buffer by 50 basis points out of total 250 basis points.

However, the Bank acknowledges the challenges associated with increasing demand on capital as per the roadmap given by CBSL and is mindful about the contributory factors that require in recording a healthy CAR in the ensuing period.

Assessment of the adequacy of Bank's capital, commensurate with all material risks and other capital needs in relation to its current position future activities.

The risk profile assessment of the Bank includes the assessment of all material risks i.e. credit risk, market risk, operational risk, credit concentration risk, residual risk, interest rate risk in the banking book, liquidity risk, strategic risk, compliance risk and reputational risk.

The Bank has adopted the Standardised Approach (SA) for credit risk capital calculation under Pillar 1. Credit concentration in the

corporate loan portfolio has been analysed using the Normalised Herfindahl-Hirschman Index (HHI) method and an adjustment to the capital charge is administered in the light of concentration of the Bank's business in large size borrowers.

The Bank has adopted the Standardised Measurement Approach (SMA) for calculation of the market risk capital charge. The capital charge for market risk continues to remain low, considering the limited market operations of the Bank and due to the exposure to interest rate risk, equity risk and foreign exchange risk to a lesser extent.

With regard to operational risk, the Basic Indicator Approach (BIA) has been adopted under Pillar 1. The Bank is also geared to move into the Alternative Standardised Approach for operational risk calculation and has already done a parallel computation which has shown an improved capital adequacy requirement under operational risk.

Liquidity risk is managed by Treasury, Risk Management Unit and ALCO using the gap assessment and ratios. To ascertain the current liquidity position, the Bank has conducted

strong stress tests to gauge the Bank's position under a liquidity crunch of different intensities. The capital charge for interest rate risk in the banking book is calculated using the Economic Value of Equity (EVE) approach and the Earnings at Risk (EAR) approach. Overall, the ALM process in the Bank is well-managed and monitored using various indicators of liquidity and interest rate risks.

For reputational and strategic risk, detailed scorecards have been developed and the scorecard results have been calibrated to the capital charge. The result of strategic risk assessment indicates that the Bank has a dedicated strategy and is well-capitalised to achieve its strategic objectives going forward.

The Board and Senior Management critically review the strategic direction of the Bank at the time the Strategic Plan is prepared and approved. Risk management is an integral part of the strategic planning process.

### Quantitative and Qualitative Disclosures

The Pillar III disclosures are published in line with disclosure dates that commensurate with the Financial Reporting disclosure timelines

### Key Regulatory Ratios - Capital and Liquidity

Item	Minimum Requirement	Reporting Period 31.12.2020	Previous Reporting Period 31.12.2019
<b>Regulatory Capital (LKR '000)</b>			
Common Equity Tier 1 Capital		45,810,093	43,051,519
Tier 1 Capital		45,810,093	43,051,519
Total Capital		57,122,556	56,704,009
<b>Regulatory Capital Ratios (%)</b>			
Common Equity Tier 1 Capital Ratio	7.000%	11.46%	11.27%
Tier 1 Capital Ratio	8.500%	11.46%	11.27%
Total Capital Ratio	12.500%	14.30%	14.84%
Leverage Ratio	3.00%	7.94%	8.17%
Net Stable Funding Ratio	90.00%	110.38%	109.11%
	(2019 -100%)		
<b>Regulatory Liquidity</b>			
<b>Statutory Liquid Assets</b>			
Domestic Banking Unit ( LKR 000 )		144,503,849	90,379,939
Off-Shore Banking Unit ( USD 000 )		33,828	29,493

Item	Minimum Requirement	Reporting Period 31.12.2020	Previous Reporting Period 31.12.2019
<b>Statutory Liquid Assets Ratio</b>			
Domestic Banking Unit	20%	31.31%	21.40%
Off-Shore Banking Unit	20%	22.47%	21.81%
Liquidity Coverage Ratio - Rupee	90% (2019 -100%)	176.95%	169.60%
Liquidity Coverage Ratio - All Currency	90% (2019 -100%)	142.75%	116.01%

### Basel III Computation of Capital Ratios

Item	Amount (LKR'000)	
	Reporting Period 31.12.2020	Previous Reporting Period 31.12.2019
<b>Common Equity Tier I (CETI) Capital after Adjustments</b>	<b>45,810,093</b>	<b>43,051,519</b>
<b>Common Equity Tier I (CET1) Capital</b>	<b>46,774,785</b>	<b>43,976,176</b>
Equity capital (Stated Capital)/Assigned Capital	17,548,347	17,044,724
Reserve fund	2,103,522	1,952,957
Published Retained Earnings/(Accumulated Retained Losses)	24,237,845	22,836,779
Published Accumulated Other Comprehensive Income (OCI)	1,396,833	179,455
General and Other Disclosed Reserves	1,488,238	1,962,261
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
<b>Total Adjustments to CET1 Capital</b>	<b>964,692</b>	<b>924,657</b>
Goodwill (net)		
Intangible Assets (net)	620,530	607,267
Others *	344,162	317,390
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>		
<b>Total Additional Tier 1 (AT1) Capital</b>		
Qualifying Additional Tier 1 Capital Instruments		
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
<b>Total Adjustments to AT1 Capital</b>		
Investment in Own Shares		
Others (Specify)		
<b>Tier 2 Capital after Adjustments</b>	<b>11,312,463</b>	<b>13,652,491</b>
<b>Total Tier 2 Capital</b>	<b>11,312,463</b>	<b>13,652,491</b>
Qualifying Tier 2 Capital Instruments	9,122,763	12,270,650
Revaluation gains	393,149	393,149
Loan Loss Provisions (General Provision)	1,796,551	988,692
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
<b>Total Adjustments to Tier 2</b>	<b>-</b>	<b>-</b>
Investment in own shares		
Others (Specify)	-	-
<b>Total Tier 1 Capital</b>	<b>45,810,093</b>	<b>43,051,519</b>
<b>Total Capital</b>	<b>57,122,556</b>	<b>56,704,010</b>
<b>Total Risk Weighted Assets (RWA)</b>	<b>399,575,469</b>	<b>382,084,421</b>
RWAs for Credit Risk	369,871,446	352,681,982
RWAs for Market Risk	1,016,973	2,329,400
RWAs for Operational Risk	28,687,050	27,073,039

Item	Amount (LKR'000)	
	Reporting Period 31.12.2020	Previous Reporting Period 31.12.2019
<b>CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	11.46%	11.27%
of which: Capital Conservation Buffer (%)	2.500%	1.875%
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		
<b>Total Tier 1 Capital Ratio (%)</b>	11.46%	11.27%
<b>Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	14.30%	14.84%
of which: Capital Conservation Buffer (%)	2.500%	2.500%
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		

### Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories - Bank Only

Item	Amount (LKR'000) as at 31 December 2020				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
<b>Assets</b>	<b>557,707,420</b>	<b>558,959,532</b>	<b>560,031,537</b>	<b>4,372,563</b>	<b>2,313,065</b>
Cash and Cash Equivalents	10,036,144	8,286,388	8,286,388		
Balances with Central Bank	7,371,203	7,371,203	7,371,203		
Placements with Banks	10,730,528	10,782,043	10,782,043		
Derivative Financial Instruments	403,984				
Other Financial Assets Held-For-Trading	4,545,853	4,527,293	4,527,293	4,372,563	
Securities Purchased under Resale Agreements	6,142,893	6,141,869	6,141,869		
Loans and Receivables to Banks	-	-			
Loans and Receivables to Other Customers	393,766,147	398,656,478	400,349,013		1,692,535
Financial Investments - Available-For-Sale	53,692,471				
Financial Investments - Held-To-Maturity	52,881,338	98,585,524	98,585,524		
Investments in Subsidiaries	1,153,602	1,153,602	1,153,602		
Investments in Associates and Joint Ventures		-			
Property, Plant and Equipment	4,031,453	4,066,041	4,066,041		
Investment Properties	-	-			
Goodwill and Intangible Assets	620,530	620,530			620,530
Deferred Tax Assets	-				
Other Assets	12,331,274	18,768,561	18,768,561		
<b>Liabilities</b>	<b>508,740,445</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Due to Banks	32,679,687				
Derivative Financial Instruments	39,981				
Other Financial Assets Held-For-Trading					
Financial Liabilities Designated at Fair Value Through Profit or Loss					
Due to Other Customers	440,303,126				
Other Borrowings	2,589,996				
Debt Securities Issued	17,058,558				
Current Tax Liabilities	869,896				
Deferred Tax Liabilities	1,469,778				
Other Provisions					
Other Liabilities	13,467,961				
Due to Subsidiaries	261,462				
Subordinated Term Debts					
<b>Off-Balance Sheet Liabilities</b>	<b>194,962,248</b>	<b>277,603,766</b>	<b>-</b>	<b>-</b>	<b>-</b>
Guarantees	56,376,382	56,376,382			
Performance Bonds					
Letters of Credit	13,755,117	13,755,117			

Item	Amount (LKR'000) as at 31 December 2020				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Foreign Exchange Contracts	402,137	83,382,719			
Other Contingent Items	24,973,243	20,241,510			
Undrawn Loan Commitments	99,116,305	99,116,305			
Other Commitments	339,064	4,731,733			
<b>Shareholders' Equity</b>					
Equity Capital (Stated Capital)/Assigned Capital					
of which Amount Eligible for CET1	17,548,347	17,548,347			
of which Amount Eligible for AT1		-			
Retained Earnings	24,683,224	27,256,377			
Accumulated Other Comprehensive Income					
Other Reserves	6,735,404	1,952,957			
<b>Total Shareholders' Equity</b>	<b>48,966,975</b>	<b>46,757,681</b>	-	-	-

The following regulatory risk measurement approaches are applied for purposes of capital adequacy:

1. Credit risk: The Standardised Approach
2. Market risk: The Standardised Measurement Approach
3. Operational risk: The Basic Indicator Approach

## CREDIT RISK UNDER STANDARDISED APPROACH

### Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Description	Amount (LKR'000) as at 31 December 2020						
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM			RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	Total	RWA	RWA Density (ii)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Claims on Central Government and CBSL	119,319,814	-	119,319,814	-	119,319,814	3,152,145	2.64%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	0.00%
Claims on Public Sector Entities	3,023,533	-	3,023,533	-	3,023,533	604,707	20.00%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	
Claims on Banks Exposures	13,658,115	15,526	13,658,115	7,391	13,665,506	8,178,288	59.85%
Claims on Financial Institutions	24,349,324	-	24,309,152	-	24,309,152	14,050,213	57.80%
Claims on Corporates	184,545,362	225,139,720	177,420,973	29,921,601	207,342,574	199,616,641	96.27%
Retail Claims	147,597,711	34,275,635	120,562,259	13,405,114	133,967,373	88,580,055	66.12%
Claims Secured by Residential Property	18,245,640	-	18,245,640	-	18,245,640	12,041,122	65.99%
Claims Secured by Commercial Real Estate	1,927	-	1,927	-	1,927	1,927	0.00%
Non-Performing Assets (NPAs) (i)	17,382,561	-	17,382,561	-	17,382,561	20,437,295	117.57%
Higher-Risk Categories	-	-	-	-	-	-	
Cash Items and Other Assets	31,907,550	-	31,907,550	-	31,907,550	23,209,053	72.74%
<b>Total</b>	<b>560,031,536</b>	<b>259,430,881</b>	<b>525,831,524</b>	<b>43,334,106</b>	<b>569,165,631</b>	<b>369,871,446</b>	<b>64.98%</b>

(i) NPAs- As per Banking Act Directions on classification of loans and advances, income recognition and provisioning  
(ii) RWA Density- Total RWA/Exposures post CCF and CRM

## Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Amount (LKR '000) as at 31 December 2020 (Post CCF and CRM)								Total Credit Exposures Amount
	0%	20%	50%	60%	75%	100%	150%	>150%	
<b>Risk Weight</b>									
<b>Asset Classes</b>									
Claims on Central Government and CBSL	103,559,087	15,760,727							119,319,814
Claims on Foreign Sovereigns and their Central Banks									-
Claims on Public Sector Entities		3,023,533							3,023,533
Claims on Official Entities and Multilateral Development Banks									-
Claims on Banks Exposures		6,859,024	-			6,806,483			13,665,506
Claims on Financial Institutions		5,225,897	12,156,443			6,926,812			24,309,152
Claims on Corporates		6,780,828	4,750,608			195,663,068	148,069		207,342,574
Retail Claims				31,200,725	78,004,417	9,446,958			118,652,100
Claims Secured by Gold	5,768,527	9,546,746				-			15,315,273
Claims Secured by Residential Property			12,409,036			5,836,604			18,245,640
Claims Secured by Commercial Real Estate						1,927			1,927
Non-Performing Assets (NPAs) (i)			1,022,954			9,227,184	7,132,422		17,382,561
Higher-Risk Categories									-
Cash Items and Other Assets	8,287,357	513,925				23,106,268			31,907,550
<b>Total</b>	<b>117,614,971</b>	<b>47,710,679</b>	<b>30,339,042</b>	<b>31,200,725</b>	<b>78,004,417</b>	<b>257,015,305</b>	<b>7,280,491</b>	<b>-</b>	<b>569,165,631</b>

## MARKET RISK

## Market Risk under Standardised Measurement Approach

Item	RWA Amount (LKR'000) as at 31 December 2020
<b>(a) Capital Charger Interest Rate Risk</b>	<b>56,541</b>
General Interest Rate Risk	56,541
(i) Net Long or Short Position	56,541
(ii) Horizontal Disallowance	
(iii) Vertical Disallowance	
(iv) Options	
Specific Interest Rate Risk	
<b>(b) Capital Charge for Equity</b>	<b>38,909</b>
(i) General Equity Risk	21,469
(ii) Specific Equity Risk	17,440
<b>(c) Capital Charge for Foreign Exchange and Gold</b>	<b>31,671</b>
<b>Total Risk Weighted Assets on Market Risk [(a)+(b)+(c)]*CAR</b>	<b>1,016,973</b>

**OPERATIONAL RISK****Operational Risk Under Basic Indicator Approach**

	Capital Charge Factor	Gross Income (LKR'000)		
		2020	2019	2018
Gross Income	15%	24,623,812	24,023,031	23,070,781
Capital Charges for Operational Risk (15%)	3,585,881			
Risk-Weighted Amount for operational Risk	28,687,050			

**Computation of Liquidity Coverage Ratio (LCR)**

The objective of the Liquidity Coverage ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring there is sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days

**Basel III Computation of Liquidity Coverage Ratio**

Item	Amount (LKR'000)					
	Reporting Period - 31.12.2020			Previous Reporting Period - 31.12.2019		
	Total Un-weighted Value	Factor (%)	Total Weighted Value	Total Un-weighted Value	Factor (%)	Total Weighted Value
<b>Total Stock of High-Quality Liquid Assets (HQLA)</b>			<b>100,209,155</b>			<b>68,352,139</b>
Total Adjusted Level 1A Assets	100,002,267	-	100,002,267	68,421,922	-	68,421,923
Level 1A Assets	100,123,279	100%	100,123,279	68,258,877	100%	68,258,877
Total Adjusted Level 2A Assets	-	-	-	-	-	-
Level 2A Assets	-	-	-	-	-	-
Total Adjusted Level 2B Assets	-	-	85,876	-	-	93,262
Level 2B Assets	171,753	50%	85,876	186,524	50%	93,262
<b>Total Cash Outflows</b>			<b>98,346,660</b>			<b>103,244,816</b>
Deposits	341,486,750	10%	34,148,675	296,507,444	10%	29,650,744
Unsecured Wholesale Funding	90,266,536	25% -100%	48,186,985	94,242,828	25% -100%	52,666,981
Secured Funding Transactions	-	-	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	189,540,464	0% -100%	9,617,217	146,086,878	0% -100%	7,655,240
Additional Requirements	6,393,784	100%	6,393,784	13,271,851	100%	13,271,851
<b>Total Cash Inflows</b>	<b>-</b>	<b>-</b>	<b>28,147,748</b>	<b>-</b>	<b>-</b>	<b>44,327,152</b>
Maturing Secured Lending Transactions Backed by Collateral			-			
Committed Facilities	-	-	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	41,245,414	50%-100%	27,367,533	71,920,926	50%-100%	41,683,180
Operational Deposits	2,257,009	-	-	3,620,477	-	-
Other Cash Inflows	1,158,293	50% -100%	780,215	5,287,944	50% -100%	2,643,972
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)*100</b>	<b>-</b>	<b>-</b>	<b>142.75</b>	<b>-</b>	<b>-</b>	<b>116.01</b>

## Computation of Leverage Ratio

Item	Amount (LKR '000)	
	Reporting Period 31.12.2020	Previous Reporting Period 31.12.2019
Tier 1 Capital	45,810,094	43,051,519
Total Exposures	577,041,459	527,061,840
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	525,831,524	487,327,129
Derivative Exposures	1,732,936	800,747
Securities Financing Transaction Exposures	6,142,893	5,165,159
Other Off-Balance Sheet Exposures	43,334,106	33,768,806
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	7.94%	8.17%

## Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Voting Shares	Ordinary Non-Voting Shares	Debenture Issue - 2016 (5 years and 7 years)	Debenture Issue - 2018 (5 years, 7 years & 10 years)	Debenture Issue - 2019 (5 years)
Issuer	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC
Unique Identifier (e., ISIN or Bloomberg Identifier for Private Placement)	LK0182N00002	LK0182X00001	LK0182023559	LK0182023955	LK0182D24219
			LK0182023567	LK0182023963	LK0182D24227
			LK0182023542	LK0182023971	
Governing Law (s) of the Instrument	Provisions of the Banking Act, Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007 and the Articles of Association of the Bank	Provisions of the Banking Act, Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007 and the Articles of Association of the Bank	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007, the Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007, the Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007, the Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed
Original Date of Issuance	April 1988	September 2003	15 July 2016	29 March 2018	18 April 2019
Par Value of Instrument	N/A	N/A	LKR 100 each	LKR 100 each	LKR 100 each
Perpetual or Dated	N/A	N/A	dated	dated	dated
Original Maturity Date, If Applicable	N/A	N/A	15th July 2021	28 March 2023 28 March 2025 28 March 2028	18 April 2024
Amount Recognised in Regulatory Capital (LKR '000 as at the Reporting Date)	11,136,187	6,412,160	1,896,513	3,976,250	3,250,000
Accounting Classification (Equity /Liability)	Equity	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	N/A
Subsequent Call Dates, If Applicable	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends					

Description of the Capital Instrument	Ordinary Voting Shares	Ordinary Non-Voting Shares	Debenture Issue - 2016 (5 years and 7 years)	Debenture Issue - 2018 (5 years, 7 years & 10 years)	Debenture Issue - 2019 (5 years)
Fixed or Floating Dividend / Coupon	Dividend as decided by the Board annually	Dividend as decided by the Board annually	Fixed and floating interest rate	Fixed interest rate	Fixed interest rate
Coupon Rate and any Related Index	As decided by the Board	As decided by the Board	Semi-Annual Interest -13.0% p.a. (for 5 years), Semi-Annual Interest - 6 month T-Bill (gross) + 1.50% (for 5 years), Semi-Annual Interest - 13.75% p.a. (for 7 years)	Semi-Annual Interest - 12.85% p.a. (for 5 years), Semi-Annual Interest - 13.20% (for 7 years), Semi-Annual Interest - 13.50% p.a. (for 10 years)	Semi-Annual Interest - 14.5% p.a. Semi-Annual Interest - 10.50% p.a
Non-Cumulative or Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Convertible	Convertible
If Convertible, Conversion Trigger (s)				when determined a 'Trigger Event' at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	when determined a 'Trigger Event' at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka
If Convertible, Fully or Partially				when determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	when determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka
If Convertible, Mandatory or Optional				Mandatory in the event of a 'Trigger Event'	Mandatory in the event of a 'Trigger Event'
If Convertible, Conversion Rate				Simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank (as published by the Colombo Stock Exchange) during the three (03) months period immediately preceding the Trigger Event, as determined by the Monetary Board.	Simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank (as published by the Colombo Stock Exchange) during the three (03) months period immediately preceding the Trigger Event, as determined by the Monetary Board.

## MANAGING OTHER RISKS

### Legal Risk

Legal risk is the risk of financial or reputational loss that could arise from failure to comply with statutory and regulatory requirements, internal policies, prescribed best practices, lack of awareness, uncertainty of the outcome of all litigation and probable adverse consequences resulting from deficient documentation.

The Bank manages these legal risks effectively having proper monitoring and controls in all business and supporting areas. Further, through the Legal Department all contracts and security documentation are legally vetted taking into consideration the applicable laws and regulations. Interpretation of provisions of statutes that may be applicable is referred to the Legal Department by the business

lines, thus, minimising the risk of non-compliance with laws and regulations.

### Compliance Risk

The Compliance Department is entrusted with the responsibility of safeguarding the Bank from potential losses, financial or otherwise, that may arise due to the Bank's failure to comply with laws, regulations, rules, or self-regulated organisational standards applicable to the Bank's operations. Accordingly, the key

focus areas of the compliance function are:

1. Legal and Regulatory Compliance,
2. Anti-Money Laundering/ Financial Crime Compliance and
3. Corporate Governance

The Compliance Department functions as a key working committee focusing and ensuring long-term success and sustainability of the Bank via an improved compliance culture.

The Compliance Department closely liaises with the BIRMC, its direct reporting line, while performing its responsibilities. Periodic communication to the Board of Directors is also undertaken for necessary updates and obtaining additional advice.

The Bank's corporate culture and ethics related matters are specifically dealt by two dedicated Board sub committees:

- Board Governance and Compliance Committee
- Related Party Transactions Review Committee

### Strategic Risk

Strategic risk is the possibility of current and prospective impact on earnings or capital arising from adverse strategic decisions, improper and incomplete implementation of strategic initiatives, or lack of agility to the changes in the external environment.

The Corporate Management and the Board of Directors are responsible for leading the Bank on the right strategic direction while selecting most suitable strategic choices, aligned to the Bank's vision and mission. Minimising the adverse impact arising from making the specious strategic directions and strategic choices is integral part of the Strategic Risk Management of the Bank.

In pursuing the Bank's strategic goals and business objectives, the Bank has established a solid governance structure to ensure the effectiveness of the strategies subsequent to implementation. KPI's are developed to measure the effectiveness and efficiency of strategic initiatives. The Bank has established clear communication channels at all levels of the organisation, allocate systems for efficient operations of business lines and banking activities and develops employee capabilities through training and development and recognition programs to enhance the accountability in achieving strategic objectives.

### Reputational Risk

Reputational risk arises from the loss caused by adverse perception of Seylan Bank PLC by the public, shareholders, investors, customers, regulators and other internal and external stakeholders, which can adversely impact earnings, value of assets and liabilities, capital position and the brand value.

As risk mitigating actions; the Bank has established sound policies and procedures such as customer complaint management, whistle-blowing policy to maintain the goodwill in a positive manner. The Bank has established a well-structured customer complaint management process to provide solutions to customers on a 24x7 basis.

The Bank also recognises the importance of making a positive contribution to the society by promoting Corporate Social Responsibility (CSR) through ethical banking practices, environmental awareness and contribution to the community. Accordingly, the Bank has in place a Board Sustainability Committee which guides and monitors the progress of CSR contribution and its effectiveness.

# CONNECTING TOWARDS SUSTAINABLE PERFORMANCE

## SUSTAINABLE RESULTS

- 143** • Financial Calendar
- 144** • Statement of Directors' Responsibility for Financial Reporting
- 145** • Chief Executive Officer's and Chief Financial Officer's Responsibility Statement
- 146** • Independent Auditors' Report
- 151** • Income Statement
- 152** • Statement of Profit or Loss and Other Comprehensive Income
- 153** • Statement of Financial Position
- 154** • Statement of Changes In Equity
- 158** • Statement of Cash Flows
- 160** • Notes to the Financial Statements

# FINANCIAL CALENDAR

## FINANCIAL CALENDAR – 2020

	Released to the Colombo Stock Exchange (CSE)
Interim Financial Statements (Audited) for the 4th quarter/ year ended 31 December 2019	24 February 2020
Final Audited Financial Statements for the year ended 31 December 2019 and Annual Report – 2019	02 March 2020; Circulated before 05 March 2020
1st quarter/ three months ended 31 March 2020	26 May 2020
2nd quarter/ six months ended 30 June 2020	30 July 2020
3rd quarter/ nine months ended 30 September 2020	12 November 2020
33rd Annual General Meeting (AGM)	Held on Wednesday, 24 June 2020 at 11.00 a.m. Conducted on-line (Virtual Platform) Hosted from Seylan Bank Head Office, 'Seylan Towers', 90, Galle Road, Colombo 03.  (AGM was initially scheduled to be held on 30 March 2020 and was postponed due to the lockdown during that period).
First and Final Ordinary Dividend for the year ended 31 December 2019	Issued on 24 June 2020

The Interim Financial Statements were also published in the newspapers as per the requirements of the Central Bank of Sri Lanka.

## PROPOSED FINANCIAL CALENDAR – 2021

		Proposed date
Interim Financial Statements (Audited) for the 4th quarter/ year ended 31 December 2020	To be released to the Colombo Stock Exchange (CSE)	Before end February 2021
Audited Financial Statements for the year ended 31 December 2020 and Annual Report - 2020	To be released to the CSE	Before 5 March 2021
34th Annual General Meeting (AGM)	Scheduled to be held on-line (Virtual Platform) which will be hosted from Seylan Bank Head Office.	On Tuesday, 30 March 2021 at 11.00 a.m.
First and Final Ordinary Dividend for the year ended 31 December 2020	Payable subject to the approval of the Shareholders at the AGM	On or before 9 April 2021
Interim (Unaudited or Audited) Financial Statements	Statements in respect of the four quarters of 2021 will be released to the CSE as per the Rules of the CSE and will be published in the newspapers as per the requirements of the Central Bank of Sri Lanka.	

# STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Statement of Responsibility of the Directors of Seylan Bank PLC ("Bank") in relation to the Financial Statements of the Bank and the Consolidated Financial Statements of the Group is set out in this Report in terms of the provisions of the Companies Act No. 07 of 2007 (the Act) and the Banking Act Direction No.11 of 2007 (as amended)

The Directors of the Bank ensure that the Bank maintains proper books of account of all its transactions so as to enable the financial position of the Bank to be determined with reasonable accuracy at any time; enable the preparation of Financial Statements of the Bank in accordance with the Act; and enable the Financial Statements of the Bank to be readily and properly audited.

## CONFIRMATION OF DIRECTORS' RESPONSIBILITY

The Directors of Seylan Bank PLC confirm that to the best of their knowledge -

- the Financial Statements prepared and published on pages 151 to 256 of this Annual Report in terms of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act, give a true and fair view of the state of affairs of the Bank and the Group and the profit for the year ended 31 December 2020;
- the Financial Statements for the year ended 31 December 2020 presented in this Annual Report are consistent with the underlying books of account of the Bank and are in conformity with the Sri Lanka Accounting Standards (SLFRS/ LKAS), Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 (as amended), Directions and Guidelines of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, and the Code of Best Practice on Corporate Governance (2017) published by The Institute of Chartered Accountants of Sri Lanka;
- in preparing the Financial Statements for the year ended 31 December 2020, appropriate accounting policies, judgements and estimates have been considered and applied on a consistent basis with material departures if any disclosed in the Financial Statements together with the rationale for same;

- proper books of account have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

The Directors further confirm that -

- The financial reporting system was reviewed by the Board through the management accounts submitted monthly at Board Meetings. The Bank's Interim and Audited Financial Statements were also reviewed by the Board Audit Committee and the Board prior to the said statements being released and published.
- The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation and signed on behalf of the Board of Directors by two Directors of the Bank on 22 February 2021.

## EXTERNAL AUDITORS' REVIEWS AND OPINIONS

The Bank's Auditors, M/s KPMG was engaged to carry out reviews and sample checks on the effectiveness of the systems of internal control as they consider appropriate and necessary in providing their opinion on the Financial Statements. M/s KPMG have examined the Financial Statements made available together with all other financial records, Minutes of Meetings of the Board and the Board Sub-committees and related information and have expressed their opinion which appears on page 146 of this Annual Report.

## INTERNAL CONTROL MECHANISM OVER FINANCIAL REPORTING

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Bank's assets and ensure continuity of operations. To this end, the Board has identified principal risks and implemented a system to continually assess such risks and established an appropriate control environment for ensuring proper monitoring of effectiveness of internal controls and correction of deficiencies.

The Board's Statement on the effectiveness of Bank's internal control mechanism over financial reporting, prepared in accordance

with the Guidelines issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with Section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on pages 104 to 105 and Bank's Independent Auditors' Report on our assessment of Bank's internal controls over financial reporting is published on page 106 of this Annual Report.

## SOLVENCY

The Board of Directors confirm that they have authorized the distribution of the proposed dividend having been satisfied that the Bank would meet the solvency test in terms of the provisions of Section 56(2) of the Companies Act No. 07 of 2007 immediately after the proposed dividend payment. The Board has obtained a statement of solvency from the External Auditors which confirm that the Bank satisfy the solvency as per Section 57 of the Companies Act.

The Directors confirm that to the best of their knowledge and belief, all statutory payments due and payable to all statutory and regulatory authorities as at the Reporting date, have been paid by the Bank and its subsidiaries or where relevant provided for.

## GOING CONCERN

The Directors further confirm that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code and potential implications of COVID-19, the Bank and the Subsidiary, Seylan Developments PLC have adequate resources to continue the operations of the Bank and the Group in the foreseeable future. The Financial Statements of the Bank and the Group have accordingly been prepared on a going concern basis.

The Directors are of the view that they have discharged their obligations as set out in this statement.

By Order of the Board of Directors



**Ms N N Najumudeen**  
Company Secretary

22 February 2021  
Colombo

# CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of Seylan Bank and the Group for the year ended 31 December 2020 are prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Board of Directors and Management of the Bank accept responsibility for the integrity and objectivity of these 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 true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds 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 of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Bank and the Group were audited by Messrs KPMG, Chartered Accountants, and their report on

pages 146 to 150 of this Annual Report. The Audit Committee of the Bank meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal control 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.

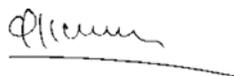
The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG's independence.

It is also declared and confirmed that the Bank has complied with and ensured compliance by the Auditors with the guidelines for the audit of listed companies where mandatory compliance is required, it is further confirmed that all the other guidelines have been complied with.

We confirm that the Bank and its Subsidiary have complied with all applicable laws, regulations and guidelines and there are no material litigations against the Group, other than those disclosed in Note 48 of the Financial Statements in this Annual Report.



**K P Ariyaratne**  
Director/ Chief Executive Officer



**Ms Champika Dodanwela**  
Chief Financial Officer

22 February 2021  
Colombo

# INDEPENDENT AUDITORS' REPORT



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : www.kpmg.com/lk

## TO THE SHAREHOLDERS OF SEYLAN BANK PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Seylan Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 December 2020, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 151 to 256.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position

of the Bank and the Group as at 31 December 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are related to our audit of financial statements, and we have fulfilled our other ethical responsibilities in

accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank's financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Allowances for expected credit losses – Financial Assets at Amortised Cost

Refer to the accounting policies "Note 3 to the Financial Statements: Use of Estimates and Judgments", in "Note 5.4.5 to the Financial Statements: Impairment", and "explanatory Note 25 to the Financial Statements: Financial assets at amortised cost – Loans and Advances".

Risk Description	Our Responses
<p>As disclosed in Note 25 to these financial statements, the Bank has recorded loans and advances of LKR 393,766 Mn as at 31 December 2020. High degree of complexity and judgment involved in estimating expected credit loss allowance of LKR 15,535 Mn as at that date.</p> <p>Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Bank's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).</p>	<p>Our audit procedures to assess impairment of loans and advances to customers included the following:</p> <p>Testing key controls of the Bank in relation to:</p> <ul style="list-style-type: none"> <li>Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;</li> <li>IT system controls which record loans days past due, and non-performing loan classification.</li> </ul>

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mahipal FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekera ACA  
G.A.U. Kumaratne FCA  
R.H. Rajan FCA  
A.M.R.P. Alahakoon ACA

B.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel ACA

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

Principals - S.R.J. Perera FCA(MAUKI), LL.B., Attorney-at-Law, H.S. Gooneswardena ACA, Ms. P.M.K. Sumanasekera FCA



## Risk Description

SLFRS 9 Financial Instruments requires the Bank to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Bank to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in assessing the economic scenarios used and the judgmental post model adjustments the Bank applies to the ECL results. The Bank's criteria selected to identify a SICR are key areas of judgement within the Bank's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Bank in calculating the ECL, and the associated audit risk. Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgment in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of the loans.

## Our Responses

### *Assessing impairment for individually significant customers*

We selected a sample (based on quantitative thresholds) of larger customers where impairment indicators have been identified by management and assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19).

We obtained management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions, or lack of, were appropriate.

This included the following procedures

- Assessing recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable ;
- Assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments
- Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used by the Bank in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and business plans and challenged key assumptions in the valuations
- Testing the implementation of the Bank's Significant Increase in Credit Risk (SICR) methodology by re-performing the staging calculation for a sample of loan and advances.
- For a sample of customers loans and advances which were not identified as displaying indicators or impairment by management, evaluated this assessment by reviewing the historical performance of the customers and from our own view whether any impairment indicators were present.

### *Assessing the adequacy of collectively assessed provisions*

We tested key controls of the Bank in relation to:

- The ECL model governance and validation processes which involved assessment of model performance;
- The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work we challenged the reasonableness of the Bank's considerations of the economic uncertainty relating to COVID-19.



Risk Description	Our Responses
	<p>Our further audit procedures included;</p> <ul style="list-style-type: none"> <li>Assessing the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage. In addition, we assessed the reasonableness of the Bank's treatment of COVID-19 payment relief customers (moratorium/ debt concessionary) from a SICR perspective.</li> <li>Evaluating key assumptions in the components of the Bank's post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Bank's ECL model and data limitations identified by the Bank's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;</li> <li>Working with our own Financial Risk Management specialists, we assessed the reasonability of the adjustments made by the Bank to the forward looking macro economic factors and assumptions used in the ECL model.</li> <li>Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank's assessment.</li> <li>Assessing the appropriateness of the Bank's disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards.</li> </ul>

### IT systems and controls over financial reporting

Risk Description	Our Responses
<p>The Bank utilizes many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of financial statements which provides a true and fair view of the Bank's financial position and performance.</p> <p>The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank's IT controls.</p>	<p>Our audit procedures included;</p> <p>Working with our own IT specialists to perform audit procedures to test the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes.</p> <p>Our further audit procedures included:</p> <p><i>General IT controls design, observation and operation</i></p> <ul style="list-style-type: none"> <li>Assessing the governance and higher-level controls in place across the IT Environment, including the approach to Bank policy design, review and awareness, and IT Risk Management practices.</li> <li>Testing the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, program development and computer operations</li> </ul>



Risk Description	Our Responses
<p><b>Other Information</b></p> <p>Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor’s report thereon.</p> <p>Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.</p> <p>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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.</p> <p><b>Responsibilities of Management and Those Charged with Governance for the Financial Statements</b></p> <p>Management is responsible for the preparation of financial</p>	<p>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.</p> <p>In preparing the financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.</p> <p>Those charged with governance are responsible for overseeing the Bank’s and the Group’s financial reporting process.</p> <p><b>Auditors’ Responsibilities for the Audit of the Financial Statements</b></p> <p>Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance</p> <p>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.</p> <p>As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:</p> <ul style="list-style-type: none"> <li>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.</li> <li>Obtain an understanding of internal control relevant to the</li> </ul>



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 and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is FCA 2294.

### Chartered Accountants

Colombo, Sri Lanka

22 February 2021

# INCOME STATEMENT

For the Year ended 31 December		Bank			Group		
		2020	2019	Change	2020	2019	Change
	Note	LKR '000	LKR '000	%	LKR '000	LKR '000	%
<b>Gross Income</b>	<b>7</b>	<b>58,439,838</b>	<b>61,369,654</b>	<b>(4.77)</b>	<b>58,443,392</b>	<b>61,356,249</b>	<b>(4.75)</b>
Interest Income		52,320,397	55,423,358	(5.60)	52,328,078	55,430,879	(5.60)
Less: Interest Expenses		32,822,642	36,790,839	(10.79)	32,517,295	36,488,082	(10.88)
<b>Net Interest Income</b>	<b>8</b>	<b>19,497,755</b>	<b>18,632,519</b>	<b>4.64</b>	<b>19,810,783</b>	<b>18,942,797</b>	<b>4.58</b>
Fee and Commission Income		3,931,545	4,457,325	(11.80)	3,931,327	4,457,109	(11.80)
Less: Fee and Commission Expenses		201,935	224,554	(10.07)	203,023	224,554	(9.59)
<b>Net Fee and Commission Income</b>	<b>9</b>	<b>3,729,610</b>	<b>4,232,771</b>	<b>(11.89)</b>	<b>3,728,304</b>	<b>4,232,555</b>	<b>(11.91)</b>
Net Gains/ (Losses) from Trading	10	347,554	(497,595)	169.85	348,743	(496,010)	170.31
Net Gains from Derecognition of Financial Assets	11	782,565	320,472	144.19	782,565	320,472	144.19
Net Other Operating Income	12	1,057,777	1,666,094	(36.51)	1,052,679	1,643,799	(35.96)
<b>Total Operating Income</b>		<b>25,415,261</b>	<b>24,354,261</b>	<b>4.36</b>	<b>25,723,074</b>	<b>24,643,613</b>	<b>4.38</b>
Less: Impairment Charges	13	6,992,976	3,882,718	80.11	6,992,976	3,882,718	80.11
<b>Net Operating Income</b>		<b>18,422,285</b>	<b>20,471,543</b>	<b>(10.01)</b>	<b>18,730,098</b>	<b>20,760,895</b>	<b>(9.78)</b>
<b>Less: Operating Expenses</b>	<b>14</b>						
Personnel Expenses	15	6,890,768	6,573,808	4.82	6,924,693	6,608,038	4.79
Depreciation and Amortisation Expenses		1,447,311	1,300,816	11.26	1,486,206	1,327,111	11.99
Other Expenses		4,444,663	4,731,136	(6.06)	4,495,267	4,791,493	(6.18)
<b>Total Operating Expenses</b>		<b>12,782,742</b>	<b>12,605,760</b>	<b>1.40</b>	<b>12,906,166</b>	<b>12,726,642</b>	<b>1.41</b>
<b>Operating Profit before Taxes</b>		<b>5,639,543</b>	<b>7,865,783</b>	<b>(28.30)</b>	<b>5,823,932</b>	<b>8,034,253</b>	<b>(27.51)</b>
Less: Value Added Tax on Financial Services		1,528,296	1,621,116	(5.73)	1,528,296	1,621,116	(5.73)
Less: Nation Building Tax on Financial Services		-	193,281	(100.00)	-	193,281	(100.00)
Less: Debt Repayment Levy		-	952,746	(100.00)	-	952,746	(100.00)
<b>Profit before Income Tax</b>		<b>4,111,247</b>	<b>5,098,640</b>	<b>(19.37)</b>	<b>4,295,636</b>	<b>5,267,110</b>	<b>(18.44)</b>
Less: Income Tax Expense	16	1,099,947	1,418,378	(22.45)	1,197,578	1,468,858	(18.47)
<b>Profit for the Year</b>		<b>3,011,300</b>	<b>3,680,262</b>	<b>(18.18)</b>	<b>3,098,058</b>	<b>3,798,252</b>	<b>(18.43)</b>
Profit Attributable to:							
- Equity Holders of the Bank		3,011,300	3,680,262	(18.18)	3,038,629	3,732,691	(18.59)
- Non-controlling Interest		-	-	-	59,429	65,561	(9.35)
<b>Profit for the Year</b>		<b>3,011,300</b>	<b>3,680,262</b>	<b>(18.18)</b>	<b>3,098,058</b>	<b>3,798,252</b>	<b>(18.43)</b>
<b>Basic/ Diluted Earnings per Share (LKR)</b>	<b>17</b>	<b>5.82</b>	<b>8.70</b>	<b>(33.10)</b>	<b>5.88</b>	<b>8.83</b>	<b>(33.41)</b>

Notes on pages 160 to 256 form an integral part of these Financial Statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year ended 31 December	Note	Bank			Group		
		2020	2019	Change	2020	2019	Change
		LKR '000	LKR '000	%	LKR '000	LKR '000	%
<b>Profit for the Year</b>		<b>3,011,300</b>	<b>3,680,262</b>	<b>(18.18)</b>	<b>3,098,058</b>	<b>3,798,252</b>	<b>(18.43)</b>
<b>Other Comprehensive Income, net of Tax</b>							
<b>Items that are or may be reclassified to Income Statement in Subsequent Periods</b>							
Net Movement of Cash Flow Hedge Reserve	46.5	26,772	(62,073)	143.13	26,772	(62,073)	143.13
Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	1,720,427	2,539,877	(32.26)	1,723,699	2,545,242	(32.28)
Less: Deferred Tax Effect Relating to Items that are or may be reclassified to Income Statement	42	481,720	711,165	(32.26)	482,047	711,495	(32.25)
<b>Items that will never be reclassified to Income Statement in Subsequent Periods</b>							
Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	1,548,622	315,941	390.16	1,548,622	316,841	388.77
Revaluation of Property, Plant and Equipment	46.2	-	-	-	41,639	118,360	(64.82)
Actuarial Gains/ (Losses) on Defined Benefit Obligations	43.1.8	(495,480)	177,461	(379.21)	(495,323)	175,163	(382.78)
Less: Deferred Tax Effect Relating to Items that will Never be reclassified to Income Statement	42	486,596	26,509	1,735.59	498,255	59,650	735.30
<b>Other Comprehensive Income for the Year, net of Tax</b>		<b>1,832,025</b>	<b>2,233,532</b>	<b>(17.98)</b>	<b>1,865,107</b>	<b>2,322,388</b>	<b>(19.69)</b>
<b>Total Comprehensive Income for the Year</b>		<b>4,843,325</b>	<b>5,913,794</b>	<b>(18.10)</b>	<b>4,963,165</b>	<b>6,120,640</b>	<b>(18.91)</b>
Total Comprehensive Income Attributable to:							
- Equity Holders of the Bank		4,843,325	5,913,794	(18.10)	4,893,981	6,028,876	(18.82)
- Non-controlling Interest		-	-	-	69,184	91,764	(24.61)
<b>Total Comprehensive Income for the Year</b>		<b>4,843,325</b>	<b>5,913,794</b>	<b>(18.10)</b>	<b>4,963,165</b>	<b>6,120,640</b>	<b>(18.91)</b>

Notes on pages 160 to 256 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

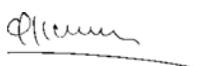
As at 31 December	Note	Bank			Group		
		2020	2019	Change	2020	2019	Change
		LKR '000	LKR '000	%	LKR '000	LKR '000	%
<b>Assets</b>							
Cash and Cash Equivalents	20	10,036,144	11,758,729	(14.65)	10,036,184	11,758,769	(14.65)
Balances with Central Bank of Sri Lanka	21	7,371,203	14,458,970	(49.02)	7,371,203	14,458,970	(49.02)
Placements with Banks and Finance Companies	22	10,730,528	1,173,278	814.58	10,730,528	1,173,278	814.58
Derivative Financial Instruments	23	403,984	134,756	199.79	403,984	134,756	199.79
Financial Assets Recognised through Profit or Loss							
- Measured at Fair Value	24	4,545,853	7,118,016	(36.14)	4,553,778	7,124,752	(36.09)
- Designated at Fair Value		-	-	-	-	-	-
Financial Assets at Amortised Cost							
- Loans and Advances	25	393,766,147	379,259,064	3.83	393,766,147	379,259,064	3.83
- Debt and Other Instruments	26	53,692,471	27,038,743	98.58	53,692,471	27,038,743	98.58
Financial Assets measured at Fair Value through Other Comprehensive Income	27	59,024,231	55,591,526	6.17	59,081,506	55,645,538	6.17
Investment in Subsidiary	28	1,153,602	1,153,602	-	-	-	-
Group Balances Receivable	29	40,000	40,000	-	-	-	-
Property, Plant and Equipment	30	4,031,453	4,347,933	(7.28)	6,772,711	7,088,440	(4.45)
Right-of-use Assets	31	4,450,659	4,494,006	(0.96)	2,220,501	2,230,349	(0.44)
Investment Properties	32	-	-	-	856,604	853,157	0.40
Intangible Assets	33	620,530	607,267	2.18	620,530	607,267	2.18
Other Assets	34	7,840,615	9,118,297	(14.01)	7,899,785	9,158,186	(13.74)
<b>Total Assets</b>		<b>557,707,420</b>	<b>516,294,187</b>	<b>8.02</b>	<b>558,005,932</b>	<b>516,531,269</b>	<b>8.03</b>
<b>Liabilities</b>							
Due to Banks	35	32,679,687	28,769,629	13.59	32,679,687	28,769,629	13.59
Derivative Financial Instruments	23	39,981	222,978	(82.07)	39,981	222,978	(82.07)
Financial Liabilities at Amortised Cost							
- Due to Depositors	36	440,303,126	400,731,358	9.87	440,303,126	400,731,358	9.87
- Due to Debt Securities Holders	37	2,575,873	8,425,884	(69.43)	2,575,873	8,425,884	(69.43)
- Due to Other Borrowers	38	14,123	23,407	(39.66)	14,123	23,407	(39.66)
Group Balances Payable	39	261,462	200,969	30.10	-	-	-
Debt Securities Issued	40	17,058,558	19,870,944	(14.15)	17,058,558	19,870,944	(14.15)
Current Tax Liabilities	41	869,896	525,389	65.57	846,582	490,699	72.53
Deferred Tax Liabilities	42	1,469,778	725,326	102.64	1,789,866	947,225	88.96
Lease Liabilities		4,446,175	4,351,632	2.17	1,582,937	1,507,618	5.00
Other Liabilities	43	9,021,786	7,819,397	15.38	9,059,600	7,897,473	14.72
<b>Total Liabilities</b>		<b>508,740,445</b>	<b>471,666,913</b>	<b>7.86</b>	<b>505,950,333</b>	<b>468,887,215</b>	<b>7.90</b>
<b>Equity</b>							
Stated Capital	44	17,548,347	17,044,724	2.95	17,548,347	17,044,724	2.95
Statutory Reserve Fund	45	2,103,522	1,952,957	7.71	2,103,522	1,952,957	7.71
Retained Earnings		24,683,224	22,823,239	8.15	25,381,609	23,494,184	8.03
Other Reserves	46	4,631,882	2,806,354	65.05	5,736,345	3,887,601	47.55
<b>Total Equity Attributable to Equity Holders of the Bank</b>		<b>48,966,975</b>	<b>44,627,274</b>	<b>9.72</b>	<b>50,769,823</b>	<b>46,379,466</b>	<b>9.47</b>
Non-controlling Interest	28.1	-	-	-	1,285,776	1,264,588	1.68
<b>Total Equity</b>		<b>48,966,975</b>	<b>44,627,274</b>	<b>9.72</b>	<b>52,055,599</b>	<b>47,644,054</b>	<b>9.26</b>
<b>Total Equity and Liabilities</b>		<b>557,707,420</b>	<b>516,294,187</b>	<b>8.02</b>	<b>558,005,932</b>	<b>516,531,269</b>	<b>8.03</b>
<b>Contingent Liabilities and Commitments</b>	47	<b>195,154,154</b>	<b>150,147,271</b>	<b>29.98</b>	<b>195,173,315</b>	<b>150,189,462</b>	<b>29.95</b>
<b>Net Assets Value per Share (LKR)</b>		<b>94.71</b>	<b>88.61</b>	<b>6.88</b>	<b>98.20</b>	<b>92.09</b>	<b>6.63</b>
<b>Memorandum Information</b>							
No. of Employees		3,251	3,360	(3.24)	3,271	3,381	(3.25)
No. of Banking Centres		172	173	(0.58)	172	173	(0.58)

Notes on pages 160 to 256 form an integral part of these Financial Statements.

## Certification

The Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Approved and signed for and on behalf of the Board.



**Ms Champika Dodanewa**  
Chief Financial Officer



**W.M.R.S.Dias**  
Chairman



**Kapila Ariyaratne**  
Director/ Chief Executive Officer

22 February 2021  
Colombo

# STATEMENT OF CHANGES IN EQUITY

Bank	Note	Stated Capital	
		Ordinary Shares - Voting	Ordinary Shares - Non Voting
		LKR '000	LKR '000
<b>1 Balance as at 01 January 2019</b>		<b>7,723,207</b>	<b>4,302,588</b>
<b>Total Comprehensive Income for the Year</b>			
Profit for the Year		-	-
Other Comprehensive Income (net of tax)			
- Actuarial Gain on Defined Benefit Obligations	43.1.8	-	-
- Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Net Movement of Cash Flow Hedge Reserve	46.5	-	-
<b>2 Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>
<b>Transactions with Equity Holders, Recognised Directly In Equity</b>			
Cash/ Scrip Dividend to Equity Holders	18	316,659	313,032
Rights Issue	44.1,44.2	2,844,844	1,544,394
Reversal of Revaluation on Disposed Property, Plant and Equipment Transferred to Statutory Reserve Fund*	46.2	-	-
Transferred from Investment Fund Reserve	45	-	-
Transferred from Investment Fund Reserve	46.6	-	-
Net Gain on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income	46.4	-	-
<b>3 Total Transactions with Equity Holders</b>		<b>3,161,503</b>	<b>1,857,426</b>
<b>Balance as at 31 December 2019 (1 + 2 + 3)</b>		<b>10,884,710</b>	<b>6,160,014</b>
<b>1 Balance as at 01 January 2020</b>		<b>10,884,710</b>	<b>6,160,014</b>
<b>Total Comprehensive Income for the Year</b>			
Profit for the Year		-	-
Other Comprehensive Income (net of tax)			
- Actuarial Loss on Defined Benefit Obligations	43.1.8	-	-
- Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Net Movement of Cash Flow Hedge Reserve	46.5	-	-
<b>2 Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>
<b>Transactions with Equity Holders, Recognised Directly In Equity</b>			
Cash/ Scrip Dividend to Equity Holders	18	251,477	252,146
Transferred to Statutory Reserve Fund*	45	-	-
Transferred from Investment Fund Reserve	46.6	-	-
Net Gain on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income	46.4	-	-
Net Loss on reclassification of Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
<b>3 Total Transactions with Equity Holders</b>		<b>251,477</b>	<b>252,146</b>
<b>Balance as at 31 December 2020 (1 + 2 + 3)</b>		<b>11,136,187</b>	<b>6,412,160</b>

\* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20(1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

\*\* FVOCI Reserve - Fair Value through Other Comprehensive Income Reserve

Notes on pages 160 to 256 form an integral part of these Financial Statements.

	Statutory Reserve Fund*	Retained Earnings	Other Reserves			Total
			Revaluation Reserve	FVOCI Reserve**	Other Reserves	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
	<b>1,768,944</b>	<b>19,798,647</b>	<b>866,290</b>	<b>(1,879,301)</b>	<b>2,029,424</b>	<b>34,609,799</b>
	-	3,680,262	-	-	-	3,680,262
	-	177,461	-	-	-	177,461
	-	-	-	1,828,712	-	1,828,712
	-	-	-	289,432	-	289,432
	-	-	-	-	(62,073)	(62,073)
	-	<b>3,857,723</b>	-	<b>2,118,144</b>	<b>(62,073)</b>	<b>5,913,794</b>
	-	(915,248)	-	-	-	(285,557)
	-	-	-	-	-	4,389,238
	-	7,978	(7,978)	-	-	-
	184,013	(184,013)	-	-	-	-
	-	5,090	-	-	(5,090)	-
	-	253,062	-	(253,062)	-	-
	<b>184,013</b>	<b>(833,131)</b>	<b>(7,978)</b>	<b>(253,062)</b>	<b>(5,090)</b>	<b>4,103,681</b>
	<b>1,952,957</b>	<b>22,823,239</b>	<b>858,312</b>	<b>(14,219)</b>	<b>1,962,261</b>	<b>44,627,274</b>
	<b>1,952,957</b>	<b>22,823,239</b>	<b>858,312</b>	<b>(14,219)</b>	<b>1,962,261</b>	<b>44,627,274</b>
	-	3,011,300	-	-	-	3,011,300
	-	(495,480)	-	-	-	(495,480)
	-	-	-	1,238,707	-	1,238,707
	-	-	-	1,062,026	-	1,062,026
	-	-	-	-	26,772	26,772
	-	<b>2,515,820</b>	-	<b>2,300,733</b>	<b>26,772</b>	<b>4,843,325</b>
	-	(1,007,247)	-	-	-	(503,624)
	150,565	(150,565)	-	-	-	-
	-	500,795	-	-	(500,795)	-
	-	1,490	-	(1,490)	-	-
	-	(308)	-	308	-	-
	<b>150,565</b>	<b>(655,835)</b>	-	<b>(1,182)</b>	<b>(500,795)</b>	<b>(503,624)</b>
	<b>2,103,522</b>	<b>24,683,224</b>	<b>858,312</b>	<b>2,285,332</b>	<b>1,488,238</b>	<b>48,966,975</b>

Group	Note	Stated Capital		Statutory Reserve Fund*
		Ordinary Shares - Voting	Ordinary Shares - Non Voting	
		LKR '000	LKR '000	LKR '000
<b>1 Balance as at 01 January 2019</b>		<b>7,723,207</b>	<b>4,302,588</b>	<b>1,768,944</b>
<b>Total Comprehensive Income for the Year</b>				
Profit for the Year		-	-	-
Other Comprehensive Income (net of tax)				
- Revaluation of Property, Plant and Equipment	46.2	-	-	-
- Actuarial Gain on Defined Benefit Obligations	43.1.8	-	-	-
- Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-	-
- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-	-
- Reversal of FVOCI Reserve of Equity Instruments Written-off	46.4	-	-	-
- Net Movement of Cash Flow Hedge Reserve	46.5	-	-	-
<b>2 Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Transactions with Equity Holders, Recognised Directly In Equity</b>				
Cash/ Scrip Dividend	18	316,659	313,032	-
Rights Issue	44.1, 44.2	2,844,844	1,544,394	-
Reversal of Revaluation on Disposed Property, Plant and Equipment	46.2	-	-	-
Transferred to Statutory Reserve Fund*	45	-	-	184,013
Transferred from Investment Fund Reserve	46.6	-	-	-
Net Gain on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income	46.4	-	-	-
<b>3 Total Transactions with Equity Holders</b>		<b>3,161,503</b>	<b>1,857,426</b>	<b>184,013</b>
<b>Balance as at 31 December 2019 (1 + 2 + 3)</b>		<b>10,884,710</b>	<b>6,160,014</b>	<b>1,952,957</b>
<b>1 Balance as at 01 January 2020</b>		<b>10,884,710</b>	<b>6,160,014</b>	<b>1,952,957</b>
<b>Total Comprehensive Income for the Year</b>				
Profit for the Year		-	-	-
Other Comprehensive Income (net of tax)				
- Revaluation of Property, Plant and Equipment	46.2	-	-	-
- Actuarial Loss on Defined Benefit Obligations	43.1.8	-	-	-
- Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-	-
- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-	-
- Net Movement of Cash Flow Hedge Reserve	46.5	-	-	-
<b>2 Total Comprehensive Income for the Year</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Transactions with Equity Holders, Recognised Directly In Equity</b>				
Cash/ Scrip Dividend	18	251,477	252,146	-
Transferred to Statutory Reserve Fund*	45	-	-	150,565
Transferred from Investment Fund Reserve	46.6	-	-	-
Net Gain on Disposal of Equity Investments measured at fair value through Other Comprehensive Income	46.4	-	-	-
Net Loss on reclassification of Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-	-
<b>3 Total Transactions with Equity Holders</b>		<b>251,477</b>	<b>252,146</b>	<b>150,565</b>
<b>Balance as at 31 December 2020 (1 + 2 + 3)</b>		<b>11,136,187</b>	<b>6,412,160</b>	<b>2,103,522</b>

\* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20(1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax)

\*\* FVOCI Reserve - Fair Value through Other Comprehensive Income Reserve

Notes on pages 160 to 256 form an integral part of these Financial Statements.

Retained Earnings	Other Reserves			Total	Non-controlling Interest	Total Equity
	Revaluation Reserve	FVOCI Reserve**	Other Reserves			
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>20,419,229</b>	<b>1,662,627</b>	<b>(1,914,326)</b>	<b>2,284,637</b>	<b>36,246,906</b>	<b>1,216,457</b>	<b>37,463,363</b>
3,732,691	-	-	-	3,732,691	65,561	3,798,252
-	60,088	-	-	60,088	25,131	85,219
175,841	-	-	-	175,841	(678)	175,163
-	-	1,832,262	-	1,832,262	1,485	1,833,747
-	-	290,067	-	290,067	265	290,332
(564)	-	564	-	-	-	-
-	-	-	(62,073)	(62,073)	-	(62,073)
<b>3,907,968</b>	<b>60,088</b>	<b>2,122,893</b>	<b>(62,073)</b>	<b>6,028,876</b>	<b>91,764</b>	<b>6,120,640</b>
(915,245)	-	-	-	(285,554)	(43,633)	(329,187)
-	-	-	-	4,389,238	-	4,389,238
7,987	(7,987)	-	-	-	-	-
(184,013)	-	-	-	-	-	-
5,090	-	-	(5,090)	-	-	-
253,168	-	(253,168)	-	-	-	-
<b>(833,013)</b>	<b>(7,987)</b>	<b>(253,168)</b>	<b>(5,090)</b>	<b>4,103,684</b>	<b>(43,633)</b>	<b>4,060,051</b>
<b>23,494,184</b>	<b>1,714,728</b>	<b>(44,601)</b>	<b>2,217,474</b>	<b>46,379,466</b>	<b>1,264,588</b>	<b>47,644,054</b>
<b>23,494,184</b>	<b>1,714,728</b>	<b>(44,601)</b>	<b>2,217,474</b>	<b>46,379,466</b>	<b>1,264,588</b>	<b>47,644,054</b>
3,038,629	-	-	-	3,038,629	59,429	3,098,058
-	21,139	-	-	21,139	8,841	29,980
(495,369)	-	-	-	(495,369)	46	(495,323)
-	-	1,240,784	-	1,240,784	868	1,241,652
-	-	1,062,026	-	1,062,026	-	1,062,026
-	-	-	26,772	26,772	-	26,772
<b>2,543,260</b>	<b>21,139</b>	<b>2,302,810</b>	<b>26,772</b>	<b>4,893,981</b>	<b>69,184</b>	<b>4,963,165</b>
(1,007,247)	-	-	-	(503,624)	(47,996)	(551,620)
(150,565)	-	-	-	-	-	-
500,795	-	-	(500,795)	-	-	-
1,490	-	(1,490)	-	-	-	-
(308)	-	308	-	-	-	-
<b>(655,835)</b>	<b>-</b>	<b>(1,182)</b>	<b>(500,795)</b>	<b>(503,624)</b>	<b>(47,996)</b>	<b>(551,620)</b>
<b>25,381,609</b>	<b>1,735,867</b>	<b>2,257,027</b>	<b>1,743,451</b>	<b>50,769,823</b>	<b>1,285,776</b>	<b>52,055,599</b>

# STATEMENT OF CASH FLOWS

		Bank		Group	
		2020	2019	2020	2019
		LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December					
	Note				
<b>Cash Flows from Operating Activities</b>					
Interest Receipts		49,947,784	53,327,880	49,955,465	53,335,401
Interest Payments		(31,104,810)	(32,820,976)	(31,094,690)	(32,817,258)
Net Commission Receipts	9	3,729,610	4,232,771	3,728,304	4,232,555
Trading Income		165,587	66,587	166,776	68,172
Payments to Employees		(6,611,695)	(6,249,124)	(6,645,626)	(6,283,773)
VAT and NBT on Financial Services and DRL		(1,199,766)	(2,694,167)	(1,199,766)	(2,694,167)
Receipts from Other Operating Activities		2,455,564	2,780,711	2,565,231	2,848,147
Payments on Other Operating Activities		(4,412,335)	(5,067,052)	(4,462,024)	(5,127,664)
<b>Operating Profit before Changes in Operating Assets and Liabilities [Note (a)]</b>		<b>12,969,939</b>	<b>13,576,630</b>	<b>13,013,670</b>	<b>13,561,413</b>
<b>(Increase)/ Decrease in Operating Assets :</b>					
Balances with Central Bank of Sri Lanka	21	7,087,767	4,013,305	7,087,767	4,013,305
Financial Assets at Amortised Cost - Loans and Advances		(18,421,886)	(54,623,855)	(18,421,886)	(54,623,855)
Other Assets		178,558	(2,784,945)	125,778	7,341
<b>Increase/ (Decrease) in Operating Liabilities :</b>					
Financial Liabilities at Amortised Cost - Due to Depositors		40,673,176	42,076,603	40,673,176	42,076,603
Financial Liabilities at Amortised Cost - Due to Debt Securities Holders		(5,824,851)	(12,663,143)	(5,824,851)	(12,663,143)
Financial Liabilities at Amortised Cost - Due to Other Borrowers	38	(9,284)	(8,611)	(9,284)	(8,611)
Other Liabilities		(704,858)	1,061,064	(787,487)	(1,704,826)
Due to Banks	35	3,910,058	2,390,848	3,910,058	2,390,848
<b>Cash ( Used in)/ Generated from Operating Activities before Income Tax</b>		<b>39,858,619</b>	<b>(6,962,104)</b>	<b>39,766,941</b>	<b>(6,950,925)</b>
Income Tax Paid	41	(976,468)	(1,827,863)	(976,468)	(1,829,340)
<b>Net Cash (Used In)/ Generated from Operating Activities</b>		<b>38,882,151</b>	<b>(8,789,967)</b>	<b>38,790,473</b>	<b>(8,780,265)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Property, Plant and Equipment	30	(512,836)	(1,321,767)	(528,926)	(1,374,033)
Improvements to Investment Properties	32	-	-	(18,863)	(20,357)
Proceeds from Sale of Property, Plant and Equipment		15,896	38,302	15,896	38,308
Net proceeds from Sale, Maturity and Purchase of Financial Investments of Government of Sri Lanka Treasury Bills/ Bonds, Development and Sovereign Bonds maturing after Three Months [Note (b) ]		(19,049,799)	4,826,187	(19,049,799)	4,826,187
Net proceeds from Sale, Maturity and Purchase of Financial Investments of Shares and Debentures		36,381	124,660	31,929	117,946
Reverse Repurchase Agreements maturing after Three Months		4,433	1,819	4,433	1,819
Net Purchase of Intangible Assets	33	(177,129)	(185,862)	(177,129)	(185,862)
Net Cash Flow from Acquisition of Investment in Subsidiaries		-	-	-	-
Net Cash Flow from Disposal of Subsidiaries		-	-	-	-
Dividend Received from Investment in Subsidiaries	12	114,765	89,726	-	-
Dividend Received from Other Investments	12	19,173	24,989	19,173	24,989
<b>Net Cash (Used in )/ Generated from Investing Activities</b>		<b>(19,549,116)</b>	<b>3,598,054</b>	<b>(19,703,286)</b>	<b>3,428,997</b>
<b>Cash Flows from Financing Activities</b>					
Net Proceeds from the Issue of Ordinary Share Capital		-	4,389,238	-	4,389,238
Net Proceeds from the Issue of Other Equity Instruments		-	-	-	-
Net Proceeds from the Issue of Subordinated Debt		-	5,000,000	-	4,971,000
Repayment of Subordinated Debt		(2,806,040)	(1,866,550)	(2,806,040)	(1,866,550)
Interest Paid on Subordinated Debt		(2,232,788)	(1,577,377)	(2,221,972)	(1,561,452)
Interest Paid on Un-subordinated Debt		(241,770)	(402,293)	(241,770)	(402,293)
Dividend Paid to Non-controlling Interest		-	-	(49,720)	(54,302)
Dividend Paid to Shareholders of the Bank		(502,788)	(287,567)	(502,788)	(287,567)
Dividend Paid to Holders of Other Equity Instruments		-	-	-	-
Repayment of Principal Portion of Lease Liabilities	31.12	(750,450)	(748,544)	(465,698)	(521,812)
<b>Net Cash (Used in )/ Generated from Financing Activities</b>		<b>(6,533,836)</b>	<b>4,506,907</b>	<b>(6,287,988)</b>	<b>4,666,262</b>
Net Increase/ (Decrease) in Cash and Cash Equivalents		12,799,199	(685,006)	12,799,199	(685,006)
Cash and Cash Equivalents at Beginning of the Year		24,716,667	25,401,673	24,717,205	25,402,211
<b>Cash and Cash Equivalents at End of the Year</b>		<b>37,515,866</b>	<b>24,716,667</b>	<b>37,516,404</b>	<b>24,717,205</b>
<b>Reconciliation of Cash and Cash Equivalents</b>					
Cash and Cash Equivalents	20	10,044,937	11,775,495	10,044,977	11,775,535
Placements with Banks and Finance Companies	22	10,784,450	1,179,174	10,784,948	1,179,672
Government of Sri Lanka Treasury Bills/ Bonds, Development and Sovereign Bonds maturing within Three Months		10,543,586	6,601,739	10,543,586	6,601,739
Securities Purchased under Resale Agreements maturing within Three Months		6,142,893	5,160,259	6,142,893	5,160,259
		<b>37,515,866</b>	<b>24,716,667</b>	<b>37,516,404</b>	<b>24,717,205</b>

**Note (a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities**

For the Year ended 31 December	Note	Bank		Group	
		2020	2019	2020	2019
		LKR '000	LKR '000	LKR '000	LKR '000
<b>Profit before Income Tax</b>		<b>4,111,247</b>	<b>5,098,640</b>	<b>4,295,636</b>	<b>5,267,110</b>
Accrual for Interest Income		(2,372,613)	(2,095,478)	(2,372,613)	(2,095,478)
Accrual for Interest Expenses		(756,726)	1,990,193	(1,041,137)	1,707,078
Fair Value Adjustment on Derivative Financial Instruments	10	(200,726)	769,252	(200,726)	769,252
Initial Application of SLFRS 16		-	(191,696)	-	(191,696)
Loss on Revaluation of Foreign Exchange Income		758,044	919,618	758,044	919,618
Dividend Income	12	(133,938)	(114,715)	(19,173)	(24,989)
Unrealised Fair Value (Gains)/ Losses on Financial Instruments measured at Fair Value through Profit/ Loss		18,759	(205,070)	18,759	(205,070)
Profit from Sale of Property, Plant and Equipment	12	(8,884)	(10,758)	(8,884)	(10,753)
Depreciation of Property, Plant and Equipment	14	822,304	685,816	879,282	733,490
Depreciation of Right-of-use Assets	14	461,141	460,314	427,642	426,597
Depreciation of Investment Properties	14	-	-	15,416	12,338
Amortisation of Intangible Assets	14	163,866	154,686	163,866	154,686
Impairment Charges on Loans and Advances	13	6,668,894	3,848,416	6,668,894	3,848,416
Amortisation of Pre Paid Staff Cost	15	265,654	303,632	265,770	303,665
Accrual for VAT and NBT on Financial Services and DRL		328,530	72,978	328,530	72,978
Accrual for Employee Retirement Benefits Liability		13,419	21,052	13,297	20,600
Impairment Charges other than on Loans and Advances	13	324,082	34,302	324,082	34,302
Accrual for Leave Encashment Provision	43.2	69,336	34,987	69,336	34,987
Accrual for Other Expenses		(37,008)	(179,209)	(36,093)	(179,463)
Interest Paid to Debt Security Holders		2,474,558	1,979,670	2,463,742	1,963,745
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>		<b>12,969,939</b>	<b>13,576,630</b>	<b>13,013,670</b>	<b>13,561,413</b>

**Note (b) Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Government of Sri Lanka Treasury Bills/ Bonds, Development and Sovereign Bonds maturing after Three Months**

	Note	Bank		Group	
		2020	2019	2020	2019
		LKR '000	LKR '000	LKR '000	LKR '000
Treasury Bills		(2,842,078)	(1,110,925)	(2,842,078)	(1,110,925)
Treasury Bonds		(6,356,778)	2,851,710	(6,356,778)	2,851,710
Sri Lanka Development Bonds		(2,601,493)	3,085,402	(2,601,493)	3,085,402
Sri Lanka Sovereign Bonds		(7,249,450)	-	(7,249,450)	-
<b>Total</b>		<b>(19,049,799)</b>	<b>4,826,187</b>	<b>(19,049,799)</b>	<b>4,826,187</b>

Notes on pages 160 to 256 form an integral part of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

Seylan Bank is a Licensed Commercial Bank (LCB) regulated under the Banking Act No. 30 of 1988 and amendments thereto, and listed on Colombo Stock Exchange as a public limited liability company. The Bank was incorporated on 28 August 1987 and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 90, Galle Road, Colombo 03. The shares of the Bank have a primary listing on the Colombo Stock Exchange (CSE).

The consolidated Financial Statements comprises the Bank and its subsidiary (together referred to the Group).

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group.

The total number of employees of the Bank as at 31 December 2020 is 3,251 (2019 – 3,360).

### 1.1 Principal Activities and Nature of the Business

#### The Bank

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate, small and medium enterprises (SME) and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, Tele banking facilities, Internet banking, dealing in Government Securities, etc.

#### Subsidiary

The Subsidiary, Seylan Developments PLC, situated at No. 90, Galle Road, Colombo 03, is in the business of development, administration and maintenance of property.

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Statement of Compliance

The Financial Statements of the Bank and Group have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/ LKASs) issued by The Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 7 of 2007 and Banking Act No. 30 of 1988 and amendments thereto and listing rules of CSE. The details of significant accounting policies are disclosed in note 5.

### 2.2 Approval of Financial Statements by Directors

The Financial Statements as at 31 December 2020 were authorised for issue by the Board of Directors on 22 February 2021.

### 2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items, which are measured on the following alternative basis on each reporting date.

- Derivative financial instruments and non-derivative financial instruments held at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) are measured at fair value.
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Liability for defined benefit obligations is measured as the present value of the defined benefit obligation less the fair value of the plan assets.

## 2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Bank's/ Group's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

There was no change in the Bank's/ Group's presentation and functional currency during the year under review.

## 2.5 Materiality and Aggregation

Each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

## 2.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated and Bank only Statement of Financial Position when, and only when, the Group/ Bank has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs/ LKASs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

## 2.7 Comparative Information

The comparative information is reclassified whenever necessary to conform with the current year's presentation and to be in compliance with the Circular No. 2 of 2019 issued by Central Bank of Sri Lanka on publication of Annual and Quarterly Financial Statements and other Disclosures by Licensed banks in order to provide a better presentation .

As explained in Note 17.1 weighted average number of ordinary shares as at 31 December 2019 has been restarted in arriving at Earnings per Share (EPS) for 2019.

### 3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/ LKASs) requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes.

#### Coronavirus (COVID-19) Pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses,

fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

#### (I) Judgements

##### (a) Classification of Financial Assets

The Group used judgements when assessing of the business model within which the assets are held and assessment whether the contractual terms of the financial assets are solely payments of principal and interest (SPPI) on the principal amount of the outstanding.

##### (b) Assessment of Credit Risk

The Bank also used judgements when establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of Expected Credit Losses (ECL) and selection and approval of models to measure ECL.

##### (c) Determination of Control over Employee Share Option Scheme and Share Trusts

The judgement applied by Management over determination of control over Employee Share Option Scheme and Share Trusts is set out in Note 5.1.5.

##### (d) Determination of Control over Investee

#### (II) Assumptions and Estimation Uncertainties

##### Going Concern

The Management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of

any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### Fair Value of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

The Bank uses estimates when determining inputs into the ECL measurement model, including incorporation of forward looking information.

This includes an element of Management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the change of which can result in different levels of allowances.

#### Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

#### Measurement of Defined Benefit Obligations

The costs of the defined benefit plans are determined using an actuarial valuation. The actuarial valuation involves making assumptions about mortality rates, staff turnover, disability rate,

retirement age, rate of discount, salary increments etc.

### Contingencies

The management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

## 4. CHANGES IN ACCOUNTING POLICIES

The Group has initially adopted definition of the Business (Amendments to SLFRS 3) from 1 January 2020. A number of other new standards are also effective from 1 January 2020 that do not have a material effect on the financial statements.

### Definition of a Business

The Group applied Definition of a Business (Amendments to SLFRS 3) to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The amendments do not have a material effect on the Group's financial statements because the Group has not acquired any subsidiaries during the year. However, the Group has amended its accounting policies for acquisition on or after 1 January 2020. The details of accounting policies are set out in Note 5.1.1.

Except for the change above, the Group has consistently applied the accounting policies as set out in Note 5 to all periods presented in these consolidated financial statements.

## 5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

The accounting policies have been applied consistently by Group entities except for the changes in

accounting policies described in Note 4.

### 5.1 Basis of Consolidation

#### 5.1.1 Business Combination

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured

at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

#### 5.1.2 Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, 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. The Financial Statements of the Subsidiary are included in the Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The accounting policies of the Subsidiary have been changed when necessary to align them with the policies adopted by the Group. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its subsidiary incorporated in Sri Lanka, Seylan Developments PLC (70.51%).

The total profit/ loss of the Subsidiary is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Non-Controlling Interest'. All assets and liabilities of the Bank and its Subsidiary are included in the Consolidated Statement of Financial Position. The interest of the outside

shareholders in the net assets of the Group is stated separately in the Consolidated Statement of Financial Position within Equity under the heading 'Non-Controlling Interest'.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

### 5.1.3 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the Subsidiary, any non-controlling interest and the other components of equity related to the Subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

### 5.1.4 Transactions Eliminated on Consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### 5.1.5 Employee Share Option Schemes and Share Trusts

The Trusts are treated as external entities due to the uncertainties relating to the formation of the trusts and beneficial ownership.

### 5.1.6 Non-Controlling Interest

Non-controlling interest is measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a Subsidiary that do not result in a loss of control are accounted for as equity transactions.

### 5.1.7 Non-Uniform Accounting Policies

The impact of non-uniform accounting policies adopted by the Subsidiary has been adjusted in the Consolidated Financial Statements and disclosed in Note 54.

### 5.2 Foreign Currency Translations and Balances

Transactions in foreign currencies are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates ruling at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### 5.3 Statutory Deposit with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

### 5.4 Financial Assets and Financial Liabilities

#### 5.4.1 Recognition and Initial Measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they

are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

#### 5.4.2 Classification

##### Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### Business Model Assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the

Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or contractual cash flows such that it would not meet this condition. In making the assessment the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest

rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

### Non-recourse Loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

### Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes

its business model for managing financial assets.

### 5.4.3 Derecognition

#### Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/ loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to

sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

#### Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

#### Modification of Financial Assets and Liabilities

##### Financial Assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with

substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

#### Financial Liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial

liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

#### 5.4.4 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group

determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the

reporting period during which the change has occurred.

#### 5.4.5 Impairment

##### Recognition of ECL

The Group recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- undrawn credit commitments.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as

‘Stage 2 financial instruments’.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as ‘Stage 3 financial instruments’.

### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

### Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

### Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan

that is past due for a period more than 90 days or classified as non-performing under CBSL direction No. 03 of 2008 is considered credit-impaired.

### Presentation of Allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

### Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

#### 5.4.6 Designation at Fair Value through Profit or Loss

The Group does not have any financial assets or financial liabilities designated as at FVTPL.

#### 5.5 Securities Purchased Under Resale Agreements

These are loans collateralised by the purchase of Treasury Bills and/ or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

#### 5.6 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins in hand and highly liquid financial assets with original maturities of three months or less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

#### 5.7 Derivatives Held for Risk Management Purposes and Hedge Accounting

Derivatives are categorised as FVTPL unless they are designated as hedging instruments.

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

All derivatives are initially recognised and subsequently measured at fair value, with all fair value changes recognised in profit and loss. All derivatives are carried as assets when fair value is positive

and as liabilities when fair value is negative.

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. Currently, the Bank has only cash flow hedging relationships.

#### Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affected profit or loss, and in the same line item in the statement of profit or loss and Other Comprehensive Income.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued

prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

The Bank's Risk Management Division closely monitors the hedging activities that are been carried out by the Treasury Front Office for their compliance and effectiveness, as a Risk Management Strategy. The Bank enters into hedging transactions within the Bank's approved limits such as Counter Party Limits, Dealer Limits and Gap Limits, and always study the Market Outlook prior to entering into such transactions.

#### Fair Value Hedge of Foreign Exchange Risk

The Bank hedge the risk of variation in fair value of foreign currency denominated loans using foreign currency forwards from 1 January 2019. The risk management strategy is to use the foreign currency variability (gains /losses) arising because of revaluation of the foreign currency forwards attributable to change in the spot foreign exchange rates to off-set the variability, due to foreign exchange rate movements, in the value of USD denominated loans. The hedged risk is the USD/LKR foreign exchange risk in the LKR conversion of USD denominated long-term liabilities. USD denominated long-term liabilities are designated as hedge item and forward contract that maturity match with the tenure considered as hedge instrument. The Group's approach to managing market risk, including foreign exchange risk, is discussed in Market Risk. The Group's exposure to foreign exchange risk is disclosed in Foreign Exchange Risk. By using derivative financial instruments to hedge exposures to changes in exchange rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty

credit risk in derivative instruments by entering into transactions with high-reputed counterparties. Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. Under the Group policy, in order to conclude that a hedging relationship is effective, all the required criteria should be met.

### 5.8 Non-current Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

## 5.9 Intangible Assets

### 5.9.1 Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

### 5.9.2 Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### 5.9.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows;

	Useful Life (Years)
Seylan Bank PLC (Banking Software)	6
Seylan Developments PLC (Accounting Software)	5

## 5.10 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable

expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is completed. The Group applies the cost model for investment properties in accordance with LKAS 40 - 'Investment Property'. Accordingly, land classified as investment properties are stated at cost and buildings classified as investment properties are stated at cost, less any accumulated depreciation and any accumulated impairment losses. Fair values of these properties are disclosed in Note 32 to the Financial Statements. Seylan Developments PLC, the Subsidiary of the Bank, applies the fair value model in accordance with the above standard. Accordingly, investment properties are stated at fair value and an external independent valuation company having an appropriate recognised professional qualification values the portfolio annually. Any gain or loss arising from a change in fair value is recognised in profit or loss. Adjustment for non-uniform accounting policy is reported in Note 54.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value are recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment

property, which is measured, based on fair value model, and is not reclassified as Property, plant and equipment during the redevelopment.

A leasehold property under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both.

#### 5.10.1 Derecognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.

#### 5.10.2 Investment Property Leased within the Group

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes and changes are disclosed in Note 54 to the Financial Statements.

### 5.11 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

#### 5.11.1 Recognition and Measurement

Items of property and equipment are measured at cost or revaluation, less accumulated depreciation and accumulated impairment losses except for land. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, 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 part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

#### 5.11.2 Cost Model

The Bank applies cost model to property, plant and equipment except for land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

#### 5.11.3 Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings of the Bank are revalued within five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in Equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Income. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Statement of Income or debited in the Other Comprehensive Income to the

extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

#### Reclassification to Investment Property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

#### 5.11.4 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

#### 5.11.5 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 or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in Statement of Income when the item is derecognised.

#### 5.11.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each

part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term or their useful lives. Land is not depreciated.

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

	Useful Life (Years)	Depreciation Rate
Freehold Buildings	40	2.5%
Motor Vehicles	5	20%
Computer Equipment	6	16.67%
Office Machines, Equipment, Furniture and Fittings	3 - 10	33.33% - 10%
Freehold Buildings on Leasehold Lands	Remaining leased period or 40 years whichever is shorter	

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

The Bank does not require to reinstate fully depreciated assets as per the guidelines issued by The C A of Sri Lanka on Reinstatement of Fully Depreciated Assets in the Statement of Financial Position, as those are neither critical nor a main revenue generating source.

### Seylan Developments PLC

Property, plant and equipment are recorded at cost of purchase or valuation together with any incidental expenses thereon. The assets are stated at cost or valuation less accumulated depreciation which is provided for on the basis specified below.

Depreciation of common types of assets within the Group is in line

with the Group policy disclosed above. Freehold land is not depreciated. The depreciation of other assets that are unique to Seylan Developments PLC is provided on the straight-line method at varying rates per annum based on their useful lives as follows:

	Useful Life (Years)	Depreciation Rate
Furniture and Fittings	10	10%
Office and Other Equipment	05	20%
Tools	03	33.33%

### 5.11.7 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

### 5.11.8 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". 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 as an expense.

### 5.12 Leases

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group

uses the definition of a lease in SLFRS 16.

### (a) Group Acting as a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured 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 Group presents right-of-use assets and lease liabilities separately in the Statement of Financial Position.

#### **Short-term Leases and Leases of Low-Value Assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases.

The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **(b) Group Acting as a Lessor**

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group 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, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

#### **5.13 Impairment of Non-Financial Assets**

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

The recoverable amount of an asset or Cash Generating Unit (CGU) 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU, subject to an operating segment ceiling test.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

#### **5.14 Inventories**

Inventory mainly consists of stationery, consumables, Tikiri gifts and cards. Bank account the inventory of stationery, consumables and Tikiri gifts at first in first out method, and the cards at cost.

#### **5.15 Liabilities and Provisions**

##### **5.15.1 Deposits, Debt Securities Issued and Subordinated Liabilities**

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("Repo"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's Financial Statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

### 5.15.2 Dividend Payable

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

## 5.16 Employee Retirement Benefits

### 5.16.1 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

The Bank's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. 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 calculation is performed by a qualified actuary using the Projected Unit Credit Method - Sri Lanka Accounting Standard (LKAS 19) - 'Employee Benefits'.

Actuarial gains and losses occur when the actual plan experience differs from the assumed. The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

When the calculations above result in a benefit to the Bank, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Bank if it is realisable during the life of the plan or on settlement of the plan liabilities.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The percentage of contributions is determined by the same actuary and retirement benefits are provided to all permanent staff. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', the method recommended by LKAS 19. The demographic assumptions underlying the valuation are retirement age (57 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

The Bank's retirement age of employees has been increased to 57 years in 2017 from 55 years. The revision in retirement age has been considered in estimating the provision for defined benefit obligations and leave encashment provision as changes in estimates.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

### Changes to Gratuity Policy

The Board has resolved to pay an additional half a month basic salary (last drawn) over and above the statutory gratuity entitlement for each year of service for eligible existing employees and ex-employees who joined before 5 March 2009 and retired/resigned after 5 March 2009 having completed uninterrupted and unblemished service period of ten years in the Bank, subject to the entering into a memorandum of settlement which confers on them the said entitlement to the additional payment and giving the right to the Bank to settle the said liability by disposal of the shares in the Share Trust companies.

All employees who joined on or after 5 March 2009 are entitled to receive a Gratuity of half a month basic salary (last drawn) for each completed year of service in terms of Gratuity Act No. 12 of 1983.

Based on the Sri Lanka Accounting Standard (LKAS) 19 - "Employee Benefits" the Subsidiary have adopted the Actuarial Valuation Method. Accordingly provisions have been made based on the above method.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

### Other Long-Term Employee Benefits - (Leave Encashment)

The Bank's net obligation in respect of long-term employee benefits other than gratuity funds is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. 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 calculation is performed using

the Projected Unit Credit Method.

Any actuarial gains and losses are recognised in profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long-term employee benefits.

### Past Service Cost and Gain/ Loss on Settlement

Before determining past service cost or gain or loss on settlements, the Bank re-measures the net defined benefit liability/ (asset) using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

A plan amendment occurs when an entity introduces, or withdraws a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost or gain or loss on settlement is calculated net of any related asset transferred and recognised in profit or loss.

### Termination Benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

### 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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### 5.16.2 Defined Contribution Plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the Statement of Income as and when they are due.

#### 5.16.2(a) Employees' Provident Fund

The Bank and employees contribute 12% and a minimum of 8% respectively on the salary of each employee to the approved private Provident Fund while the Subsidiary and their employees contribute the same percentages to the Employees' Provident Fund.

#### 5.16.2(b) Employees' Trust Fund

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Note 15 to Financial Statements.

### 5.17 Provisions

A provision is recognised if, as a result of a past event, the Group 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### 5.18 Financial Guarantees

Financial guarantees are contracts that require the Group 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 terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

### 5.19 Contingent Liabilities and Commitments

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary, for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

## Income Statement

### 5.20 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income Statement.

Interest income on FVOCI investment securities calculated on an effective interest basis is also included in interest income.

### Fee, Commission and Other Income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on a cash basis.

### Net Gains/ (Losses) from Trading

This income comprises gains less losses related to trading/ FVTPL assets and includes all realised and unrealised fair value changes.

### Dividend Income

Dividend income is recognised in the Statement of Income when the Bank's right to receive the dividend is established.

Usually this is the ex-dividend date for equity securities. Dividends are presented in net other operating income.

### Accounting for Finance Lease Income

Assets leased to customers to whom the Bank transfers substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

### Profits/ Losses from Sale of Property, Plant and Equipment

Any profits or losses from sale of property, plant and equipment are recognised in the period in which the sale occurs and is classified as net other operating income.

### Profits/ Losses from Sale of Investment Properties

Any profits or losses on retirement or disposal of investment properties are recognised in the period of retirement or disposal.

### Rental Income

Rental income is recognised on an accrual basis.

### 5.21 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in Equity or in Other Comprehensive Income.

#### 5.21.1 Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

#### 5.21.2 Deferred Tax

Deferred taxation is a methodology identifying the temporary differences of income tax computation and accounting for the same to bring out true and fair view of an organisation. It accounts for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities which is the amount attributed for those assets and liabilities for tax purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the rates enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future
- Any permanent differences which are strictly prohibited by the tax statutes or any procedural guidelines.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is created on foreseen futuristic realisation of a tax payment which is not taxed in the current period and vice versa a deferred tax liability shall be created for a foreseen futuristic realisation of a tax deduction which is taxed in the current period. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced or increased in accordance with the existence of taxing probabilities in the future.

Details of the deferred tax assets and liabilities as at the reporting date are given in Notes 16.4 and in Notes 42 including the sub notes. Deferred tax impact of items that are recognised in OCI/ directly in equity are also recognised in OCI/ directly in equity.

Bank has already recognised the deferred tax liability for the revaluation surplus of land in accordance with the related tax provisions introduced by the Inland Revenue Act No 24 of 2017 by considering all the lands as business assets. The total related deferred tax charge was recognised in the Other Comprehensive Income of the year 2017.

### 5.21.3 Withholding Tax on Dividends

Dividends distributed out of profits of the Subsidiary attract a 14% tax deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source shall be net off against the dividends declared and the shareholders shall receive dividend net of tax.

Withholding tax that arises from the distribution of dividends by the Bank is recognised as a liability of the shareholders' according to the provision of the Inland Revenue Act No 24 of 2017. Bank ensures the correct amount of withholding tax is properly paid to the Inland Revenue Department on behalf of the shareholders.

Withholding tax paid at the rate of 14% at source shall be the final tax in the hands of any person. Therefore dividend received by the Bank shall be final and will not be further taxed. With the change taken place after 1 January 2020 subject to formal approval receivable from the Parliament of Sri Lanka. Any dividends paid out of the profits attributable to receipts of dividend income shall be exempted from income tax including withholding tax. Also if the dividend is paid by a resident company to a non resident person (including a company) such would be totally exempt from income tax including withholding tax.

Withholding Tax on Dividends has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to Finance Act.

### 5.21.4 Value Added Tax and Nation Building Tax on Financial Services

The value base for Value Added Tax (VAT) and Nation Building Tax (NBT) for the Bank is the adjusted accounting profit before tax, emoluments of employees and economic depreciation computed for the owned fixed assets. NBT has been abolished with effect from 1 December 2019 subject

to Parliamentary approval for amendments to Nation Building Tax Act.

### 5.21.5 Debt Repayment Levy (DRL)

DRL has been imposed through Finance Act No 35 of 2018 approved by the Parliament on 1 November 2018 and has been retrospectively imposed from 1 October 2018 till 31 December 2021 on Banks and Financial Institutions only. The purpose of the Levy is to facilitate the Debt settlement of the Government where the Government expects to collect approximately LKR 20 Bn per annum. DRL is payable at 7% on the same value base considered for VAT and NBT. DRL has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to Finance Act.

### 5.21.6 Economic Service Charges (ESC)

As per Economic Service Charge Act No 13 of 2006, ESC is payable at 0.5% on 'Liable Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set off against the income tax payable in the three subsequent years. ESC has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to ESC Act.

### 5.21.7 Crop Insurance Levy

Section 14 of the Finance Act No. 12 of 2013 impose a crop insurance levy on institutions under the purview of

- Banking Act No 30 of 1988
- Finance Companies Act No 78 of 1988
- Regulation of Insurance Industry Act No. 43 of 2000

Accordingly, the Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund with effect from 1 April 2013.

## 5.22 Earnings per Share

The Group 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 shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Weighted average number of ordinary shares has been calculated as per LKAS 33 considering the theoretical ex-rights value per share and the adjustment factor applicable for Rights Issue.

## 5.23 Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group comprises the following major operating segments - Banking, Treasury and Property/Investments.

## 5.24 Statment of Cash Flows

The Statement of Cash Flows has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the LKAS 7 "Statement of Cash Flows".

For the purpose of the Statement of Cash Flows, cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

## 5.25 Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No 5 of 2010 "Insurance

of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32 A to 32 E of the Monetary Law Act with effect from 1 October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Sri Lanka
- Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to Central Bank of Sri Lanka.

Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year or a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

## 5.26 Reserves

### 5.26.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required in terms of the section 20 (1) and (2) of the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer a sum equivalent not less

than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital.

### 5.26.2 Capital Reserve

This reserve has been created in 1991 and the Debenture Redemption Reserve Fund was transferred to Capital Reserve in 2004.

### 5.26.3 Revaluation Reserve

This reserve has been created on revaluation of land and buildings of the Bank.

### 5.26.4 General Reserve

Consist of LKR 25 Mn transferred in 1995 to General Reserve, LKR 2.7 Mn transferred from Bad Debts Reserve and LKR 6 Mn transferred from Contingency Reserve in 2002 to General Reserve.

### 5.26.5 Investment Fund Reserve

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act no. 22 of 2011, the Bank transferred 8% on Value Addition attributable to Financial Services and 5% of taxable profits, from retained profits to Investment Fund Reserve with effect from 1 January 2011.

Operations of the investment fund account ceased with effect from 1 October 2014. With effect from 1 July 2014 guidelines on the operations of investment fund account shall not be applicable for the utilisation of capital funds recovered through loan repayments and maturity proceeds of long term Government Securities. Hence the Bank is required to reduce the value of the fund by an amount equivalent to capital funds recovered with effect from 1 July 2014.

### 5.26.6 Fair Value through Other Comprehensive Income Reserve

This represent the fair value changes of Available for Sale Investments prior to 1 January 2018 and fair value changes

of Financial assets measured at fair value through other comprehensive income (FVOCI) since 1 January 2018.

### 5.26.7 Cash Flow Hedge Reserve

This has been created to account fair value changes of designated hedging instruments under cash flow hedges.

### 5.27 Events after the Reporting Period

Events occurring after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date the Financial Statements are authorised for issue.

All material and important events which occur after the reporting date have been considered and disclosed in Note 50 to the financial statements or adjusted as applicable.

### 5.28 Accounting Standards Issued but not yet Adopted

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable for financial periods beginning after 1 January 2021. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements.

The following amended standards are not expected to have a significant impact on the Group's Consolidated Financial Statements.

- COVID-19-Related Rent Concessions (Amendments to SLFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16)
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1)
- Reference to Conceptual Framework (Amendments to SLFRS 3)
- Insurance Contracts (SLFRS 17).
- Interest Rate Benchmark

Reform. (Amendments to SLFRS 9, LKAS 39 and SLFRS 7)

## 6. FINANCIAL RISK MANAGEMENT

### Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

### Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Banks' risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee, the Board Audit Committee and the Board Credit Committee. Board Integrated Risk Management Committee consists of non-executive members who report regularly to the Board of Directors on their activities. There are several executive management sub committees such as the Executive Market and Operational Committee, Asset and Liability Committee (ALCO), Executive Credit Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

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 risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank and the Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring

compliance with the Bank's risk management policies and procedures. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

### Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets (FVTPL) is managed independently and information thereon is disclosed below. The market risk in respect of changes in fair value in trading assets (FVTPL) arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in market risk section.

### Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Credit Committee. Bank Credit Risk Monitoring Unit reporting to the Executive Credit Management Committee through the Chief Risk Officer is responsible for management of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

### Exposure to Credit Risk

The table below set out information about credit quality of financial assets and allowance for impairment/ expected credit losses held by the Bank against those assets. This table does not include off-balance sheet commitments (undrawn balances) and contingent facilities.

### Credit Quality Analysis

	2020				2019
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Total LKR '000
<b>Financial Assets at Amortised Cost : Loans and Advances</b>					
Grade 0 - 2 Performing Loans	354,847,194	18,890,298	7,300,515	381,038,007	366,253,811
Grade 3: NPA Special Mention	-	-	4,350,350	4,350,350	3,713,201
Grade 4: NPA Substandard	-	-	2,838,334	2,838,334	4,001,147
Grade 5: NPA Doubtful	-	-	4,061,442	4,061,442	4,042,855
Grade 6: NPA Loss	-	-	17,012,820	17,012,820	11,980,461
<b>Total Gross Loans and Advances</b>	<b>354,847,194</b>	<b>18,890,298</b>	<b>35,563,461</b>	<b>409,300,953</b>	<b>389,991,475</b>
Expected Credit Loss Allowance	(1,330,114)	(932,874)	(13,271,818)	(15,534,806)	(10,732,411)
<b>Total Net Loans and Advances</b>	<b>353,517,080</b>	<b>17,957,424</b>	<b>22,291,643</b>	<b>393,766,147</b>	<b>379,259,064</b>
<b>Financial Assets at Amortised Cost : Debt and Other Instruments</b>					
Government Securities - Treasury Bonds	31,497,720	-	-	31,497,720	19,923,449
Sri Lanka Development Bonds	7,623,421	-	-	7,623,421	1,292,045
Sri Lanka Sovereign Bonds	7,977,206	-	-	7,977,206	-
Quoted Debentures	81,438	-	-	81,438	-
Unquoted Debentures	637,175	-	-	637,175	669,569
Securities Purchased under Resale Agreements	6,142,893	-	-	6,142,893	5,165,159
<b>Total Financial Investments measured at Amortised Cost</b>	<b>53,959,853</b>	<b>-</b>	<b>-</b>	<b>53,959,853</b>	<b>27,050,222</b>
Expected Credit Loss Allowance	(267,382)	-	-	(267,382)	(11,479)
<b>Net Financial Investments measured at Amortised Cost</b>	<b>53,692,471</b>	<b>-</b>	<b>-</b>	<b>53,692,471</b>	<b>27,038,743</b>
<b>Cash and Cash Equivalents (Balances with Banks)</b>					
Balances with Local Banks	85,785	-	-	85,785	126,633
Balances with Foreign Banks	1,672,764	-	-	1,672,764	3,226,570
<b>Total Balances with Banks</b>	<b>1,758,549</b>	<b>-</b>	<b>-</b>	<b>1,758,549</b>	<b>3,353,203</b>
Expected Credit Loss Allowance	(8,793)	-	-	(8,793)	(16,766)
<b>Net Balances with Banks</b>	<b>1,749,756</b>	<b>-</b>	<b>-</b>	<b>1,749,756</b>	<b>3,336,437</b>
<b>Placements with Banks and Finance Companies</b>					
Term Deposits with Banks	10,784,450	-	-	10,784,450	1,179,174
<b>Total Placements with Banks and Finance Companies</b>	<b>10,784,450</b>	<b>-</b>	<b>-</b>	<b>10,784,450</b>	<b>1,179,174</b>
Expected Credit Loss Allowance	(53,922)	-	-	(53,922)	(5,896)
<b>Net Placements with Banks and Finance Companies</b>	<b>10,730,528</b>	<b>-</b>	<b>-</b>	<b>10,730,528</b>	<b>1,173,278</b>

The following table provides an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in expected credit loss allowance.

	2020		
	Impact: Increase/ (Decrease)		
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000
<b>Financial Assets at Amortised Cost : Loans and Advances - Expected Credit Loss</b>			
Increase in Lending Portfolio (Including Reschedule/Restructure/Stress Tested Facilities)	784,446	447,281	485,605
Loans and Advances Recoveries	(224,271)	(225,446)	(616,324)
Bucket net Movements and Changes in Loss Rates	68,182	137,169	4,872,595
Increase in Interest Accrued on Impaired Loans & Advances	-	-	937,457
<b>Financial Assets at Amortised Cost : Debt and Other Instruments</b>			
Increase in Investments in Foreign Currency Denominated Instruments and Country Downgrading	255,903	-	-
<b>Cash and Cash Equivalents (Balances with Banks)</b>			
Decrease in Carrying Amount of Balances	(7,973)	-	-
<b>Placements with Banks and Finance Companies</b>			
Increase in Investments in Placements with Banks and Finance Companies	48,026	-	-
<b>Undrawn Credit Commitments and Financial Guarantees</b>			
Increase in Loan Commitments and Financial Guarantees	78,129	-	-

### Measurement of Expected Credit Losses (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under Accounting Policies Note 5.4.5.

### Significant increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information.

The Group uses a backstop of 30 days past due for determining whether there is a significant increase in credit risk.

### Incorporation of Forward-Looking Information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are GDP growth, unemployment rates,

inflation, exchange rates and interest rates.

The Group formulates multiple economic scenarios to reflect base case, best case and worst case.

### Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical

observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

### Collateral Held and other Credit Enhancement

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated regularly. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and advances to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

## Collateral Type

	2020	2019
	LKR '000	LKR '000
Documentary Bills (Excluding Export Bills Purchased at Current Exchange Rate)	10,143	158,127
Government Securities	2,925,262	4,469,099
Stocks, Bonds, Debentures, Sundries including Life Policies	1,090,697	1,742,684
Fixed, Savings, other Deposits and Pawning	49,250,220	45,144,520
Stock in Trade	1,932,721	2,986,244
Immovable Property, Plant and Machinery	123,799,764	134,780,561
Personal Guarantees and Promissory Notes	7,396,373	12,552,851
Trust Receipts	2,439,890	1,715,118
Leasing Agreements and Motor Vehicles	23,748,389	21,032,894
Other Securities	107,028,928	90,498,125
	<b>319,622,387</b>	<b>315,080,223</b>
On Clean Basis	94,913,085	78,596,046
<b>Total*</b>	<b>414,535,472</b>	<b>393,676,269</b>

\*Loans and advances outstanding amount with interest receivable.

The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets.

Type of Credit Exposure	Principal Type of Collateral Held for Secured Lending	Percentage of Exposure that is Subject to an Arrangement that Requires Collateralisation	
		2020	2019
		%	%
Derivative Financial Instruments	None	-	-
<b>Loans and Advances to Banks</b>			
Securities Purchased under Resale Agreement	Marketable Securities	100%	100%
Placements with Banks and Finance Companies	None	-	-
<b>Loans and Advances to Retail Customers</b>			
Mortgage Lending	Residential Property	100%	100%
Credit Cards	None	-	-
Personal Loans	None/ Guarantors	-	-
<b>Loans and Advances to Other Customers</b>			
Finance Leases	Motor Vehicles and Equipment	100%	100%
Other Lending to Other Customers	Commercial Property, Floating Charges Over Other Loans and Advances	77%*	80%*
Securities Purchased under Resale Agreements	Marketable Securities	100%	100%

\*Based on the exposure covered with collateral.

Details of financial and non-financial assets obtained by the Bank as at 31 December 2020 by taking possession of collateral held as security (foreclosed) against loans and advances including credit enhancements and held as at the year end are shown below.

Foreclosed Properties	2020		2019	
	Loans and Advances	Forced Sale Value	Loans and Advances	Forced Sale Value
		of Foreclosed Collateral		of Foreclosed Collateral
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	3,971,126	8,383,065	1,356,180	2,348,523
Additions During the Year	9,400	7,500	2,707,235	6,215,092
Settlements/ Disposals During the Year	(117,396)	(164,840)	(92,289)	(180,550)
Valuation Changes	-	6,341	-	-
<b>Balance as at 31 December</b>	<b>3,863,130</b>	<b>8,232,066</b>	<b>3,971,126</b>	<b>8,383,065</b>

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner.

### Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by industry and by geographic location.

An analysis of concentrations of credit risk of loans and advances by industry at the reporting date is shown in Note 25.1.3 to the financial statements.

Concentration by location for loans and advances is measured based

on the location of the Branch entity holding the asset, which has a high correlation with the location of the borrower. This is given in Geographical Analysis (page 268).

The table below shows the carrying amounts of the Bank's exposures to other financial instruments.

	2020	2019
	LKR '000	LKR '000
Financial Assets Recognised through Profit or Loss - measured at Fair Value	4,545,853	7,118,016
Derivative Financial Instruments (Assets)	403,984	134,756
Financial Assets measured at Fair Value through Other Comprehensive Income	59,024,231	55,591,526
Financial Assets at Amortised Cost - Debt and Other instruments	53,692,471	27,038,743

### Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

### Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses to the Bank.

Bank Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities

and details of other projected cash flows arising from projected future business. Bank Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and subsidiary are met through short-term loans from Bank and Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A

summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers and banks, and debt securities and subordinated liabilities as its primary sources of funding. While the Bank's debt securities and subordinated liabilities have maturities of five years, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

**Exposure to Liquidity Risk**

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid

assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank's compliance with the liquidity

limit established by the, Central Bank of Sri Lanka. Details of the reported Bank ratio of net liquid assets to liabilities from customers at the reporting date and during the year were as follows:

	2020		2019	
	DBU %	FCBU %	DBU %	FCBU %
At 31 December	31.31	22.47	21.40	21.81
Average for the Year	26.07	22.23	22.08	22.09
Maximum for the Year	31.31	22.94	23.00	23.28
Minimum for the Year	21.82	21.03	21.09	21.24

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020, due to the COVID- 19 pandemic situation licensed banks are permitted to consider the following assets as liquid assets in the computation of the Statutory Liquid Assets Ratio until 30 June 2021.

- Interest subsidy receivable on Senior Citizen Special Deposit Scheme.
- Exposures to State Owned Entities guaranteed by the Government and classified in Stage 1 under SLFRS 9: Financial Instruments for financial reporting purposes with maturity not exceeding one year with hair cut of 10%.
- Fixed deposits held by banks in other licensed banks (remaining period to maturity exceeds 1 year but less than or equal to 2 years, with the hair-cut of 20% and if the remaining period to maturity exceeds 2 years but less than or equal to 3 years, with hair-cut of 30%.
- Loans secured by deposits under lien equivalent to 20% of deposits.
- Receivables from Employees Provident Fund (EPF) in settlement of loans.

Maturity analysis for the financial liabilities is shown below with their undiscounted contractual cash flows over the future periods.

**Financial Liabilities - 2020**

	Less than 3 Months	3 Months to 1 Year	1-5 Years	More than 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Non - derivative Liabilities</b>					
Due to Banks and Other Borrowers	8,588,871	994,406	27,537,997	-	37,121,274
Financial Liabilities at Amortised Cost - Due to Depositors	190,416,600	233,107,184	23,001,424	11,825,491	458,350,699
Debt Securities Issued	710,681	2,098,333	18,041,324	3,183,660	24,033,998
Financial Liabilities at Amortised Cost - Due to Debt Securities Holders	2,425,718	197,730	-	-	2,623,448
Lease Liabilities	77,901	195,793	907,300	3,265,181	4,446,175
<b>Derivative Liabilities</b>					
Derivative Financial Instruments	39,981	-	-	-	39,981

**Financial Liabilities - 2019**

	Less than 3 Months LKR '000	3 Months to 1 Year LKR '000	1 -5 Years LKR '000	More than 5 Years LKR '000	Total LKR '000
<b>Non - derivative Liabilities</b>					
Due to Banks and Other Borrowers	7,683,788	9,291,265	16,735,621	-	33,710,674
Financial Liabilities at Amortised Cost - Due to Depositors	174,867,880	220,525,538	20,354,524	10,544,483	426,292,425
Debt Securities Issued	710,832	3,042,511	20,708,166	4,611,900	29,073,409
Financial Liabilities at Amortised Cost - Due to Debt Securities Holders	8,249,078	417,327	-	-	8,666,405
Lease Liabilities	632	19,321	659,583	3,672,096	4,351,632
<b>Derivative Liabilities</b>					
Derivative Financial Instruments	222,978	-	-	-	222,978

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and Government securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

**Liquidity Reserve**

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose:

	2020 Carrying Amount LKR '000	2020 Fair Value LKR '000
Cash and Cash Equivalents*	10,036,144	10,036,144
Placements with Banks and Finance Companies	10,730,528	10,730,528
Balances with Central Bank of Sri Lanka*	7,371,203	7,371,203
Treasury Bills/ Bonds Net of Repos	111,002,472	112,032,417
Bills Purchased*	4,798,324	4,798,324
<b>Total Liquidity Reserve</b>	<b>143,938,671</b>	<b>144,968,616</b>

\* The carrying amounts approximate their fair values as they are short term in nature (less than twelve months).

**Liquidity Coverage Ratio**

The Bank has a Liquidity Coverage Ratio (LCR) as defined by the regulator. The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 day period. The ratio is defined as the amount of High Quality Liquid Assets (HQLA) that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.

The LCR complements the Bank's stress testing framework. By maintaining a ratio in excess of minimum regulatory requirements, the LCR seeks to ensure that the Bank holds adequate liquidity resources to mitigate a short-term liquidity stress.

Commencing from 1 April 2015, all commercial banks maintained Liquidity Coverage Ratios (LCR) as prescribed by CBSL in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations effective from 1 January 2019 onwards 100%.

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020 due to the COVID- 19 pandemic situation minimum requirement of Liquidity Coverage Ratio was reduced to 90% up to 30 June 2021 with enhanced supervision and frequent reporting.

Minimum Requirement (%) - Effective from	
May 2020 to 30 June 2021	1 January 2019
90	100

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:

	2020	2019
Rupee Liquidity Requirement for Local Currency Operations	176.95	169.60
All Currency Liquidity Requirement for the overall Operations	142.75	116.01

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31 December 2020 and 2019.

	2020				2019			
	Encumbered		Unencumbered		Encumbered		Unencumbered	
	Pledged as				Pledged as			
	Collateral	Other	Other	Total	Collateral	Other	Other	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Cash and cash equivalents	-	-	10,036,144	10,036,144	-	-	11,758,729	11,758,729
Placements with Banks and Finance Companies	-	-	10,730,528	10,730,528	-	-	1,173,278	1,173,278
Financial Assets recognised through Profit or Loss - measured at Fair Value	-	-	4,545,853	4,545,853	169,770	-	6,948,246	7,118,016
Financial Assets at Amortised Cost - Loans and Advances	-	-	393,766,147	393,766,147	-	-	379,259,064	379,259,064
Financial Assets measured at Fair Value through Other Comprehensive Income/ Financial Assets at Amortised Cost	2,492,734	-	110,223,968	112,716,702	10,096,558	-	72,533,711	82,630,269
Other Assets	-	-	25,912,046	25,912,046	-	-	34,354,831	34,354,831
<b>Total assets</b>	<b>2,492,734</b>	<b>-</b>	<b>555,214,686</b>	<b>557,707,420</b>	<b>10,266,328</b>	<b>-</b>	<b>506,027,859</b>	<b>516,294,187</b>

### Contingency Funding Plan

The Bank has put in place a comprehensive Contingency Funding Plan (CFP) to be used during a liquidity crisis to endure adverse situations.

The CFP helps to monitor liquidity risk, ensure that an appropriate amount of liquid assets are maintained and ensure funding requirements can be met at various scenarios, and manage access to funding sources.

In a crisis situation, management has little time to plan its strategy, and as such the Management understands importance to have a well-developed contingency liquidity funding plan prior to a crisis occurring.

### Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

## NOTES TO THE FINANCIAL STATEMENTS

	2020			2019		
	Carrying Amount	Trading Portfolios	Non-trading Portfolios	Carrying Amount	Trading Portfolios	Non-trading Portfolios
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets Subject to Market risk</b>						
Financial Assets Recognised through Profit or Loss - measured at Fair Value	4,545,853	4,545,853	-	7,118,016	7,118,016	-
Derivative Financial Instruments	403,984	403,984	-	134,756	134,756	-
Placements with Banks and Finance Companies	10,730,528	-	10,730,528	1,173,278	-	1,173,278
Financial Assets at Amortised Cost - Loans and Advances	393,766,147	-	393,766,147	379,259,064	-	379,259,064
Financial Assets measured at Fair Value through Other Comprehensive Income	59,024,231	-	59,024,231	55,591,526	-	55,591,526
Securities Purchased under Resale Agreements	6,142,893	-	6,142,893	5,165,159	-	5,165,159
	<b>474,613,636</b>	<b>4,949,837</b>	<b>469,663,799</b>	<b>448,441,799</b>	<b>7,252,772</b>	<b>441,189,027</b>
<b>Liabilities Subject to Market Risk</b>						
Derivative Financial Instruments	39,981	39,981	-	222,978	222,978	-
Due to Depositors	440,303,126	-	440,303,126	400,731,358	-	400,731,358
Debt Securities Issued	17,058,558	-	17,058,558	19,870,944	-	19,870,944
Due to Banks	32,679,687	-	32,679,687	28,769,629	-	28,769,629
Due to Other Borrowers	14,123	-	14,123	23,407	-	23,407
Due to Debt Securities Holders	2,575,873	-	2,575,873	8,425,884	-	8,425,884
	<b>492,671,348</b>	<b>39,981</b>	<b>492,631,367</b>	<b>458,044,200</b>	<b>222,978</b>	<b>457,821,222</b>

### Management of Market Risk

Market risk management reporting creates transparency on the risk profile and facilitates the understanding of core market risk drivers to all levels of the Bank. The Management and Board Committees receive regular reporting, as well as ad hoc reporting as required, on market risk, the impact on capital and earnings through stress testing. The Risk Committees Executive Market and Operation Risk Management Committee (EMORMC) and Asset and Liability Committee (ALCO) receive risk information at a number of frequencies, including monthly and quarterly.

Additionally, Market Risk Management produces daily and weekly market risk specific reports and daily limit utilisation reports for the risk exposures generated through Treasury and other business units.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Bank's Treasury Department, and include positions arising from market making and also held with a view to earn a profit of financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. The Bank's Market Risk Management Unit is

responsible for the development of detailed risk management policies which is overseen by the EMORMC, subject to review and approval by ALCO and for the day-to-day review of their implementation.

The Bank employs a range of tools to monitor and limit market risk exposures.

### Non-trading Market Risk

Non trading market risk arises primarily from outside the activities of our trading units, in our banking book and from certain off-balance sheet items. Significant market risk factors the Bank is exposed to and are overseen by risk management committees are:

- Interest rate risk (including risk from embedded optionality and changes in behavioural patterns for certain product types)
- Market risks from off-balance sheet items such as foreign exchange risk of the hedging instruments such as SWAPs.

### Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book is the current or prospective risk, to both the Bank's capital and earnings, arising from movements in interest rates, which affect the banking book exposures. This includes maturity mis-matches of the interest bearing assets and liabilities which describes the impact of relative changes in interest rates for financial instruments that are priced using different interest rate curves.

Interest rate risk is the risk that the Bank will experience in deterioration in its financial positions as interest rates move over time.

Typically interest rate risk is split into two components: traded interest rate risk and non-traded interest rate risk. While the traded interest rate risk is relevant to trading activities and its affects, the latter is often referred to as interest rate risk on the balance sheet or to the banking book and arises from the Banks core banking activities.

The interest rate position for the Bank is that the duration of the liabilities to some extent is lesser than the duration of the assets in the shorter tenors of the reprising profile. Given this mismatch, under normal circumstances increasing interest rates will have a negative impact on the interest income of the Bank. On the other hand, as liabilities re-price more quickly than

assets, the average interest rates paid on liabilities would adapt more quickly to lower market interest rates. This would then support the Banks' net interest income.

The country's economic growth, which had remained subdued for an extended period of time until end 2019, had begun to turnaround as a result of fiscal and monetary stimulus and the return of business confidence during the latter part of 2019. However, due to the spread of the pandemic it was increasingly becoming evident that the domestic economic activities during the year 2020 was affected through various channels. In order to maintain price stability and liquidity flows, stringent Monetary Policy decisions had to be taken. Thus the Central Bank, during the year, took a number of measures to support the revival of domestic economic activities in the context of well anchored inflation expectations and the absence of demand driven pressures on inflation.

Hence the following Monetary Policy Decisions were effective during the year:

Monetary Policy Decision on:	Standing Deposit Facility Rate (SDFR)	Standing Lending Facility Rate (SLFR)	Statutory Reserve Ratio (SRR)
26 December 2019	7.00%	8.00%	5.00%
	6.50%	7.50%	5.00%
29 January 2020	Reduced by 50 basis points	Reduced by 50 basis points	No Change
	6.25%	7.25%	4.00%
16 March 2020	Reduced by 25 basis points	Reduced by 25 basis points	Reduced by 100 basis points
	6.00%	7.00%	4.00%
3 April 2020	Reduced by 25 basis points	Reduced by 25 basis points	No Change
	6.00%	7.00%	4.00%
15 April 2020	No Change	No Change	No Change
	5.50%	6.50%	4.00%
6 May 2020	Reduced by 50 basis points	Reduced by 50 basis points	No Change
	5.50%	6.50%	2.00%
16 June 2020	No Change	No Change	Reduced by 200 basis points
	4.50%	5.50%	2.00%
8 July 2020	Reduced by 100 basis points	Reduced by 100 basis points	No Change

The Bank manages the IRRBB exposures using economic value as well as earnings based measures. The Treasury division is delegated to manage the interest rate risk centrally on an ongoing basis, with Market Risk Management acting as an independent oversight function.

Economic value based measures look at the change in economic value of banking book of assets, liabilities and off-balance sheet exposures resulting from interest rate movements, independent of the accounting treatment. Thereby the Bank measures the change in Economic Value of Equity (EVE) of the banking book under standard scenarios for the ICAPP process as defined by Basel Committee on Banking Supervision.

Earnings-based measures look at the expected change in Net Interest Income (NII), compared to some defined benchmark scenarios, over a defined time horizon resulting from interest rate movements. Thereby the Bank measures the sensitivity of the Bank's interest sensitive assets and liabilities to a parallel shift to various interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) and a 200 bp parallel fall or rise in all yield curves over a period of 12 months' horizon.

The management of interest rate risk against interest rate gaps are monitored by both Earnings at Risk (EAR) and Economic Value of Equity (EVE).

Projected Impact Analysis on EAR as at 31 December 2020 is depicted in the table below:

	100 bp Parallel Increase	100 bp Parallel Decrease	200 bp Parallel Increase	200 bp Parallel Decrease
	LKR Mn	LKR Mn	LKR Mn	LKR Mn
Sensitivity of projected Net interest income 2021 (EAR)				
<b>As at 31 December 2020</b>	<b>(605.04)</b>	<b>605.04</b>	<b>(1,210.08)</b>	<b>1,210.08</b>
As at 31 December 2019	(392.36)	392.36	(784.73)	784.73

### Maturity Gaps

The Management and Board defines the liquidity and funding risk strategy for the Bank, as well as the risk appetite, based on recommendations made by the Risk Committee. At least annually the Board Risk Management Committee reviews and approves the limits which are applied to the Bank to measure and control liquidity risk as well as our long-term funding plan.

While such risk monitoring is mainly based on the stock approach through ratios and risk levels approved as per the risk appetite of the Bank, another method of managing and monitoring liquidity risk is using the floor approach tools which is the popular maturity mis-match or maturity gap analysis.

A summary of the Banks total assets and liabilities as at 31 December 2020, based on the remaining period at the reporting date to the respective cash flow/ maturity dates together with the maturity gaps are given below.

	Carrying Amount	Less than 3 Months	3-12 Months	1-5 Years	More than 5 Years
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>31 December 2020</b>					
<b>Interest Earning Assets</b>					
Placements with Banks and Finance Companies	10,730,528	10,730,528	-	-	-
Loans and Advances	393,766,147	159,319,010	77,524,538	118,256,972	38,665,627
Financial Assets Recognised through Profit or Loss/ Financial Assets at Amortised Cost/ Financial Assets measured at Fair Value through Other Comprehensive Income excluding Equities	107,886,682	10,555,449	21,664,821	68,524,969	7,141,443
Securities Purchased under Resale Agreements	6,142,893	6,142,893	-	-	-
Non-Interest Earning Assets	39,181,170	25,650,176	3,273,014	83	10,257,897
<b>Total Assets</b>	<b>557,707,420</b>	<b>212,398,056</b>	<b>102,462,373</b>	<b>186,782,024</b>	<b>56,064,967</b>
<b>Interest Bearing Liabilities</b>					
Due to Depositors	408,347,930	156,586,009	222,088,682	19,818,715	9,854,524
Due to Banks and Other Borrowers	32,693,810	8,460,483	937,500	23,295,827	-
Due to Debt Securities Holders	2,575,873	2,389,458	186,415	-	-
Debt Securities Issued	17,058,558	710,681	1,967,127	12,771,750	1,609,000
Group Balances Payable	221,952	89,877	3,075	129,000	-
Lease Liabilities	4,446,175	77,901	195,793	907,300	3,265,181
Non-Interest Bearing Liabilities	92,363,122	43,396,147	-	-	48,966,975
<b>Total Liabilities</b>	<b>557,707,420</b>	<b>211,710,556</b>	<b>225,378,592</b>	<b>56,922,592</b>	<b>63,695,680</b>
<b>Gaps</b>	<b>-</b>	<b>687,500</b>	<b>(122,916,219)</b>	<b>129,859,432</b>	<b>(7,630,713)</b>
	Carrying Amount	Less than 3 Months	3-12 Months	1-5 Years	More than 5 Years
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>31 December 2019</b>					
<b>Interest Earning Assets</b>					
Placements with Banks and Finance Companies	1,173,278	1,173,278	-	-	-
Loans and Advances	379,259,064	174,073,001	75,742,142	103,320,428	26,123,493
Financial Assets Recognised through Profit or Loss/ Financial Assets at Amortised Cost/ Financial Assets measured at Fair Value through Other Comprehensive Income excluding Equities	82,893,435	6,601,739	6,334,610	63,334,016	6,623,070
Securities Purchased under Resale Agreements	5,165,159	5,160,259	4,900	-	-
Non-Interest Earning Assets	47,803,251	35,452,499	1,745,873	335	10,604,544
<b>Total Assets</b>	<b>516,294,187</b>	<b>222,460,776</b>	<b>83,827,525</b>	<b>166,654,779</b>	<b>43,351,107</b>
<b>Interest Bearing Liabilities</b>					
Due to Depositors	378,054,717	149,174,658	203,325,538	16,580,660	8,973,861
Due to Banks and Other Borrowers	28,793,036	7,495,282	8,442,000	12,855,754	-
Due to Debt Securities Holders	8,425,884	8,046,703	379,181	-	-
Debt Securities Issued	19,870,944	710,832	3,055,112	13,781,000	2,324,000
Group Balances Payable	181,059	48,984	3,075	129,000	-
Lease Liabilities	4,351,632	632	19,321	659,583	3,672,096
Non-Interest Bearing Liabilities	76,616,915	31,944,609	45,032	-	44,627,274
<b>Total Liabilities</b>	<b>516,294,187</b>	<b>197,421,700</b>	<b>215,269,259</b>	<b>44,005,997</b>	<b>59,597,231</b>
<b>Gaps</b>	<b>-</b>	<b>25,039,076</b>	<b>(131,441,734)</b>	<b>122,648,782</b>	<b>(16,246,124)</b>

## Exposure to Other Market Risks

### Share Investment and Price Risk

The risk experienced by investments in share trading risk is the risk that the fair value of shares decreases as a result of changes in the levels of indices and the value of individual stocks.

Based on the Banks policies, Risk Management Unit ensures that reporting in respect of the shares investments and its valuation methodologies are appropriate and consistent, and assesses the potential impact on profits and capital.

Market risk limit measures for share investments are the framework to guide in share investments and for stop-losses. These limits are binding and monitored on a daily basis. Timely and accurate reporting helps the Treasury Investment Committee (TIC) to exercise exit strategies within the stop-loss limits and the Management Action Trigger limits (MAT limits).

The sensitivity analysis of our share investments helps the TIC to understand and mitigate the risk the Bank is exposed to due to the vulnerability of price risk.

### Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of

exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

The Bank ensures all market risk measures are adhered as laid down in the latest directions published by the Central Bank as well as according to best market practices followed locally and globally.

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in.

	In Original Foreign Currency		Functional Currency of the Bank	
	'000		LKR '000	
	2020	2019	2020	2019
<b>Net Foreign Currency Exposure</b>				
Great Britain Pound	4.12	12.39	1,052.74	2,961.22
United States Dollar	(1,350.75)	553.03	(253,264.80)	100,319.25
Euro	0.74	6.12	170.62	1,246.59
Japanese Yen	317.97	232.84	577.65	388.96
Australian Dollar	1.52	19.61	219.23	2,494.51

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below.

NOP as on 31 December 2020			NOP as on 31 December 2019		
	USD '000	LKR '000		USD '000	LKR '000
NOP	(1,285)	(240,932)	NOP	698	126,547
At Shock Levels of	Revised LKR Position	Effect on Income Statement	At Shock Levels of	Revised LKR Position	Effect on Income Statement
	LKR '000	LKR '000		LKR '000	LKR '000
5%	(252,979)	(12,047)	5%	132,874	6,327
10%	(265,025)	(24,093)	10%	139,202	12,655
15%	(277,072)	(36,140)	15%	145,529	18,982

## Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;

- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Management of the business unit to which they relate, with summaries submitted to the Board Audit Committee.

## Capital Management

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II till 30 June 2017 and thereafter Basel-III and takes into account the Credit, Market and Operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel III CAR calculation from 1 July 2017.

## Available Capital

Basel III accord recognises three capital elements, namely CET 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

CET 1 Capital includes equity capital, reserve fund, published retained earnings (accumulated retained losses), general and other reserves, and unpublished current year's profit/ (losses) and gains reflected in OCI. Goodwill (net), other intangible assets, revaluation losses of PPE, deferred tax assets, cash flow hedge reserve, shortfall of the cumulative impairment to specific provisions, defined benefit pension fund assets, investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving

at CET 1 Capital.

Additional Tier 1 Capital includes qualifying instruments as per the regulatory directions. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Additional Tier 1 Capital.

Tier 2 Capital includes qualifying tier 2 Capital instruments, revaluation gains, and general provisions etc. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Tier 2 Capital.

As per the Banking Act Direction No 01 of 2016 dated 29 December 2016 on Capital Requirements under BASEL III which was effective from 1 July 2017 and the amendments thereto under Directions No 11 of 2019 dated 20 December 2019, the minimum required capital ratios to be maintained by the Bank are as follows.

- Every licensed bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I to the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.
- Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 (CET1), as given in the table below.

## NOTES TO THE FINANCIAL STATEMENTS

	Capital Adequacy Ratio to be Maintained by Licensed Banks	Capital Adequacy Ratio to be Maintained by Licensed Banks Determined as D-SIBs
Components of Capital		
Common Equity Tier 1 including Capital Conservation Buffer	7.00%	7.00% + HLA
Total Tier 1 including Capital Conservation Buffer	8.50%	8.50% + HLA
Total Capital Ratio including Capital Conservation Buffer	12.50%	12.50% + HLA

HLA requirements as the minimum capital surcharge on D-SIBs are given below.

Bucket	HLA Requirement ( CET1 as a % of Risk- weighted Assets)
3	2.0
2	1.5
1	1.0

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in March 2020, due to the COVID-19 pandemic situation Domestic Systemically Important Banks (D-SIBs) and non D-SIBs are permitted to draw down their Capital Conservation Buffers by 100bps and 50bps out of the total of 250bps, respectively.

The Bank and the Group Capital Adequacy (Basel III) details as at 31 December are given below.

	Basel III 2020		Basel III 2019	
	Bank LKR Mn	Group LKR Mn	Bank LKR Mn	Group LKR Mn
<b>Assets</b>				
Total Risk Weighted Amount (including Off- Balance Sheet Items)	399,575	400,132	382,084	382,489
Risk Weighted Amount of Off-Balance Sheet Exposure	43,334	43,334	33,769	33,769
<b>Capital</b>				
Common Equity Tier 1 Capital	45,810	46,812	43,052	43,943
Total Tier 1 Capital	45,810	46,812	43,052	43,943
Total Capital	57,123	57,995	56,704	57,467
<b>Capital Adequacy Ratios</b>				
Common Equity Tier 1 Capital Ratio (%)	11.46	11.70	11.27	11.49
Tier 1 Capital (%)	11.46	11.70	11.27	11.49
Total Capital Ratio (%)	14.30	14.49	14.84	15.02

## Fair Value of Financial Instruments

### Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 5.4.4. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the

specific instrument. The fair value hierarchy of financial instruments is given below:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

### Valuation Models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other risk premiums used in estimating

discount rates, bond and equity prices, foreign currency exchange rates and equity.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as foreign exchange forward contracts that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is sensitive to the specific events and general conditions in the financial markets.

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 that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and the counterparty risk.

### Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an oversight by the Market Risk function, which is independent of front office management. Market Risk has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models involving both product control and group market risk;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of level 3 instruments compared with the previous period.

When third party information, such as broker quotes or pricing services, is used to measure fair value, market risk assesses and documents the evidence obtained from the third parties to support

the conclusion that such valuations meet the requirements of SLFRSs/ LKASs. This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of Financial Instrument;
- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

### Financial Instruments Measured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

	2020			2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Financial Assets measured at Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income</b>						
Financial Assets measured at Fair Value through Profit or Loss	4,372,563	173,290	-	5,273,119	1,844,897	-
Derivative Financial Instruments	-	403,984	-	-	134,756	-
Financial Assets measured at Fair Value through Other Comprehensive Income	58,164,468	565,588	294,175	47,988,588	6,714,606	888,332
<b>Financial Liabilities measured at Fair Value through Profit or Loss</b>						
Derivative Financial Instruments	-	39,981	-	-	222,978	-

### i. Level 3 Fair Value Measurements

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2020	2019
	LKR '000	LKR '000
<b>Financial Assets measured at Fair Value through Other Comprehensive Income (Level 3)</b>		
Balance as at 1 January	888,332	790,907
Total Fair Value Gain/ (Loss) in Other Comprehensive Income	(594,157)	97,425
<b>Balance as at 31 December</b>	<b>294,175</b>	<b>888,332</b>

### ii. Unobservable Inputs used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used as at 31 December 2020 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair Value as at 31 December 2020 LKR '000	Valuation Technique	Significant Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Investment in Unquoted Equities	294,175	Net Assets per Share	Price to Book Value Ratio (PBV) LKR 117.53	10% increase of PBV would increase the fair value by 10%

### Financial Instruments not Measured at Fair Value

The table below show a comparison of the carrying amounts, as reported on the Statement of Financial Position, and fair values of all financial assets and liabilities carried at amortised cost.

	31 December 2020		31 December 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Financial Assets</b>				
Cash and Cash Equivalents	10,036,144	10,036,144	11,758,729	11,758,729
Balances with Central Bank of Sri Lanka	7,371,203	7,371,203	14,458,970	14,458,970
Placements with Banks and Finance Companies	10,730,528	10,730,528	1,173,278	1,173,278
Financial Assets at Amortised Cost - Loans and Advances	393,766,147	393,414,349	379,259,064	379,042,412
Financial Assets at Amortised Cost - Debt and Other Instruments	53,692,471	54,985,730	27,038,743	27,812,328
Other Financial Assets	4,611,596	4,611,596	6,471,794	6,471,794
<b>Financial Liabilities</b>				
Due to Banks	32,679,687	32,679,687	28,769,629	28,769,629
Due to Depositors	440,303,126	440,303,126	400,731,358	400,731,358
Due to Debt Securities Holders	2,575,873	2,575,873	8,425,884	8,425,884
Due to Other Borrowers	14,123	14,123	23,407	23,407
Debt Securities Issued	17,058,558	18,138,609	19,870,944	19,671,517
Lease Liabilities	4,446,175	4,446,175	4,351,632	4,351,632
Other Financial Liabilities	6,953,704	6,953,704	6,025,050	6,025,050

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Bank's financial instruments can be exchanged in an active trading market. The Bank obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Bank obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level I LKR '000	Level II LKR '000	Level III LKR '000	Total LKR '000
31 December 2020				
<b>Financial Assets</b>				
Cash and Cash Equivalents	-	10,036,144	-	10,036,144
Balances with Central Bank of Sri Lanka	-	7,371,203	-	7,371,203
Placements with Banks and Finance Companies	-	10,730,528	-	10,730,528
Financial Assets at Amortised Cost - Loans and Advances	-	-	393,414,349	393,414,349
Financial Assets at Amortised Cost - Debt and Other instruments	33,717,041	20,639,881	628,808	54,985,730
Other Financial Assets	-	-	4,611,596	4,611,596
<b>Financial Liabilities</b>				
Due to Banks	-	-	32,679,687	32,679,687
Due to Depositors	-	-	440,303,126	440,303,126
Due to Debt Securities Holders	-	2,575,873	-	2,575,873
Due to Other Borrowers	-	-	14,123	14,123
Debt Securities Issued	-	18,138,609	-	18,138,609
Lease Liabilities	-	-	4,446,175	4,446,175
Other Financial Liabilities	-	-	6,953,704	6,953,704

Given below are the methodologies and assumptions used in fair value estimates.

#### Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

#### Securities Purchased under Resale Agreements

These are short term reverse repurchase contracts which will be matured within twelve months from the reporting date and thus the carrying amounts of such contracts approximate to their fair values.

#### Loans and Advances

Approximately 60% of the total portfolio of loans and advances to customers has a remaining contractual maturity of less than one year.

The fair value of loans and advances with a maturity of more than one year is the present value of future cash flows expected to be received from such loans and advances calculated based on interest rates at the reporting date for similar types of loans and advances. Such loans include both fixed and floating rate loans. Majority of the floating rate loans can be re priced while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference

between the contracted rate and the market interest rate.

The Bank calculated the fair value of the leasing advances with a fixed interest rate and that will have a maturity of more than twelve months from the reporting date. Fair value of such leases as at 31 December 2020 was LKR 23,397 Mn as against the carrying value which amounted to LKR 23,748 Mn.

#### Debt Securities at Amortised Cost

For the disclosure purpose the Bank has calculated the fair value of debt securities measured at amortised cost based on price formula applicable to such instruments at the reporting date. For the debentures measured at amortised cost fair value has been calculated using the market rate applicable for each instrument based on the remaining maturity period.

#### Liabilities

##### Bank and Other Borrowings

Approximately 29% of the amounts due to banks and others as at the reporting date have a remaining contractual maturity of less than one year. Majority of the balance amount comprised of floating rate instruments. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

#### Deposits

More than 93% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to premature upliftment. Amounts paid to customers in the event of premature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

#### Securities Sold under Repurchase Agreement

Securities sold under repurchase agreements have a remaining contractual maturity of less than twelve months. Accordingly, carrying value of these borrowings would not be materially different to their fair values as at the reporting date.

#### Debentures

Debentures include fixed and variable rate debentures. In respect of fixed rate debentures, fair value has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments. Accordingly the total debentures had a fair value of LKR 18,139 Mn as at 31 December 2020 as against its carrying value which amounted to LKR 17,059 Mn.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December				
<b>7. GROSS INCOME</b>				
Interest Income (Note 8.1)	52,320,397	55,423,358	52,328,078	55,430,879
Fee and Commission Income (Note 9.1)	3,931,545	4,457,325	3,931,327	4,457,109
Net Gains/ (Losses) from Trading (Note 10)	347,554	(497,595)	348,743	(496,010)
Net Gains from Derecognition of Financial Assets (Note 11)	782,565	320,472	782,565	320,472
Net Other Operating Income (Note 12)	1,057,777	1,666,094	1,052,679	1,643,799
<b>Total Gross Income</b>	<b>58,439,838</b>	<b>61,369,654</b>	<b>58,443,392</b>	<b>61,356,249</b>

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December				
<b>8. NET INTEREST INCOME</b>				
<b>8.1 Interest Income</b>				
Placements with Banks	513,857	102,291	513,857	102,291
Financial Assets recognised through Profit or Loss				
- measured at Fair Value				
Government Securities (Note 8.3)	264,646	514,844	264,646	514,844
Financial Assets at Amortised Cost				
- Loans and Advances*	41,775,031	46,271,838	41,774,968	46,271,289
- Debt and Other instruments				
Government Securities (Note 8.3)	3,821,147	2,881,787	3,821,147	2,881,787
Debt Instruments	51,074	64,250	51,074	64,250
Financial Assets measured at Fair Value through Other Comprehensive Income				
Government Securities (Note 8.3)	4,672,011	5,056,730	4,672,011	5,056,730
Debt Instruments	6,989	12,190	14,366	19,661
Other**	1,215,642	519,428	1,216,009	520,027
<b>Total Interest Income</b>	<b>52,320,397</b>	<b>55,423,358</b>	<b>52,328,078</b>	<b>55,430,879</b>

\* Interest Income on Loans and Advances includes interest accrued on impaired loans of LKR 937,456,574.00 in 2020(LKR 604,823,128.00 for 2019) and corresponding debit entry has been recorded under impairment charges (Note 25.3).

Interest Income from Loans and advances to customers includes modification loss made to loans due to moratorium/ debt concessionary schemes implemented by the Government as a measure to support the recovery of businesses/ customers affected by COVID 19 pandemic.

Interest income adjustment of LKR 251,826,819.00 in 2020 (LKR 292,616,230.00 for 2019) on staff loans at preferential interest rate that included in interest income has been recognised as staff benefit under personnel expenses.

\*\* Comprises interest subsidy on the Special Deposit Schemes for Citizens over 60 years and for deposits made by Sri Lankans living in Sri Lanka and abroad to save their foreign currencies within the Sri Lankan banking system, introduced by the Government of Sri Lanka.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December				
<b>8.2 Interest Expenses</b>				
Due to Banks	1,859,531	2,452,250	1,859,762	2,452,502
Financial Liabilities at Amortised Cost				
- Due to Depositors	27,868,429	30,775,405	27,864,709	30,771,413
- Due to Debt Securities Holders (Note 8.3)	192,280	711,495	192,280	711,495
- Due to Other Borrowers	759	1,105	759	1,105
Debt Securities Issued	2,468,212	2,419,840	2,451,012	2,403,915
Lease Liabilities*	433,431	430,744	148,773	147,652
<b>Total Interest Expenses</b>	<b>32,822,642</b>	<b>36,790,839</b>	<b>32,517,295</b>	<b>36,488,082</b>
<b>Net Interest Income</b>	<b>19,497,755</b>	<b>18,632,519</b>	<b>19,810,783</b>	<b>18,942,797</b>

\* Interest Expense on lease liabilities recognised as per SLFRS 16 - Leases w.e.f. 01.01.2019.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December				
<b>8.3 Net Interest Income from Sri Lanka Government Securities</b>				
Interest Income	8,757,804	8,453,361	8,757,804	8,453,361
Less : Interest Expenses	192,280	711,495	192,280	711,495
<b>Net Interest Income from Sri Lanka Government Securities</b>	<b>8,565,524</b>	<b>7,741,866</b>	<b>8,565,524</b>	<b>7,741,866</b>

## 9. NET FEE AND COMMISSION INCOME

	Banking		Treasury		Property/ Investment		Unallocated/ Eliminations		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December										
<b>9.1 Fee and Commission Income</b>										
<b>Comprising:</b>										
Loans	686,225	768,022	-	-	-	-	191	139	686,416	768,161
Cards	1,066,430	1,257,109	-	-	-	-	1	2	1,066,431	1,257,111
Trade and Remittances	767,931	800,712	-	-	-	-	-	-	767,931	800,712
Deposits	104,759	105,830	-	-	-	-	-	-	104,759	105,830
Guarantees	143,531	533,424	-	-	-	-	-	-	143,531	533,424
Other Financial Services	1,120,200	946,058	5,424	7,282	-	-	36,853	38,747	1,162,477	992,087
<b>Total Fee and Commission Income-Bank</b>	<b>3,889,076</b>	<b>4,411,155</b>	<b>5,424</b>	<b>7,282</b>	<b>-</b>	<b>-</b>	<b>37,045</b>	<b>38,888</b>	<b>3,931,545</b>	<b>4,457,325</b>
<b>Subsidiary</b>										
Deposits*	-	-	-	-	-	-	(218)	(216)	(218)	(216)
<b>Total Fee and Commission Income-Group</b>	<b>3,889,076</b>	<b>4,411,155</b>	<b>5,424</b>	<b>7,282</b>	<b>-</b>	<b>-</b>	<b>36,827</b>	<b>38,672</b>	<b>3,931,327</b>	<b>4,457,109</b>

\* Elimination of intercompany transactions.

	Banking		Treasury		Property/ Investment		Unallocated/ Eliminations		Total	
	For the Year ended 31 December									
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>9.2 Fee and Commission Expenses</b>										
<b>Comprising:</b>										
Brokerage Fees	83	-	11,358	12,426	-	-	-	-	11,441	12,426
Loans/ Cards	84,057	97,237	-	-	-	-	-	-	84,057	97,237
Other Financial Services	93,744	101,627	12,693	13,264	-	-	-	-	106,437	114,891
<b>Total Fee and Commission Expenses-Bank</b>	<b>177,884</b>	<b>198,864</b>	<b>24,051</b>	<b>25,690</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>201,935</b>	<b>224,554</b>
<b>Subsidiary</b>										
Brokerage fees	-	-	-	-	1,088	-	-	-	1,088	-
<b>Total Fee and Commission Expenses - Group</b>	<b>177,884</b>	<b>198,864</b>	<b>24,051</b>	<b>25,690</b>	<b>1,088</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>203,023</b>	<b>224,554</b>
<b>Total Net Fee and Commission Income-Bank</b>	<b>3,711,192</b>	<b>4,212,291</b>	<b>(18,627)</b>	<b>(18,408)</b>	<b>-</b>	<b>-</b>	<b>37,045</b>	<b>38,888</b>	<b>3,729,610</b>	<b>4,232,771</b>
<b>Total Net Fee and Commission Income-Group</b>	<b>3,711,192</b>	<b>4,212,291</b>	<b>(18,627)</b>	<b>(18,408)</b>	<b>(1,088)</b>	<b>-</b>	<b>36,827</b>	<b>38,672</b>	<b>3,728,304</b>	<b>4,232,555</b>

	Bank		Group	
	For the Year ended 31 December			
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>10. NET GAINS/ (LOSSES) FROM TRADING</b>				
<b>Derivative Financial Instruments</b>				
From Banks	176,890	(776,047)	176,890	(776,047)
From Other Customers	23,836	6,795	23,836	6,795
<b>Financial Assets recognised through Profit or Loss - Measured at Fair Value*</b>				
Equities	-	-	1,189	1,585
Government Securities	146,828	271,657	146,828	271,657
<b>Total Net Gains/ (Losses) from Trading</b>	<b>347,554</b>	<b>(497,595)</b>	<b>348,743</b>	<b>(496,010)</b>

\*Includes Net Capital Gains/ (Losses) and Net Mark to Market Gains/ (Losses).

## 11. NET GAINS FROM DERECOGNITION OF FINANCIAL ASSETS

For the Year ended 31 December	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets measured at Fair Value through Other Comprehensive Income Government Securities	782,565	320,472	782,565	320,472
<b>Total Net Gains from Derecognition of Financial Assets</b>	<b>782,565</b>	<b>320,472</b>	<b>782,565</b>	<b>320,472</b>

## 12. NET OTHER OPERATING INCOME

Dividend Income				
Equity Investments measured at Fair Value through Other Comprehensive Income - Quoted	4,893	5,749	4,893	5,749
Equity Investments measured at Fair Value through Other Comprehensive Income - Unquoted	14,280	19,240	14,280	19,240
Subsidiary - Seylan Developments PLC	114,765	89,726	-	-
Profit on Sale of Property, Plant and Equipment	8,884	10,758	8,884	10,753
Foreign Exchange Income*	848,976	1,385,538	848,805	1,384,500
Recovery of Loans Written-Off	65,979	155,083	65,979	155,083
Rent and Other Income	-	-	109,838	68,474
<b>Total Other Operating Income - Net</b>	<b>1,057,777</b>	<b>1,666,094</b>	<b>1,052,679</b>	<b>1,643,799</b>

\* Foreign Exchange Income represents both revaluation gains/ (losses) on the Bank's net open position and realised exchange gains/ (losses) on foreign currency transactions.

## 13. IMPAIRMENT CHARGES

For the Year ended 31 December	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and Advances (Note 13.1)	6,668,894	3,848,416	6,668,894	3,848,416
Financial Assets measured at amortised cost - Debt and Other Instruments (Note 26.5)	255,903	1,756	255,903	1,756
Financial Assets measured at FVOCI (Note 27.7)	(50,003)	34,678	(50,003)	34,678
Cash and Cash Equivalents (Note 20.1)	(7,973)	(8,080)	(7,973)	(8,080)
Placements with Banks and Finance Companies (Note 22.1)	48,026	5,896	48,026	5,896
Undrawn Credit Commitments and Financial Guarantees (Note 43.3)	78,129	52	78,129	52
<b>Total Impairment Charge</b>	<b>6,992,976</b>	<b>3,882,718</b>	<b>6,992,976</b>	<b>3,882,718</b>

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December				
<b>13.1 Loans and Advances</b>				
Impairment Charges - Stage 1 (Note 25.3.1)	628,357	103,489	628,357	103,489
Impairment Charges - Stage 2 (Note 25.3.1)	359,004	(246,876)	359,004	(246,876)
Impairment Charges - Stage 3 (Note 25.3.1)	5,679,333	3,987,081	5,679,333	3,987,081
Loans written off	2,200	4,722	2,200	4,722
<b>Total Impairment Charges on Loans and Advances</b>	<b>6,668,894</b>	<b>3,848,416</b>	<b>6,668,894</b>	<b>3,848,416</b>
<b>14. OPERATING EXPENSES</b>				
<b>Operating Expenses include the following ;</b>				
Directors' Emoluments*	91,746	84,317	94,421	87,852
Auditors' Remunerations				
Audit Fees and Expenses	10,568	10,260	11,904	11,421
Audit-Related Fees and Expenses	6,246	5,173	6,246	5,173
Non-Audit Services	1,338	3,629	1,338	3,629
Depreciation - Property, Plant and Equipment (Note 30)	822,304	685,816	879,282	733,490
Depreciation - Right-of-use Assets (Note 31)	461,141	460,314	427,642	426,597
Depreciation - Investment Properties (Note 32)	-	-	15,416	12,338
Amortisation of Intangible Assets (Note 33)	163,866	154,686	163,866	154,686
Donations	10,788	97	11,254	540
Legal Expenses	145,933	185,050	146,635	185,250
Sri Lanka Deposit Insurance Fund Contribution	371,414	389,657	371,414	389,657
Crop Insurance Levy	29,719	36,569	29,719	36,569
* Directors' Emoluments include the salaries, benefits and fees paid to both Executive and Non-Executive Directors of the Bank and Group.				
<b>15. PERSONNEL EXPENSES</b>				
Personnel Expenses include the Following:				
Salaries and Bonuses	4,748,136	4,299,195	4,768,085	4,318,853
Contribution to Employees' Provident Fund	486,071	445,817	488,164	447,870
Contribution to Employees' Trust Fund	121,519	111,463	122,042	111,976
Provision for Defined Benefit Obligations (Note 43.1.6)	244,423	236,840	244,301	236,389
Additional Gratuity Expense (Note 43.1.6)	79,493	81,212	79,493	81,212
Amortisation of Prepaid Staff Cost*	265,654	303,632	265,770	303,665
Other Staff Related Expenses	945,472	1,095,649	956,838	1,108,073
<b>Total Personnel Expenses</b>	<b>6,890,768</b>	<b>6,573,808</b>	<b>6,924,693</b>	<b>6,608,038</b>

\*Includes prepaid staff cost on staff loans at preferential rate and staff deposits at special rate.

## 16. INCOME TAX EXPENSE

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December				
<b>16.1 Income Tax Expense Recognised in Income Statement</b>				
<b>16.1.1 Current Tax Expense</b>				
Tax on Current Year's Profits (Note 16.2)	1,355,040	1,188,231	1,366,468	1,224,390
(Over Provision)/ Under Provision in Respect of Previous Years	(31,229)	(30,883)	(31,229)	(30,883)
	<b>1,323,811</b>	<b>1,157,348</b>	<b>1,335,239</b>	<b>1,193,507</b>
<b>16.1.2 Deferred Taxation</b>				
Charge/ (Reversal) on Temporary Differences (Note 42)	(223,864)	261,030	(137,661)	275,351
	<b>(223,864)</b>	<b>261,030</b>	<b>(137,661)</b>	<b>275,351</b>
<b>Total Income Tax Expense</b>	<b>1,099,947</b>	<b>1,418,378</b>	<b>1,197,578</b>	<b>1,468,858</b>

- i Current tax on profits has been computed at the rate of 28% (Domestic and Foreign Currency Banking Unit including both on-shore and off-shore) on the taxable income arising from Banking and Leasing businesses.
- ii Leasing has been deemed as blended loans by the Inland Revenue Act No.24 of 2017 enabling banks to treat leasing business under business of banking.
- iii The Seylan Developments PLC (subsidiary) has computed taxation based on the standard rate applicable for companies at 28%.
- iv The Cabinet of Ministers has approved the reduction of Income Tax rate applicable to companies to 24% from 28% with effect from 1 January 2020. The said provisional amendment is yet to be approved by the Parliament and cannot be construed as an amendment. Under such circumstances, the Bank continued using 28% in calculating the current tax charge and the deferred tax liabilities/ assets for the years 2019 and 2020 ending 31 December as the particular amendment has not been substantially enacted by the end of the reporting periods.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31 December				
<b>16.2 Reconciliation of the Accounting Profit to Income Tax Expense</b>				
<b>Profit before Income Tax</b>	<b>4,111,247</b>	<b>5,098,640</b>	<b>4,295,636</b>	<b>5,267,110</b>
Less : Profit/ (Loss) from Leasing Business	(926,906)	(460,058)	(926,906)	(460,058)
<b>Profit/ (Loss) from Banking Business</b>	<b>5,038,153</b>	<b>5,558,698</b>	<b>5,222,542</b>	<b>5,727,168</b>
Add : Disallowable Expenses	9,460,444	7,903,265	9,965,685	8,471,874
Less : Allowable Expenses	7,624,276	7,897,615	8,073,386	8,343,373
Exempt Income (Note 16.6)	(859,385)	(668,616)	(859,385)	(668,616)
<b>Business Income from Banking Activities</b>	<b>6,014,936</b>	<b>4,895,732</b>	<b>6,255,456</b>	<b>5,187,053</b>
<b>Business Income/ (Loss) from Leasing Activities (Note 16.3)</b>	<b>(1,175,507)</b>	<b>(652,049)</b>	<b>(1,175,507)</b>	<b>(652,049)</b>
<b>Total Income</b>	<b>4,839,429</b>	<b>4,243,683</b>	<b>5,079,949</b>	<b>4,535,004</b>
Add : Tax Losses Incurred for the Year - Leasing (Note 16.3)	1,175,507	652,049	1,175,507	652,049
Less : Tax Losses Set-off (Note 16.3)	1,175,507	652,049	1,375,213	814,231
<b>Assessable Income</b>	<b>4,839,429</b>	<b>4,243,683</b>	<b>4,880,243</b>	<b>4,372,822</b>
<b>Taxable Income</b>	<b>4,839,429</b>	<b>4,243,683</b>	<b>4,880,243</b>	<b>4,372,822</b>
Tax on Current Year's Profit	1,355,040	1,188,231	1,366,468	1,224,390
(Over)/ Under Provision in Respect of Previous Years	(31,229)	(30,883)	(31,229)	(30,883)
Transfer to Deferred Taxation (Note 16.4)	(223,864)	261,030	(137,661)	275,351
<b>Total Income Tax Expense</b>	<b>1,099,947</b>	<b>1,418,378</b>	<b>1,197,578</b>	<b>1,468,858</b>
Effective Income Tax Rate (Note 16.5) (%)	27	28	28	28
Effective Current Tax Rate (Excluding Deferred Tax) (%)*	33	23	32	23

\* The difference of effective income tax rate and effective current tax rate arises mainly due to the temporary differences from impairment charges on financial assets and Loans and Advances.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December	Bank				Group			
	2020		2019		2020		2019	
	Taxable Income	Tax Expense	Taxable Income	Tax Expense	Taxable Income	Tax Expense	Taxable Income	Tax Expense
	LKR '000	LKR '000						
Bank Domestic Banking Unit and On-Shore Profits - 28%	4,833,473	1,353,372	4,235,123	1,185,834	4,874,287	1,364,800	4,364,262	1,221,993
Off-Shore Profits - 28%	5,956	1,668	8,560	2,397	5,956	1,668	8,560	2,397
	<b>4,839,429</b>	<b>1,355,040</b>	<b>4,243,683</b>	<b>1,188,231</b>	<b>4,880,243</b>	<b>1,366,468</b>	<b>4,372,822</b>	<b>1,224,390</b>

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>16.3 Tax losses brought forward</b>				
Tax Losses Brought Forward	-	-	431,078	593,260
Add: Tax Losses Incurred During the Year		1,175,507	652,049	1,175,507
Less: Tax Losses Utilised During the Year		1,175,507	652,049	1,375,213
<b>Unutilised Tax Losses Carried Forward</b>		<b>-</b>	<b>-</b>	<b>231,372</b>
<b>16.4 Deferred Tax Charge/ (Reversal)</b>				
<b>Deferred Tax - Liabilities</b>				
Property, Plant and Equipment		(19,176)	40,348	(19,304)
Lease Receivables		45,919	(86,692)	45,919
Right-of-use Assets		(7,764)	30,068	22,649
Expected Credit Loss Allowance		(264,356)	437,793	(264,356)
		<b>(245,377)</b>	<b>421,517</b>	<b>(215,092)</b>
<b>Deferred Tax - Assets</b>				
Leave Encashment Provision		13,965	9,796	13,965
Other Provisions		(6,509)	(2,572)	(6,509)
Additional Gratuity Liability		(28,969)	153,263	(28,969)
Tax Losses Carried Forward		-	-	(55,918)
		<b>(21,513)</b>	<b>160,487</b>	<b>(77,431)</b>
<b>Transfer to Deferred Taxation</b>		<b>(223,864)</b>	<b>261,030</b>	<b>(137,661)</b>

	Bank				Group			
	2020		2019		2020		2019	
	%	LKR '000						
<b>16.5 Reconciliation of Effective Tax Rate</b>								
Profit before Income Tax	-	4,111,247	-	5,098,640	-	4,295,636	-	5,267,110
<b>Income Tax for the Period</b>	<b>28</b>	<b>1,151,149</b>	<b>28</b>	<b>1,427,619</b>	<b>28</b>	<b>1,202,778</b>	<b>28</b>	<b>1,474,791</b>
Tax Effect of Expenses that are Not Deductible for Tax Purposes	65	2,648,924	44	2,212,914	65	2,790,392	45	2,372,125
Tax Effect of Expenses that are Deductible for Tax Purposes	(51)	(2,134,797)	(43)	(2,211,332)	(52)	(2,260,548)	(44)	(2,336,146)
Exempt Income (Note 16.6)	(6)	(240,628)	(4)	(187,212)	(6)	(240,628)	(4)	(187,212)
Business Income from Leasing Activities	(8)	(329,142)	(4)	(182,574)	(8)	(329,142)	(3)	(182,574)
Utilisation of Currently/ Previously Recognised Tax Losses	6	259,534	3	128,816	6	203,616	2	83,406
(Over)/ Under Provision in Respect of Previous Years	(1)	(31,229)	(1)	(30,883)	(1)	(31,229)	(1)	(30,883)
Deferred Taxation	(6)	(223,864)	5	261,030	(4)	(137,661)	5	275,351
<b>Total Income Tax Expense (Note 16.2)</b>	<b>27</b>	<b>1,099,947</b>	<b>28</b>	<b>1,418,378</b>	<b>28</b>	<b>1,197,578</b>	<b>28</b>	<b>1,468,858</b>

**16.6 Exempt Income**

As per the public notice under the reference PN/ IT/ 2020-03 (Revised) dated 8 April 2020 issued by the Inland Revenue Department, the exemption granted to income on sovereign bonds with effect from 1 April 2018 includes interest on Sri Lanka Development bonds as well. Accordingly interest from Sri Lanka Development Bonds and Sovereign Bonds has been treated as exempt income subject to parliamentary approval.

## 17. BASIC/ DILUTED EARNINGS PER SHARE

Basic Earnings per Share has been calculated by dividing Profit after Tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31 December 2020 and 2019.

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive Ordinary Shares.

	Bank		Group	
	2020	2019	2020	2019
		Restated		Restated
Total Profit after Tax Attributable to Equity Holders of the Bank (LKR '000)	3,011,300	3,680,262	3,038,629	3,732,691
Weighted Average Number of Ordinary Shares as at 31 December ('000) (Note 17.1)	517,023	422,841	517,023	422,841
<b>Basic/ Diluted Earnings per Share ( LKR )</b>	<b>5.82</b>	<b>8.70</b>	<b>5.88</b>	<b>8.83</b>

### 17.1 Weighted Average Number of Ordinary Shares for Earnings per Share

	2020		2019	
	Outstanding	Weighted Average	Outstanding	Weighted Average Restated
Number of Shares Held as at 1 January	503,623,786	503,623,786	366,099,092	366,099,092
Add : Number of Shares Issued - Scrip Dividend 2019	-	-	11,618,748	11,618,748
Add : Number of Shares Issued - Scrip Dividend 2020	13,399,183	13,399,183	-	-
Add : Number of Shares Issued - Rights Issue	-	-	125,905,946	31,723,643
<b>Number of Shares Held as at 31 December</b>	<b>517,022,969</b>	<b>517,022,969</b>	<b>503,623,786</b>	<b>409,441,483</b>
Restatement due to Subsequent Scrip Issue*		-		13,399,183
<b>Weighted Average Number of Ordinary Shares as at 31 December</b>		<b>517,022,969</b>		<b>422,840,666</b>

\*Weighted average number of ordinary shares as at 31 December 2019 has been restated based on the number of shares issued for scrip dividend in 2020 as per Sri Lanka Accounting Standard (LKAS 33) - "Earnings per Share".

## 18. DIVIDENDS

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
Net Dividend Paid		
Cash Dividends	503,624	174,125
Scrip Dividends	503,623	629,691
Tax Deducted at Source	-	111,432
<b>Gross Dividend</b>	<b>1,007,247</b>	<b>915,248</b>

### Proposed Dividend

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 1.50 per share for both voting and non-voting ordinary shareholders of the Bank to be paid by way of LKR 1.50 scrip dividend per share for the year ended 31 December 2020 (Bank declared a final dividend of LKR 2.00 per share for 2019 by way of LKR 1.00 cash dividend per share and LKR 1.00 scrip dividend per share).

The total dividend recommended by the Board of Directors is to be approved at the forthcoming Annual General Meeting to be held on 30 March 2021. Final dividend proposed for the year 2020 amounts to LKR 775,534,453.50 (LKR 1,007,247,572.00 for 2019).

In accordance with provisions of the Sri Lanka Accounting Standard (LKAS 10) – Events after the Reporting Period, the proposed final dividend has not been recognised as a liability as at year end.

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied that the Bank would satisfy the solvency test in accordance with the section 57, prior to recommending the final dividend.

## 19. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

### 19.1 Bank

	2020			Total LKR '000
	Financial Assets measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI) LKR '000	Financial Assets measured at Amortised Cost (AC) LKR '000	
<b>Assets</b>				
Cash and Cash Equivalents	-	-	10,036,144	10,036,144
Balances with Central Bank of Sri Lanka	-	-	7,371,203	7,371,203
Placements with Banks and Finance Companies	-	-	10,730,528	10,730,528
Derivative Financial Instruments	403,984	-	-	403,984
Securities Purchased under Resale Agreements	-	-	6,142,893	6,142,893
Customer Loans and Receivables	-	-	393,766,147	393,766,147
Debt Instruments	-	-	718,397	718,397
Equity Instruments	-	3,232,980	-	3,232,980
Government Securities	4,545,853	55,791,251	46,831,181	107,168,285
Group Balances Receivable	-	-	40,000	40,000
Other Financial Assets	-	-	4,611,596	4,611,596
<b>Total Financial Assets</b>	<b>4,949,837</b>	<b>59,024,231</b>	<b>480,248,089</b>	<b>544,222,157</b>
		Financial Liabilities measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Liabilities measured at Amortised Cost (AC) LKR '000	Total LKR '000
<b>Liabilities</b>				
Due to Banks	-	-	32,679,687	32,679,687
Derivative Financial Instruments	39,981	-	-	39,981
Due to Depositors	-	-	440,303,126	440,303,126
Securities Sold under Repurchase Agreements	-	-	2,575,873	2,575,873
Due to other Borrowers	-	-	14,123	14,123
Group Balances Payable	-	-	261,462	261,462
Debt Securities Issued	-	-	17,058,558	17,058,558
Lease Liabilities	-	-	4,446,175	4,446,175
Other Financial Liabilities	-	-	6,953,704	6,953,704
<b>Total Financial Liabilities</b>		<b>39,981</b>	<b>504,292,708</b>	<b>504,332,689</b>

	2019			
	Financial Assets measured at Fair Value through Profit or Loss (FVTPL)	Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI)	Financial Assets measured at Amortised Cost (AC)	Total
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>				
Cash and Cash Equivalents	-	-	11,758,729	11,758,729
Balances with Central Bank of Sri Lanka	-	-	14,458,970	14,458,970
Placements with Banks and Finance Companies	-	-	1,173,278	1,173,278
Derivative Financial Instruments	134,756	-	-	134,756
Securities Purchased under Resale Agreements	-	-	5,165,159	5,165,159
Customer Loans and Receivables	-	-	379,259,064	379,259,064
Debt Instruments	-	74,055	669,204	743,259
Equity Instruments	-	1,689,691	-	1,689,691
Government Securities	7,118,016	53,827,780	21,204,380	82,150,176
Group Balances Receivable	-	-	40,000	40,000
Other Financial Assets	-	-	6,471,794	6,471,794
<b>Total Financial Assets</b>	<b>7,252,772</b>	<b>55,591,526</b>	<b>440,200,578</b>	<b>503,044,876</b>
	Financial Liabilities measured at Fair Value through Profit or Loss (FVTPL)	Financial Liabilities measured at Amortised Cost (AC)	Total	
	LKR '000	LKR '000	LKR '000	
<b>Liabilities</b>				
Due to Banks	-	28,769,629	28,769,629	
Derivative Financial Instruments	222,978	-	222,978	
Due to Depositors	-	400,731,358	400,731,358	
Securities Sold under Repurchase Agreements	-	8,425,884	8,425,884	
Due to other Borrowers	-	23,407	23,407	
Group Balances Payable	-	200,969	200,969	
Debt Securities Issued	-	19,870,944	19,870,944	
Lease Liabilities	-	4,351,632	4,351,632	
Other Financial Liabilities	-	6,025,050	6,025,050	
<b>Total Financial Liabilities</b>	<b>222,978</b>	<b>468,398,873</b>	<b>468,621,851</b>	

## 19.2 Group

	2020			
	Financial Assets measured at Fair Value through Profit or Loss (FVTPL)	Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI)	Financial Assets measured at Amortised Cost (AC)	Total
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>				
Cash and Cash Equivalents	-	-	10,036,184	10,036,184
Balances with Central Bank of Sri Lanka	-	-	7,371,203	7,371,203
Placements with Banks and Finance Companies	-	-	10,730,528	10,730,528
Derivative Financial Instruments	403,984	-	-	403,984
Securities Purchased under Resale Agreements	-	-	6,142,893	6,142,893
Customer Loans and Receivables	-	-	393,766,147	393,766,147
Debt Instruments	-	57,275	718,397	775,672
Equity Instruments	7,925	3,232,980	-	3,240,905
Government Securities	4,545,853	55,791,251	46,831,181	107,168,285
Other Financial Assets	-	-	4,632,225	4,632,225
<b>Total Financial Assets</b>	<b>4,957,762</b>	<b>59,081,506</b>	<b>480,228,758</b>	<b>544,268,026</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Financial Liabilities measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Liabilities measured at Amortised Cost (AC) LKR '000	Total LKR '000
<b>Liabilities</b>			
Due to Banks	-	32,679,687	32,679,687
Derivative Financial Instruments	39,981	-	39,981
Due to Depositors	-	440,303,126	440,303,126
Securities Sold under Repurchase Agreements	-	2,575,873	2,575,873
Due to other Borrowers	-	14,123	14,123
Debt Securities Issued	-	17,058,558	17,058,558
Lease Liabilities	-	1,582,937	1,582,937
Other Financial Liabilities	-	6,997,794	6,997,794
<b>Total Financial Liabilities</b>	<b>39,981</b>	<b>501,212,098</b>	<b>501,252,079</b>

## 2019

	Financial Assets measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI) LKR '000	Financial Assets measured at Amortised Cost (AC) LKR '000	Total LKR '000
<b>Assets</b>				
Cash and Cash Equivalents	-	-	11,758,769	11,758,769
Balances with Central Bank of Sri Lanka	-	-	14,458,970	14,458,970
Placements with Banks and Finance Companies	-	-	1,173,278	1,173,278
Derivative Financial Instruments	134,756	-	-	134,756
Securities Purchased under Resale Agreements	-	-	5,165,159	5,165,159
Customer Loans and Receivables	-	-	379,259,064	379,259,064
Debt Instruments	-	128,067	669,204	797,271
Equity Instruments	6,736	1,689,691	-	1,696,427
Government Securities	7,118,016	53,827,780	21,204,380	82,150,176
Other Financial Assets	-	-	6,497,010	6,497,010
<b>Total Financial Assets</b>	<b>7,259,508</b>	<b>55,645,538</b>	<b>440,185,834</b>	<b>503,090,880</b>

	Financial Liabilities measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Liabilities measured at Amortised Cost (AC) LKR '000	Total LKR '000
<b>Liabilities</b>			
Due to Banks	-	28,769,629	28,769,629
Derivative Financial Instruments	222,978	-	222,978
Due to Depositors	-	400,731,358	400,731,358
Securities Sold under Repurchase Agreements	-	8,425,884	8,425,884
Due to other Borrowers	-	23,407	23,407
Debt Securities Issued	-	19,870,944	19,870,944
Lease Liabilities	-	1,507,618	1,507,618
Other Financial Liabilities	-	6,062,631	6,062,631
<b>Total Financial Liabilities</b>	<b>222,978</b>	<b>465,391,471</b>	<b>465,614,449</b>

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>20. CASH AND CASH EQUIVALENTS</b>				
Cash in Hand - Local Currency	8,034,662	8,117,084	8,034,702	8,117,124
Cash in Hand - Foreign Currency	251,726	305,208	251,726	305,208
Balances with Local Banks	85,785	126,633	85,785	126,633
Balances with Foreign Banks	1,672,764	3,226,570	1,672,764	3,226,570
<b>Total Cash and Cash Equivalents</b>	<b>10,044,937</b>	<b>11,775,495</b>	<b>10,044,977</b>	<b>11,775,535</b>
Expected Credit Loss Allowance (Note 20.1)	(8,793)	(16,766)	(8,793)	(16,766)
<b>Total Cash and Cash Equivalents - Net</b>	<b>10,036,144</b>	<b>11,758,729</b>	<b>10,036,184</b>	<b>11,758,769</b>
<b>20.1 Movement in Expected Credit Loss Allowance During the year</b>				
<b>Stage 1</b>				
Balance as at 1 January	16,766	24,846	16,766	24,846
Charge/ (Write Back) to Income Statement (Note 13)	(7,973)	(8,080)	(7,973)	(8,080)
<b>Balance as at 31 December</b>	<b>8,793</b>	<b>16,766</b>	<b>8,793</b>	<b>16,766</b>

## 21. BALANCES WITH CENTRAL BANK OF SRI LANKA

As required by Section 93 of the Monetary Law Act, a cash balance to fulfill the statutory reserve requirement of 2% (2% for the period 16 June 2020 to 31 December 2020, 4% for the period from 16 March 2020 to 15 June 2020, 5% for the period from 1 March 2019 to 15 March 2020 and 6% for the period from 16 November 2018 to 28 February 2019) of the rupee deposit liabilities to be maintained with Central Bank of Sri Lanka.

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
Statutory Balances with the Central Bank of Sri Lanka	7,371,203	14,458,970
<b>Total Balances with Central Bank of Sri Lanka</b>	<b>7,371,203</b>	<b>14,458,970</b>

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>22. PLACEMENTS WITH BANKS AND FINANCE COMPANIES</b>				
Term Deposits with Banks	10,784,450	1,179,174	10,784,450	1,179,174
Term Deposits with Finance Companies	-	-	498	498
<b>Total Placements with Banks and Finance Companies</b>	<b>10,784,450</b>	<b>1,179,174</b>	<b>10,784,948</b>	<b>1,179,672</b>
Expected Credit Loss Allowance (Note 22.1)	(53,922)	(5,896)	(54,420)	(6,394)
<b>Total Placements with Banks and Finance Companies - Net</b>	<b>10,730,528</b>	<b>1,173,278</b>	<b>10,730,528</b>	<b>1,173,278</b>
<b>22.1 Movement in Expected Credit Loss Allowance During the year</b>				
<b>Stage 1</b>				
Balance as at 1 January	5,896	-	6,394	498
Charged to Income Statement (Note 13)	48,026	5,896	48,026	5,896
<b>Balance as at 31 December</b>	<b>53,922</b>	<b>5,896</b>	<b>54,420</b>	<b>6,394</b>

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>23.1 Derivative Assets</b>		
<b>Foreign Currency Derivatives</b>		
Forward Foreign Exchange Contracts		
- Designated as Cash Flow Hedges (Note 23.3)	41,227	5,496
- Designated as Fair Value Hedges (Note 23.4)	62,683	-
- Not Designated as Hedge	300,074	129,260
	<b>403,984</b>	<b>134,756</b>
<b>23.2 Derivative Liabilities</b>		
<b>Foreign Currency Derivatives</b>		
Forward Foreign Exchange Contracts		
- Designated as Cash Flow Hedges (Note 23.3)	136	76,308
- Designated as Fair Value Hedges (Note 23.4)	22,153	-
- Not Designated as Hedge	17,692	146,670
	<b>39,981</b>	<b>222,978</b>

### 23.3 Cash Flow Hedges of Foreign Currency Borrowings

The Group enter into Forward Foreign Exchange Contracts to hedge the foreign currency risks arising from borrowings denominated in foreign currencies. These are designated as Cash Flow Hedges.

The fair value of derivatives designated as hedges are as follows;

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>Instrument Type</b>		
Forward Foreign Exchange Contracts	41,091	(70,812)

The time periods in which the hedged cash flows are expected to occur are as follows;

	Within 1 Year	1-5 Years	Over 5 Years
<b>31 December 2020</b>	<b>USD 21 Mn</b>	-	-
31 December 2019	USD 33 Mn	-	-

### 23.4 Fair Value Hedges of Foreign Currency Borrowings

The Group has applied the Fair Value Hedge Accounting for part of foreign currency liabilities which include foreign borrowing using forward contracts effective from 1 July 2020. Accordingly, the Gains or Losses relating to derivative contracts that have been designated as hedge instrument and the foreign exchange gain or loss from foreign currency liabilities designated as hedge items have been reported on net basis.

The amount relating to items designated as hedging instruments and hedge effectiveness as at 31 December 2020;

	Nominal Value LKR '000	Line item in the Statement of Financial Position	Amount set off in the Income Statement LKR '000
<b>Foreign Currency Risk</b>			
Hedge of Foreign Exchange Risk Arising from Foreign Currency Denominated Liabilities using Forward Foreign Exchange Contracts	10,125,000	Derivative Financial Instruments	139,595

The amount relating to items designated as hedged items at 31 December 2020 were as follow;

	Carrying Amount of Liability LKR '000	Amount set off in the Income Statement LKR '000
Due to Banks	10,125,000	139,595

Following table summarises the impact on the line items in Income Statement.

For the year ended 31 December 2020	Balance before the Hedging Adjustment LKR '000	Hedging Adjustment LKR '000	Balance after the Hedging Adjustment LKR '000
Net Gains/ (Losses) from Trading - Derivative Financial Instruments with Banks (Note 10)	316,485	(139,595)	176,890
Net Other Operating Income - Foreign Exchange Income (Note 12)	709,381	139,595	848,976

## 24. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS (FVTPL)

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Quoted Equities (Note 24.1)	-	-	7,925	6,736
Government Securities - Treasury Bills	4,090,426	506,234	4,090,426	506,234
Government Securities - Treasury Bonds	282,137	4,766,885	282,137	4,766,885
Sri Lanka Development Bonds	-	1,844,897	-	1,844,897
Sri Lanka Sovereign Bonds	173,290	-	173,290	-
<b>Total Financial Assets measured at FVTPL</b>	<b>4,545,853</b>	<b>7,118,016</b>	<b>4,553,778</b>	<b>7,124,752</b>

	Group					
	2020			2019		
	No. of Ordinary Shares	Cost LKR '000	Fair Value LKR '000	No. of Ordinary Shares	Cost LKR '000	Fair Value LKR '000
<b>24.1 Quoted Equities</b>						
<b>Subsidiary</b>						
<b>Banks Finance and Insurance</b>						
Commercial Leasing and Finance Company PLC	1,981,038	9,905	7,925	1,981,038	9,905	6,736
<b>Total Equity Investments measured at FVTPL - Subsidiary</b>		<b>9,905</b>	<b>7,925</b>		<b>9,905</b>	<b>6,736</b>
<b>Total Equity Investments measured at FVTPL - Group</b>		<b>9,905</b>	<b>7,925</b>		<b>9,905</b>	<b>6,736</b>
<b>Mark to Market Valuation Loss*</b>		<b>(1,980)</b>			<b>(3,169)</b>	

\* Mark to Market Valuation Gains/ (Losses) of Financial Assets measured at Fair Value through Profit and Loss is included in Net Gains/ (Losses) from Trading (Note 10).

**24.2 Analysis of Financial Assets Measured at FVTPL**

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>24.2.1 By Currency</b>				
Sri Lankan Rupee	4,372,563	5,273,119	4,380,488	5,279,855
United States Dollar	173,290	1,844,897	173,290	1,844,897
<b>Total Financial Assets measured at FVTPL</b>	<b>4,545,853</b>	<b>7,118,016</b>	<b>4,553,778</b>	<b>7,124,752</b>
<b>24.2.2 By Collateralisation</b>				
Pledged as Collateral	-	169,770	-	169,770
Unencumbered	4,545,853	6,948,246	4,553,778	6,954,982
<b>Total Financial Assets measured at FVTPL</b>	<b>4,545,853</b>	<b>7,118,016</b>	<b>4,553,778</b>	<b>7,124,752</b>
<b>24.2.3 Financial Assets measured at FVTPL Consists of</b>				
Total Cost/ Amortised Cost	4,532,846	6,947,943	4,542,752	6,957,848
Mark to Market Valuation Gains/ (Losses)*	13,007	170,073	11,026	166,904
<b>Total Financial Assets measured at FVTPL</b>	<b>4,545,853</b>	<b>7,118,016</b>	<b>4,553,778</b>	<b>7,124,752</b>

\* Mark to Market Valuation Gains/ (Losses) of Financial Assets measured at Fair Value through Profit and Losses is included in Net Gains/ (Losses) from Trading (Note 10).

Sri Lanka Development Bonds amounted to USD 2 Mn which were initially classified as Financial Assets measured at Fair Value through Profit or Loss (FVTPL) were reclassified as Amortised Cost with effect from 1 January 2020. The details of reclassification disclosed under Note 26.6.

**25. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES**

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>Gross Loans and Advances under;</b>		
Stage 1	354,847,194	351,687,856
Stage 2	18,890,298	12,768,586
Stage 3	35,563,461	25,535,033
<b>Gross Loans and Advances</b>	<b>409,300,953</b>	<b>389,991,475</b>
<b>Less: Expected Credit Loss Allowance under; (Note 25.3)</b>		
Stage 1	1,330,114	701,757
Stage 2	932,874	573,870
Stage 3	13,271,818	9,456,784
<b>Total Expected Credit Loss Allowance for Loans and Advances</b>	<b>15,534,806</b>	<b>10,732,411</b>
<b>Total Loans and Advances - Net</b>	<b>393,766,147</b>	<b>379,259,064</b>
<b>25.1 Analysis of Gross Loans and Advances</b>		
<b>25.1.1 By Product</b>		
<b>Local Currency</b>		
Export Bills	-	10,615
Import Bills	176,262	304,831
Local Bills	498,124	247,963
Lease Rentals Receivable (Note 25.2)	23,748,389	20,932,145
Overdrafts	52,770,657	60,306,083
Revolving Import Loans	9,220,579	17,958,104
Packing Credit Loans	3,664,811	1,947,964
Trust Receipt Loans	2,439,890	1,715,118
Staff Loans	6,831,462	6,671,261
Housing Loans	16,555,436	16,589,494
Pawning Receivables	15,404,265	12,282,669
Refinance Loans	17,843,954	7,640,631
Credit Cards	6,090,828	6,681,209
Margin Trading	3,719,949	2,879,599
Factoring	1,394,176	2,600,010
Term Loans	204,822,522	186,376,199
<b>Total Gross Loans and Advances - Local Currency</b>	<b>365,181,304</b>	<b>345,143,895</b>

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>Foreign Currency</b>		
Export Bills	3,771,605	2,924,324
Import Bills	351,737	589,960
Local Bills	596	19,571
Overdrafts	433,948	472,059
Revolving Import Loans	581,778	1,001,607
Packing Credit Loans	10,114,935	11,565,189
Housing Loans	176,043	175,201
Term Loans	28,689,007	28,099,669
<b>Total Gross Loans and Advances - Foreign Currency</b>	<b>44,119,649</b>	<b>44,847,580</b>
<b>Total Gross Loans and Advances</b>	<b>409,300,953</b>	<b>389,991,475</b>

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>25.1.2 By Currency</b>		
Sri Lankan Rupee	365,181,304	345,143,895
United States Dollar	43,773,942	44,382,468
Great Britain Pound	282,730	311,575
Japanese Yen	28,570	107,475
Australian Dollar	24,624	25,751
Euro	9,783	12,211
Singapore Dollar	-	8,100
<b>Total Gross Loans and Advances</b>	<b>409,300,953</b>	<b>389,991,475</b>

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>25.1.3 By Industry</b>		
Agriculture, Forestry and Fishing	52,667,083	45,297,127
Manufacturing	46,857,917	45,166,464
Tourism	19,097,256	17,625,124
Transportation and Storage	10,777,572	11,074,340
Construction	57,966,192	54,896,974
Infrastructure Development	8,799,927	7,509,939
Wholesale and Retail Trade	52,593,103	61,285,303
Information Technology and Communication Services	1,761,682	1,898,642
Financial Services	43,959,383	46,571,957
Professional, Scientific and Technical Activities	6,915,911	7,040,423
Arts, Entertainment and Recreation	1,011,010	935,130
Education	2,566,172	2,388,141
Healthcare, Social Services and Support Services	11,690,762	12,291,421
Consumption	90,238,207	73,646,778
Lending to Overseas Entities	2,398,776	2,363,712
<b>Total Gross Loans and Advances</b>	<b>409,300,953</b>	<b>389,991,475</b>

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>25.2 Lease Rentals Receivable</b>		
Lease Rentals Receivable within One Year (Note 25.2.1)	8,749,684	7,331,349
Lease Rentals Receivable Later than One Year and Not Later than Five Years (Note 25.2.2)	14,915,756	13,548,169
Lease Rentals Receivable Later than Five Years (Note 25.2.3)	82,949	52,627
	<b>23,748,389</b>	<b>20,932,145</b>
<b>25.2.1 Lease Rentals Receivable within One Year</b>		
Gross Lease Rentals Receivables	11,700,855	10,166,248
Unearned Income	(2,951,171)	(2,834,899)
	<b>8,749,684</b>	<b>7,331,349</b>
<b>25.2.2 Lease Rentals Receivable Later than One Year and Not Later than Five Years</b>		
Gross Lease Rentals Receivables	17,892,925	16,515,917
Deposits of Rentals	(12,436)	(76,199)
Unearned Income	(2,964,733)	(2,891,549)
	<b>14,915,756</b>	<b>13,548,169</b>
<b>25.2.3 Lease Rentals Receivable Later than Five Years</b>		
Gross Lease Rentals Receivables	87,878	57,784
Unearned Income	(4,929)	(5,157)
	<b>82,949</b>	<b>52,627</b>

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>25.3 Movements in Expected Credit Loss Allowance on Loans and Advances</b>		
Balance as at 1 January	10,732,411	9,892,532
Charge/ (Write Back) to Income Statement	6,666,694	3,843,694
Reversal for Write-off during the Year	(1,106,711)	(2,398,992)
Interest Accrued on Impaired Loans and Advances (Note 8.1)	(937,457)	(604,823)
Other Movements	179,869	-
<b>Balance as at 31 December</b>	<b>15,534,806</b>	<b>10,732,411</b>
<b>25.3.1 Stage-wise Movements in Expected Credit Loss Allowance during the Year</b>		
<b>Stage 1</b>		
Balance as at 1 January	701,757	598,268
Charge/ (Write Back) to Income Statement (Note 13.1)	628,357	103,489
Reversal for Write-off during the Year	-	-
Other Movements	-	-
<b>Balance as at 31 December</b>	<b>1,330,114</b>	<b>701,757</b>
<b>Stage 2</b>		
Balance as at 1 January	573,870	820,746
Charge/ (Write Back) to Income Statement (Note 13.1)	359,004	(246,876)
Reversal for Write-off during the Year	-	-
Other Movements	-	-
<b>Balance as at 31 December</b>	<b>932,874</b>	<b>573,870</b>
<b>Stage 3</b>		
Balance as at 1 January	9,456,784	8,473,518
Charge/ (Write Back) to Income Statement (Note 13.1)	5,679,333	3,987,081
Reversal for Write-off during the Year	(1,106,711)	(2,398,992)
Interest Accrued on Impaired Loans and Advances (Note 8.1)	(937,457)	(604,823)
Other Movements	179,869	-
<b>Balance as at 31 December</b>	<b>13,271,818</b>	<b>9,456,784</b>

### COVID-19 Initiatives

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of Significant Increase in Credit Risk (SICR) has been determined based on various measures of the customer's current financial position, future earnings capacity and the sectors in which the customers operate from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Based on the risk categorisation, facilities have been stress tested and required allowance overlays have been made.

### KEY JUDGEMENTS AND ESTIMATES

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Bank ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the economy. Accordingly, the Bank's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/ Assumption	Description	Considerations for the year ended 31 December 2020
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'Stage 1' to 'Stage 2'. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses.	In response to the impacts of COVID-19, various moratorium/ debt concessionary schemes have been offered to eligible customers.  The Bank does not consider that when a customer is first provided assistance it automatically results in a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate, and ability to recommence loan repayments at the end of the moratorium/ debt concessionary period to conclude whether there is SICR.
Measuring both 12- month and lifetime Expected credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.  In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	The PD, EAD and LGD models are subject to the Bank's policy on impairment model that stipulates periodic model monitoring, periodic revalidation and the approval procedures and authorities according to model materiality.  There were no material changes to the policies during the year ended 31 December 2020. Due to the implications of moratorium/ debt concessionary schemes on PDs and LGDs (due to limited movements to Stage 2 and 3), adjustments have been made as overlays based on stress testing and historic patterns to better reflect the adequacy of ECL.  There were no material changes to behavioural lifetime estimates during the year ended 31 December 2020.
Base case economic forecast	The Bank derives a forward-looking "base case" economic scenario which reflects the it's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year.  As at 31 December 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19 by using the economic forecast provided by the Central Bank of Sri Lanka .
Probability weighting of each economic scenario (base case, best and worst scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19.  In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the worst scenario given the Bank's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Judgement/ Assumption	Description	Considerations for the year ended 31 December 2020
Management temporary adjustments	<p>Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Bank's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances.</p> <p>The use of management temporary adjustments may impact the amount of ECL recognised.</p> <p>The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.</p>	<p>Management has applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19.</p> <p>Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Bank</p>

## 26. FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	Bank/ Group	
	2020 LKR '000	2019 LKR '000
Government Securities - Treasury Bonds	31,497,720	19,923,449
Sri Lanka Development Bonds	7,623,421	1,292,045
Sri Lanka Sovereign Bonds	7,977,206	-
Quoted Debentures (Note 26.1)	81,438	-
Unquoted Debentures (Note 26.2)	637,175	669,569
Securities Purchased under Resale Agreements	6,142,893	5,165,159
<b>Total Financial Assets measured at Amortised Cost</b>	<b>53,959,853</b>	<b>27,050,222</b>
Expected Credit Loss Allowance (Note 26.5)	(267,382)	(11,479)
<b>Net Financial Assets measured at Amortised Cost</b>	<b>53,692,471</b>	<b>27,038,743</b>
<b>26.1 Quoted Debentures</b>		
Singer Finance PLC (750,000 Debentures of LKR 100.00 each )	81,438	-
<b>Total Quoted Debentures measured at Amortised Cost</b>	<b>81,438</b>	<b>-</b>
<b>26.2 Unquoted Debentures</b>		
HNB Finance PLC	637,175	669,569
<b>Total Unquoted Debentures measured at Amortised Cost</b>	<b>637,175</b>	<b>669,569</b>

### 26.3 Analysis of Financial Assets Measured at Amortised Cost - Debt and Other instruments

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>26.3.1 By Currency</b>		
Sri Lankan Rupee	38,359,226	25,758,177
United States Dollar	15,600,627	1,292,045
<b>Total Financial Assets measured at Amortised Cost</b>	<b>53,959,853</b>	<b>27,050,222</b>
<b>26.3.2 By Collateralisation</b>		
Pledged as Collateral	970,650	937,548
Unencumbered	52,989,203	26,112,674
<b>Total Financial Assets measured at Amortised Cost</b>	<b>53,959,853</b>	<b>27,050,222</b>
<b>26.4 Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments</b>		
Balance as at 1 January	27,038,743	29,593,496
Reclassification as at 1 January 2020 (Note 26.6)	4,171,733	-
Net Acquisitions and Maturities during the Year	22,737,898	(2,552,997)
Net Expected Credit Losses during the Year (Note 26.5)	(255,903)	(1,756)
<b>Balance as at 31 December</b>	<b>53,692,471</b>	<b>27,038,743</b>
<b>26.5 Movements in Expected Credit Loss Allowance during the Year</b>		
<b>Stage 1</b>		
Balance as at 1 January	11,479	9,723
Charged to Income Statement (Note 13)	255,903	1,756
<b>Balance as at 31 December</b>	<b>267,382</b>	<b>11,479</b>

### 26.6 Reclassification of Financial Assets

The Bank reclassified its Sri Lanka Development Bonds (SLDB) Portfolio consequent to the changes on the business model of change of managing the assets with effect from 1 January 2020 as per the Guidance Notes issued by CA Sri Lanka on Accounting Consideration of the COVID-19 Outbreak (updated on 11 May 2020). SLDB amounted to USD 21Mn previously classified as Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI) were reclassified as Amortised Cost and SLDB amounted to USD 2Mn previously classified as Financial Assets Recognised through Profit or Loss (FVTPL) were reclassified as Amortised Cost.

	2020
	Bank/ Group
	LKR '000
<b>Fair value of Financial Assets as at reclassification date</b>	
- Financial Assets measured at Fair Value through Profit and Loss	362,760
- Financial Assets measured at Fair Value through Other Comprehensive Income	3,808,973
<b>Total Financial Assets reclassified to Financial Assets measured at Amortised Cost</b>	<b>4,171,733</b>

## 27. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Quoted Equities (Note 27.1)	2,938,805	801,359	2,938,805	801,359
Unquoted Equities (Note 27.2)	294,175	888,332	294,175	888,332
Government Securities - Treasury Bills	6,237,701	2,611,725	6,237,701	2,611,725
Government Securities - Treasury Bonds	48,987,962	44,575,504	48,987,962	44,575,504
Sri Lanka Development Bonds	565,588	6,640,551	565,588	6,640,551
Quoted Debentures (Note 27.3)	-	74,055	57,275	128,067
<b>Total Financial Assets measured at FVOCI</b>	<b>59,024,231</b>	<b>55,591,526</b>	<b>59,081,506</b>	<b>55,645,538</b>

## 27.1 Quoted Equities

The Bank designated certain investments shown in the following table as Equity Investments at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long term for strategic purpose.

	Bank/ Group					
	2020			2019		
	No. of Ordinary Shares	Cost LKR '000	Fair Value LKR '000	No. of Ordinary Shares	Cost LKR '000	Fair Value LKR '000
<b>Banks Finance and Insurance</b>						
The Finance Company PLC	1,003,163	29,393	-	1,003,163	29,393	1,304
<b>Diversified Holdings</b>						
John Keells Holdings PLC	527,135	95,168	78,859	527,135	95,168	88,348
<b>Financial Services</b>						
Visa Inc	18,000	21,749	738,214	18,000	21,749	613,531
HNB Finance PLC*	233,200,000	2,332,000	2,028,840	-	-	-
<b>Hotels and Travels</b>						
John Keells Hotels PLC	3,552,311	43,693	39,075	3,552,311	43,693	41,207
Jetwing Symphony PLC	3,328,749	49,931	31,956	3,328,749	49,931	37,615
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	120,407	19,329	13,004	120,407	19,329	9,018
Piramal Glass Ceylon PLC	-	-	-	627,401	3,842	2,823
<b>Power and Energy</b>						
Lanka IOC PLC	395,421	18,037	8,857	395,421	18,037	7,513
<b>Total Quoted Equity Investments measured at FVOCI</b>		<b>2,609,300</b>	<b>2,938,805</b>		<b>281,142</b>	<b>801,359</b>
<b>27.2 Unquoted Equities</b>						
<b>Bank</b>						
Credit Information Bureau of Sri Lanka	2,900	290	60,850	2,900	290	57,427
LankaClear (Pvt) Limited	1,000,000	10,000	177,173	1,000,000	10,000	150,168
Lanka Financial Services Bureau Limited	500,000	5,000	-	500,000	5,000	-
Transnational Lanka Records Solutions (Pvt) Limited	1,000,000	10,000	56,152	1,000,000	10,000	52,914
HNB Finance Limited*	-	-	-	233,200,000	2,332,000	627,823
<b>Total Unquoted Equity Investments measured at FVOCI - Bank</b>		<b>25,290</b>	<b>294,175</b>		<b>2,357,290</b>	<b>888,332</b>
<b>Subsidiary</b>						
Standard Credit Finance Limited (Formerly Known as Standard Credit Lanka Limited)	8,040,969	44,041	-	8,040,969	44,041	-
<b>Total Unquoted Equity Investments measured at FVOCI - Subsidiary</b>		<b>44,041</b>	<b>-</b>		<b>44,041</b>	<b>-</b>
<b>Total Unquoted Equity Investments measured at FVOCI - Group</b>		<b>69,331</b>	<b>294,175</b>		<b>2,401,331</b>	<b>888,332</b>

\* The Bank restructured its loan portfolio to HNB Finance Limited (previously known as HNB Grameen Finance Limited and before that Grameen Micro Credit Company Limited) (LKR 2.725 Bn) by obtaining approval from the Monetary Board and converted LKR 1 Bn of the outstanding loan to 15% Cumulative/ Redeemable/ Convertible/ Preference Shares. Further, the Bank converted the balance of LKR 1.725 Bn to Secured Debentures at an interest rate of Treasury Bills +10% per annum, which will mature from 2012 to 2019.

However, with effect from 25 June 2012, the Central Bank of Sri Lanka has directed to convert the investments in Grameen Micro Credit Company Limited (presently known as HNB Finance Limited) to LKR 665 Mn Debentures which are secured against the mortgaged properties (redeemable from 2020 to 2040) and the balance LKR 2,060 Mn together with interest due amounting to LKR 272 Mn to 233,200,000 Non-voting Shares of LKR 10.00 each amounting to LKR 2.332 Bn.

HNB Finance Limited is listed in Colombo Stock Exchange with effect from 20 May 2020 as HNB Finance PLC.

Fair value is based on Net Assets per Share Basis as per the latest Audited Financial Statements of following Companies:

Company	Latest Audited Financials
Credit Information Bureau of Sri Lanka	31 December 2019
LankaClear (Pvt) Limited	31 March 2020
Lanka Financial Services Bureau Limited	31 March 2020
Transnational Lanka Records Solutions (Pvt) Limited	30 June 2020

Dividend received from Quoted and Unquoted Equities Investments measured at FVOCI disclosed in Note 12.

### 27.3 Quoted Debentures

	2020		2019	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Bank</b>				
HDFC Bank (745,300 Debentures of LKR 100.00 each)	-	-	75,388	74,055
<b>Total Quoted Debentures measured at FVOCI - Bank</b>	<b>-</b>	<b>-</b>	<b>75,388</b>	<b>74,055</b>
<b>Subsidiary</b>				
LOLC Finance PLC (500,000 Debentures of LKR 100.00 each)	53,083	57,275	53,091	54,012
<b>Total Quoted Debentures measured at FVOCI - Subsidiary</b>	<b>53,083</b>	<b>57,275</b>	<b>53,091</b>	<b>54,012</b>
<b>Total Quoted Debentures measured at FVOCI - Group</b>	<b>53,083</b>	<b>57,275</b>	<b>128,479</b>	<b>128,067</b>

### 27.4 Analysis of Financial Assets Measured at FVOCI

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>27.4.1 By Currency</b>				
Sri Lankan Rupee	57,720,429	48,337,444	57,777,704	48,391,456
United States Dollar	1,303,802	7,254,082	1,303,802	7,254,082
<b>Total Financial Assets measured at FVOCI</b>	<b>59,024,231</b>	<b>55,591,526</b>	<b>59,081,506</b>	<b>55,645,538</b>
<b>27.4.2 By Collateralisation</b>				
Pledged as Collateral	1,522,084	9,159,010	1,522,084	9,159,010
Unencumbered	57,502,147	46,432,516	57,559,422	46,486,528
<b>Total Financial Assets measured at FVOCI</b>	<b>59,024,231</b>	<b>55,591,526</b>	<b>59,081,506</b>	<b>55,645,538</b>
<b>27.5 Financial Assets Measured at FVOCI Consists of;</b>				
Total Cost/ Amortised Cost	55,978,300	55,813,581	56,076,508	55,910,930
Accumulated Fair Value Change recognised through				
- Other Comprehensive Income	3,036,537	(281,452)	2,995,595	(324,798)
- Income Statement	9,394	59,397	9,403	59,406
<b>Total Accumulated Fair Value Change (Note 27.6)</b>	<b>3,045,931</b>	<b>(222,055)</b>	<b>3,004,998</b>	<b>(265,392)</b>
<b>Total Financial Assets measured at FVOCI</b>	<b>59,024,231</b>	<b>55,591,526</b>	<b>59,081,506</b>	<b>55,645,538</b>
<b>27.6 Accumulated Fair Value Change</b>				
Fair Value Change as at 1 January	(222,055)	(2,824,811)	(265,392)	(2,873,121)
Fair Value Change during the Year	3,267,986	2,602,756	3,270,390	2,607,729
<b>Fair Value Change as at 31 December (Note 27.5)</b>	<b>3,045,931</b>	<b>(222,055)</b>	<b>3,004,998</b>	<b>(265,392)</b>
<b>27.7 Movements in Expected Credit Loss Allowance during the Year</b>				
<b>Stage 1</b>				
Balance as at 1 January	59,397	24,719	59,406	24,728
Charge/ (Write Back) to Income Statement (Note 13)	(50,003)	34,678	(50,003)	34,678
<b>Balance as at 31 December (Note 27.5)</b>	<b>9,394</b>	<b>59,397</b>	<b>9,403</b>	<b>59,406</b>

**27.8 Derecognition of Equity Investments Measured at FVOCI**

	2020		2019	
	Fair Value as at Disposal Date	Cumulative Gains/ (Losses) on Disposal	Fair Value as at Disposal Date	Cumulative Gains/ (Losses) on Disposal
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Bank</b>				
Piramal Glass Ceylon PLC	5,332	1,490	-	-
Visa Inc	-	-	267,877	255,794
John Keells Holdings PLC	-	-	7,925	(2,732)
<b>Total Derecognition of Equity Investments measured at FVOCI-Bank</b>	<b>5,332</b>	<b>1,490</b>	<b>275,802</b>	<b>253,062</b>
<b>Subsidiary</b>				
Certis Lanka Home Nursing and Swift Care (Pvt) Limited	-	-	856	106
<b>Total Derecognition of Equity Investments measured at FVOCI-Subsidiary</b>	<b>-</b>	<b>-</b>	<b>856</b>	<b>106</b>
<b>Total Derecognition of Equity Investments measured at FVOCI-Group</b>	<b>5,332</b>	<b>1,490</b>	<b>276,658</b>	<b>253,168</b>

Sri Lanka Development Bonds amounted to USD 21Mn which were initially classified as Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI) were reclassified as Amortised Cost with effect from 1 January 2020. The details of reclassification disclosed under Note 26.6.

**28. INVESTMENT IN SUBSIDIARY**

	Primary Activity	2020				2019			
		No of Ordinary Shares	Holding %	Cost LKR '000	Market Value LKR '000	No of Ordinary Shares	Holding %	Cost LKR '000	Market Value LKR '000
Seylan Developments PLC	Property Development/ Management	104,332,112	70.51	1,153,602	1,502,382	104,332,112	70.51	1,153,602	1,199,819
				<b>1,153,602</b>	<b>1,502,382</b>			<b>1,153,602</b>	<b>1,199,819</b>

Based on the Internal Assessment carried out, the Bank is of the view that there is no impairment.

**28.1 Non-controlling Interest (NCI) in Subsidiary, Seylan Developments PLC**

	2020 LKR '000	2019 LKR '000
<b>NCI (%)</b>	29.49	29.49
Total Assets	5,910,908	5,768,910
Total Liabilities	809,450	775,216
Net Assets	5,101,458	4,993,694
<b>Carrying Amount of NCI (Note 28.2)</b>	<b>1,285,776</b>	<b>1,264,588</b>
Revenue	375,271	295,831
Profit	259,751	193,013
Total Comprehensive Income	270,525	207,104
<b>Profit Allocated to NCI</b>	<b>59,429</b>	<b>65,561</b>
Cash Flow from Operating Activities	246,754	183,991
Cash Flow from Investing Activities	(78,683)	(80,110)
Cash Flow from Financing Activities - before Dividend to NCI	(114,765)	(104,332)
Cash Flow from Financing Activities - Cash Dividend to NCI	(47,996)	(43,633)
<b>Net Increase/ (Decrease) in Cash and Cash Equivalents</b>	<b>5,310</b>	<b>(44,084)</b>
<b>28.2 Carrying Amount of Non-controlling Interest (NCI)</b>		
Balance as at 1 January	1,264,588	1,216,457
Profit for the year	59,429	65,561
Other comprehensive income, Net of tax	9,755	26,203
Other transactions with equity holders, recognised directly in equity	(47,996)	(43,633)
<b>Balance as at 31 December</b>	<b>1,285,776</b>	<b>1,264,588</b>

## 29. GROUP BALANCES RECEIVABLE

	Bank	
	2020	2019
	LKR '000	LKR '000
Seylan Developments PLC	40,000	40,000
	<b>40,000</b>	<b>40,000</b>

## 30. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Freehold Buildings	Computer Equipment	Office Machines and Equipment	Fixtures, Fittings and Furniture	Motor Vehicles	Leased Assets	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000

### 30.1 Bank

#### Cost/ Valuation

Balance as at 1 January 2019	1,294,117	309,074	3,105,318	1,287,206	1,977,682	180,352	48,065	8,201,814
Additions and Improvements	-	-	986,283	133,981	200,533	970	-	1,321,767
Disposals/ Write-Offs	(21,600)	(3,400)	(116,665)	(22,091)	(69,164)	(30,536)	-	(263,456)
Balance as at 31 December 2019	1,272,517	305,674	3,974,936	1,399,096	2,109,051	150,786	48,065	9,260,125
Additions and Improvements	-	-	359,874	26,252	98,810	27,900	-	512,836
Disposals/ Write-Offs	-	-	(4,158)	(2,447)	(5,773)	(17,600)	-	(29,978)
<b>Balance as at 31 December 2020</b>	<b>1,272,517</b>	<b>305,674</b>	<b>4,330,652</b>	<b>1,422,901</b>	<b>2,202,088</b>	<b>161,086</b>	<b>48,065</b>	<b>9,742,983</b>

#### Accumulated Depreciation

Balance as at 1 January 2019	-	27,553	1,778,403	995,208	1,498,138	114,921	48,065	4,462,288
Charge for the Year	-	13,763	368,428	100,683	180,280	22,662	-	685,816
Disposals/ Write-Offs	-	(480)	(116,625)	(22,084)	(69,121)	(27,602)	-	(235,912)
Balance as at 31 December 2019	-	40,836	2,030,206	1,073,807	1,609,297	109,981	48,065	4,912,192
Charge for the Year	-	13,612	519,655	98,267	169,609	21,161	-	822,304
Disposals/ Write-Offs	-	-	(3,143)	(2,138)	(5,365)	(12,320)	-	(22,966)
<b>Balance as at 31 December 2020</b>	<b>-</b>	<b>54,448</b>	<b>2,546,718</b>	<b>1,169,936</b>	<b>1,773,541</b>	<b>118,822</b>	<b>48,065</b>	<b>5,711,530</b>

#### As at 31 December 2019

Cost/ Valuation less Accumulated Depreciation	1,272,517	264,838	1,944,730	325,289	499,754	40,805	-	4,347,933
Accumulated Impairment	-	-	-	-	-	-	-	-
<b>Net Carrying Amount</b>	<b>1,272,517</b>	<b>264,838</b>	<b>1,944,730</b>	<b>325,289</b>	<b>499,754</b>	<b>40,805</b>	<b>-</b>	<b>4,347,933</b>

Market Value\* 1,272,517 264,838

#### As at 31 December 2020

Cost/ Valuation less Accumulated Depreciation	1,272,517	251,226	1,783,934	252,965	428,547	42,264	-	4,031,453
Accumulated Impairment	-	-	-	-	-	-	-	-
<b>Net Carrying Amount</b>	<b>1,272,517</b>	<b>251,226</b>	<b>1,783,934</b>	<b>252,965</b>	<b>428,547</b>	<b>42,264</b>	<b>-</b>	<b>4,031,453</b>

\* Market value of freehold land and buildings were estimated as last revalued amount less subsequent depreciation, the details of which has been provided in Note 30.4.

There were no capitalised borrowing costs pertaining to the acquisition of property, plant and equipment of the Bank during the year 2020 (2019-Nil).

## NOTES TO THE FINANCIAL STATEMENTS

There are two pending cases against the Bank in the District Court of Badulla related to properties at Badulla and Bandarawela. Also there is a case filed by the Bank in the District Court of Ratnapura related to Ratnapura property.

Other than the above three properties there were no restriction on the title of the property, plant and equipment of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

The Bank holds properties at Balangoda and Deal Place, Colombo 03, carrying net book value of LKR 45.88 Mn and LKR 235.00 Mn. Bank will decide the future course of action on these two properties.

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Office Machines and Equipment LKR '000	Fixtures, Fittings and Furniture LKR '000	Motor Vehicles LKR '000	Leased Assets LKR '000	Total LKR '000
<b>30.2 Group</b>								
<b>Cost/ Valuation</b>								
Balance as at 1 January 2019	1,294,117	2,902,800	3,112,074	1,387,664	1,990,061	180,352	48,065	10,915,133
Additions and Improvements	-	-	987,374	185,069	200,620	970	-	1,374,033
Surplus on Revaluation	-	82,336	-	-	-	-	-	82,336
Disposals/ Write-Offs	(21,600)	(3,400)	(116,673)	(22,091)	(69,172)	(30,536)	-	(263,472)
Balance as at 31 December 2019	1,272,517	2,981,736	3,982,775	1,550,642	2,121,509	150,786	48,065	12,108,030
Additions and Improvements	-	-	360,104	40,187	100,735	27,900	-	528,926
Surplus on Revaluation	-	3,948	-	-	-	-	-	3,948
Disposals/ Write-Offs	-	-	(4,158)	(2,447)	(5,773)	(17,600)	-	(29,978)
<b>Balance as at 31 December 2020</b>	<b>1,272,517</b>	<b>2,985,684</b>	<b>4,338,721</b>	<b>1,588,382</b>	<b>2,216,471</b>	<b>161,086</b>	<b>48,065</b>	<b>12,610,926</b>
<b>Accumulated Depreciation</b>								
Balance as at 1 January 2019	-	27,553	1,783,139	1,079,668	1,504,695	114,921	48,065	4,558,041
Charge for the Year	-	49,787	369,159	109,990	181,892	22,662	-	733,490
Revaluation Adjustment on Accumulated Depreciation	-	(36,024)	-	-	-	-	-	(36,024)
Disposals/ Write-Offs	-	(480)	(116,629)	(22,084)	(69,122)	(27,602)	-	(235,917)
Balance as at 31 December 2019	-	40,836	2,035,669	1,167,574	1,617,465	109,981	48,065	5,019,590
Charge for the Year	-	51,303	520,525	115,207	171,086	21,161	-	879,282
Revaluation Adjustment on Accumulated Depreciation	-	(37,691)	-	-	-	-	-	(37,691)
Disposals/ Write-Offs	-	-	(3,143)	(2,138)	(5,365)	(12,320)	-	(22,966)
<b>Balance as at 31 December 2020</b>	<b>-</b>	<b>54,448</b>	<b>2,553,051</b>	<b>1,280,643</b>	<b>1,783,186</b>	<b>118,822</b>	<b>48,065</b>	<b>5,838,215</b>
<b>As at 31 December 2019</b>								
Cost/ Valuation less Accumulated Depreciation	1,272,517	2,940,900	1,947,106	383,068	504,044	40,805	-	7,088,440
Accumulated Impairment	-	-	-	-	-	-	-	-
<b>Net Carrying Amount</b>	<b>1,272,517</b>	<b>2,940,900</b>	<b>1,947,106</b>	<b>383,068</b>	<b>504,044</b>	<b>40,805</b>	<b>-</b>	<b>7,088,440</b>
Market Value*	1,272,517	2,940,900						
<b>As at 31 December 2020</b>								
Cost/ Valuation less Accumulated Depreciation	1,272,517	2,931,236	1,785,670	307,739	433,285	42,264	-	6,772,711
Accumulated Impairment	-	-	-	-	-	-	-	-
<b>Net Carrying Amount</b>	<b>1,272,517</b>	<b>2,931,236</b>	<b>1,785,670</b>	<b>307,739</b>	<b>433,285</b>	<b>42,264</b>	<b>-</b>	<b>6,772,711</b>
Market Value*	1,272,517	2,931,236						

\* Market value of freehold land and buildings were estimated as last revalued amount less subsequent depreciation, the details of which has been provided in Note 30.4.

Investment property rented to Seylan Bank PLC by its subsidiary, Seylan Developments PLC is classified as property, plant and equipment in the Group Financial Statements.

### 30.3 Fully Depreciated Assets

The initial cost of fully-depreciated property, plant and equipment and intangible assets (software and software related) as at 31 December which are still in use as follows;

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Computer Equipment	1,146,992	1,000,659	1,147,971	1,001,638
Office Machines and Equipment	884,352	816,928	907,153	839,622
Fixtures, Fittings and Furniture	1,288,279	1,162,858	1,293,439	1,166,150
Motor Vehicles	61,932	47,277	61,932	47,277
Leased Assets	48,065	48,065	48,065	48,065
<b>Total Fully Depreciated Property, Plant and Equipment</b>	<b>3,429,620</b>	<b>3,075,787</b>	<b>3,458,560</b>	<b>3,102,752</b>
<b>Total Fully Depreciated Intangible Assets</b>	<b>1,613,282</b>	<b>1,413,000</b>	<b>1,613,282</b>	<b>1,413,000</b>
<b>Total Fully Depreciated Assets</b>	<b>5,042,902</b>	<b>4,488,787</b>	<b>5,071,842</b>	<b>4,515,752</b>

### 30.4 Freehold Land and Buildings

The Bank has revalued its land and buildings and the valuations were made on the basis of market values for existing use. Such valuations were carried out by professional independent valuers. The effective date of the revaluation is 31 December 2016.

The book values of the properties were adjusted to the revalued amount and the resultant surplus or deficit was transferred to the revaluation reserve or income statements respectively.

	Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Extent	Cost/ Valuation		Accumulated Depreciation as at 31.12.2020	Net Book Value as at 31.12.2020
					Land as at 31.12.2020	Building as at 31.12.2020		
					LKR '000	LKR '000		
1	<b>Mt. Lavinia</b> 198, Galle Road, Ratmalana	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 3,250,000 p.p LKR 4,000 p.sq.ft 25%	36.30 P	117,975	22,025	4,212	135,788
2	<b>Badulla</b> 10, Cocowatte Road, Badulla	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 2,000,000 p.p LKR 4,500 p.sq.ft 10%	1 R 5.50 P	92,800	23,700	3,297	113,203
3	<b>Kochchikade</b> 66, Chilaw Road, Kochchikade	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building	LKR 1,850,000 p.p LKR 2,400 to LKR 4,250 p.sq.ft	8.00 P	13,875	15,375	2,906	26,344
4	<b>Avissawella</b> 71, Ratnapura Road, Avissawella	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building	LKR 3,250,000 p.p LKR 3,750 p.sq.ft	18.92 P	61,490	21,010	4,443	78,057
5	<b>Grandpass</b> 401, Prince of Wales Avenue, Colombo 14	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building	LKR 3,500,000 p.p LKR 850 to LKR 2,200 p.sq.ft	1 R 6.00 P	161,000	18,300	4,105	175,195
6	<b>Bandarawela</b> Badulla Road, Bandarawela	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 700,000 to LKR 3,000,000 p.p LKR 3,800 to LKR 4,500 p.sq.ft 10%	27.01P	72,267	27,733	5,890	94,110
7	<b>Sarikkamulla</b> 97, Old Galle Road, Sarikkamulla	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 300,000 to LKR 800,000 p.p LKR 3,500 p.sq.ft 20%	11.56 P	7,468	6,032	902	12,598
8	<b>Raddolugama</b> 171, National Housing Scheme, Raddolugama	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 750,000 p.p LKR 4,000 p.sq.ft 15%	12.08 P	9,600	11,200	2,068	18,732

## NOTES TO THE FINANCIAL STATEMENTS

	Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Extent	Cost/ Valuation		Accumulated Depreciation as at 31.12.2020	Net Book Value as at 31.12.2020
					Land as at 31.12.2020	Building as at 31.12.2020		
					LKR '000	LKR '000	LKR '000	LKR '000
9	<b>Nuwara-Eliya</b> 61, Haddon Hill Road, Nuwara-Eliya	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building  Depreciation rate	LKR 800,000 p.p LKR 3,500 to LKR 6,000 p.sq.ft 27.5% to 40%	1 R 36.00 P	60,000	21,000	4,990	76,010
10	<b>Maradagahamula</b> 150, Divulapitiya Road, Maradagahamula	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building	LKR 225,000 to LKR 325,000 p.p LKR 500 to LKR 1,600 p.sq.ft	35.00 P	9,875	8,275	1,510	16,640
11	<b>Anuradhapura</b> 23-A1, Anuradhapura	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building	LKR 700,000 p.p LKR 800 p.sq.ft	1 R 3.65 P	30,555	2,200	520	32,235
12	<b>Embilipitiya</b> 73, New Town Road, Embilipitiya.	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 1,200,000 p.p LKR 4,500 p.sq.ft 30%	22.10 P	23,520	29,480	5,183	47,817
13	<b>Nugegoda</b> 211, High Level Road, Nugegoda	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 1,000,000 to LKR 5,000,000 p.p LKR 4,500 p.sq.ft 15%	14.00 P	72,000	31,300	4,770	98,530
14	<b>Ratnapura</b> 6, Goods Shed Road, Ratnapura	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 3,000,000 p.p LKR 5,000 p.sq.ft 40%	6.13 P	13,980	10,520	1,629	22,871
15	<b>Balangoda</b> Pettigala Road, Balangoda	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building Depreciation rate	LKR 275,000 to LKR 325,000 p.p LKR 2,000 p.sq.ft 30%	3 R 22.04 P	42,811	3,626	560	45,877
16	<b>Deal Place</b> 2, Deal Place, Colombo 3	<b>Market Comparable Method</b> Price per perch for land	LKR 12,500,000 p.p	19.00 P	235,000	-	-	235,000
17	<b>Gampola</b> 44,Kandy Road, Gampola	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building  Depreciation rate	LKR 3,000,000 p.p LKR 750 to LKR 4,000 p.sq.ft 15%	13.50 P	40,500	24,500	3,542	61,458
18	<b>Koggala</b> 9, Export Processing Zone, Koggala	<b>Depreciated Replacement Cost Method</b> Cost of construction per square foot for building Full life of the building Remaining life of the building	LKR 3,500 p.sq.ft 60 years 45 years	20.00 P	-	2,600	618	1,982
19	<b>Negombo</b> 115, Rajapaksa Broadway, Negombo.	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building  Depreciation rate	LKR 2,750,000 p.p LKR 1,900 to LKR 3,850 p.sq.ft 15%	29.15 P	67,045	18,805	2,291	83,559
20	<b>Kandana</b> 99, Station Road, Kandana	<b>Market Comparable Method</b> Price per perch for land Price per square foot for building	LKR 650,000 to LKR 1,000,000 p.p LKR 1,250 p.sq.ft	1A1R 984P	140,756	7,993	1,012	147,737
<b>Total Freehold Land and Buildings-Bank</b>					<b>1,272,517</b>	<b>305,674</b>	<b>54,448</b>	<b>1,523,743</b>
21	<b>Seylan Towers - East Tower</b> 90, Galle Road, Colombo 3*	<b>Investment Method</b> Estimated rent income per month per square foot for building	LKR 175 to LKR 250 p.sq.ft		-	2,680,010	-	2,680,010
<b>Total Freehold Buildings-Subsidiary</b>					-	<b>2,680,010</b>	-	<b>2,680,010</b>
<b>Total Freehold Land and Buildings-Group</b>					<b>1,272,517</b>	<b>2,985,684</b>	<b>54,448</b>	<b>4,203,753</b>

\* Revalued on 31 December 2020

Description of the valuation techniques together with narrative description on sensitivity of the fair value measurement to changes in significant unobservable inputs are given below:

Valuation Technique	Significant Unobservable Valuation Inputs	Sensitivity of the Fair Value Measurement to Inputs
<b>Market Comparable Method</b>		
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would get increased/ (decreased) if; Price per perch would get higher/ (lower) Price per square foot would get higher/ (lower) Depreciation rate for building would get lower/ (higher)
<b>Investment Method</b>		
This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market.	Gross annual rentals Years purchase	Estimated fair value would get increased/ (decreased) if; Gross annual rentals would get higher/ (lower) Years purchase would get higher/ (lower)
<b>Depreciated Replacement Cost Method</b>		
This method involves the capitalisation of the expected cost of construction at an appropriate remaining life of the building.	Cost of construction Full life of building Remaining life of building	Estimated fair value would get increased (decreased) if; Cost of construction would get higher/ (lower)

### 30.5 Revaluation - Freehold Land and Buildings

The fair values of land and buildings were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and the category of property being valued.

The fair value measurements for all of the freehold land and buildings have been categorised as Level 3 fair value measurements.

The Bank's entire freehold land and buildings were revalued in the year 2016. Valuation was made on the basis of open market value and the revaluation surplus or deficit was transferred to the Revaluation Reserve/ Income Statements respectively.

If freehold land and buildings were stated at historical cost, the amounts would have been as follows:

Properties Revalued	Bank					
	2020			2019		
	Land	Buildings	Total	Land	Buildings	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost	462,558	126,197	588,755	462,558	126,197	588,755
Accumulated Depreciation	-	(52,070)	(52,070)	-	(48,937)	(48,937)
<b>Carrying Value</b>	<b>462,558</b>	<b>74,127</b>	<b>536,685</b>	<b>462,558</b>	<b>77,260</b>	<b>539,818</b>

### 31. RIGHT-OF-USE ASSETS

SLFRS 16 - "Leases", requires lessee to recognise all leases on their Statement of Financial Position as lease liabilities with the corresponding right-of-use assets w.e.f. 01.01.2019.

#### 31.1 Lease Payable as Lessee

Group has obtained certain branches and office premises under Lease. The leases generally run for a period of 10 years, with an option to renew the lease after that date. Specially Bank's subsidiary, Seylan Developments PLC had entered in to a 99 year lease with the Urban Development Authority (UDA) with the view of set up/ conduct and operate a business for the construction of a office and apartment complex on the Year of 1992. The Company pays a nominal rent to UDA for occupying the land.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Valuation</b>				
Balance as at 1 January	4,494,006	38,479	2,230,349	571,990
Adjustment on Initial Application of SLFRS 16	-	4,764,385	-	1,933,500
Additions for the Year	436,225	156,210	436,225	156,210
Depreciation Charge for the Year	(461,141)	(460,314)	(427,642)	(426,597)
Reversal on Early Termination	(18,431)	(4,754)	(18,431)	(4,754)
<b>Balance as at 31 December</b>	<b>4,450,659</b>	<b>4,494,006</b>	<b>2,220,501</b>	<b>2,230,349</b>

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>31.1.1 Amounts Recognised in Income Statement</b>				
Interest on Lease Liabilities	433,431	430,744	148,773	147,652
<b>Recognised in Interest Expenses</b>	<b>433,431</b>	<b>430,744</b>	<b>148,773</b>	<b>147,652</b>
Expenses Relating to Short-Term and Low-Value Assets	12,425	14,941	12,425	14,941
Depreciation - Right-of-use Assets	461,141	460,314	427,642	426,597
<b>Recognised in Operating Expenses</b>	<b>473,566</b>	<b>475,255</b>	<b>440,067</b>	<b>441,538</b>
<b>Total Amount recognised in Income Statement</b>	<b>906,997</b>	<b>905,999</b>	<b>588,840</b>	<b>589,190</b>

#### 31.1.2 Amounts Recognised in Statement of Cash Flows

Repayment of Principal Portion of Lease Liability	750,450	748,544	465,698	521,812
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#### 31.2 Lease Receivable as Lessor

The Group rent its own properties through its subsidiary. Seylan Developments PLC, leases out its investment property held under operating leases to its tenants.

Maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date as follows;

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Maturity Analysis - Contractual Undiscounted Cash Flows</b>				
Less than one year	-	-	50,924	42,439
Between one and five years	-	-	17,975	28,752
More than five years	-	-	-	409
	-	-	<b>68,899</b>	<b>71,600</b>

## 32. INVESTMENT PROPERTIES

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Cost</b>				
Balance as at 1 January	-	-	1,160,364	1,140,007
Additions during the Year	-	-	18,863	20,357
<b>Cost as at 31 December (Note 32.1)</b>	<b>-</b>	<b>-</b>	<b>1,179,227</b>	<b>1,160,364</b>
Provision for Impairment	-	-	(71,462)	(71,462)
<b>Cost less Impairment as at 31 December</b>	<b>-</b>	<b>-</b>	<b>1,107,765</b>	<b>1,088,902</b>
<b>Accumulated Depreciation</b>				
Balance as at 1 January	-	-	235,745	223,407
Charge for the Year	-	-	15,416	12,338
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>	<b>251,161</b>	<b>235,745</b>
<b>Carrying Value as at 31 December</b>	<b>-</b>	<b>-</b>	<b>856,604</b>	<b>853,157</b>

### 32.1 Investment Properties (Group) - 2020

Address	Extent	Date of Valuation	Group	
			Cost LKR '000	Market Value as at 31 Dec 2020 LKR '000
Seylan Towers -West Tower 90, Galle Road, Colombo 3	111,191sq.ft	31/ 12/ 2020	1,105,515	1,344,143
Moratuwa Lake Villas, St.Peter's Road, Moratuwa	0A 1R 05P	31/ 12/ 2020	3,361	4,050
Ja-Ela Commercial Complex*			70,351	-
			<b>1,179,227</b>	

\* Full provision for impairment has been made.

Group have recorded LKR 60,323,731.00 (2019 : LKR 62,779,730.00) as rental income for the year ended 31 December 2020.

Group have incurred LKR 18,313,116.00 (2019: LKR 19,757,729.00) as direct operating expenses and LKR 7,218,484.00 (2019: LKR 7,267,022.00) as repair and maintenance for the year ended 31 December 2020. There were no direct expenses incurred for the properties which doesn't generate rental income.

## Methods and Assumptions used in the Fair Valuation of Investment Properties

### Subsidiary-Seylan Developments PLC

Property	Name and qualifications of the Valuer	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Seylan Towers West Tower 90, Galle Road, Colombo 3	Sunil Fernando and Associates (Pvt) Ltd. Chartered Valuation Surveyors	Market rental based Income method of valuation and depreciated replacement value basis of valuation have been adopted. As the subject property is of two mix uses, commercial and residential, a prudent investor is expected to make his bid to purchase on two different yields based on two different risks attached to the commercial and residential uses of the property.	Prior to the impact of outbreak of COVID-19 pandemic, the comparable market rent of furnished residential apartments have been placed in the range of LKR 475,000.00 to LKR 550,000.00 per month. Considering the adverse economic conditions, the market rent have been fetched at LKR 450,000.00 to LKR 550,000.00 per month.	There is a direct relationship between the estimated fair value and market rents.
			All risk rates for residential segment of the subject property has been taken at 4%.	There is an inverse relationship between the estimated fair value and all risk rates.
			Current replacement cost of construction is estimated as LKR 25,250.00 per sq. ft.	Estimated fair value would increase if replacement cost gets higher.
			Full life of the building is taken as 100 years and the remaining life is taken as 67 years limiting them to the conditions in lease agreement.	Increase in lifetime of the building will result in to increase in the estimated fair value.
			Land value is taken at LKR 14,500,000.00 per perch.	Estimated fair value would increase if the market value of the land get higher.
Moratuwa Lake Villas, St.Peter's Road, Moratuwa	Sunil Fernando and Associates (Pvt) Ltd. Chartered Valuation Surveyors	The valuation based on; <ul style="list-style-type: none"> <li>- quoted prices in an active market</li> <li>- observable inputs such as ARR, cost of sale, interest rates and cost of construction</li> <li>- the interest rate for capitalisation derived from the market sector and the risk yield a third party market participant accepts for such an investment.</li> </ul>	The available evidence of land values in the locality was considered.	Estimated fair value would increase if the market value of the land gets higher.

### 33. INTANGIBLE ASSETS

	Bank/ Group	
	2020 LKR '000	2019 LKR '000
<b>Software and Software Related Cost</b>		
Balance as at 1 January	2,451,488	2,267,602
Additions for the Year	177,129	185,862
Write-Offs during the Year	(100)	(1,976)
<b>Balance as at 31 December</b>	<b>2,628,517</b>	<b>2,451,488</b>
<b>Accumulated Amortisation</b>		
Balance as at 1 January	1,844,221	1,691,511
Amortisation for the Year	163,866	154,686
Write-Offs during the Year	(100)	(1,976)
<b>Balance as at 31 December</b>	<b>2,007,987</b>	<b>1,844,221</b>
<b>Net Carrying Amount</b>	<b>620,530</b>	<b>607,267</b>

There were no restriction on the title of the intangible assets of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

**34. OTHER ASSETS**

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Deposits and Prepayments	771,708	799,659	788,515	816,204
Clearing House Balance	2,602,721	2,474,268	2,602,721	2,474,268
Inventories	164,478	144,347	168,714	148,513
Sundry Debtors	770,017	1,330,848	770,017	1,330,848
Other Receivables	759,803	1,683,811	759,803	1,683,811
Due from Trust Companies	113,154	113,154	113,154	113,154
Prepaid Staff Cost	1,779,842	1,869,164	1,780,028	1,869,459
Other Debtors	878,892	703,046	916,833	721,929
<b>Total Other Assets</b>	<b>7,840,615</b>	<b>9,118,297</b>	<b>7,899,785</b>	<b>9,158,186</b>

**35. DUE TO BANKS**

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
Call Money Borrowings	9,154,418	15,769,686
Refinance Borrowings*	15,777,675	2,660,253
Borrowings from Local Banks	479	479
Borrowings from Foreign Banks	176,060	119,884
Borrowings from Development Finance Institutions	7,571,055	10,219,327
<b>Total Due to Banks</b>	<b>32,679,687</b>	<b>28,769,629</b>

\* Includes refinance borrowings under Saubagya COVID - 19 Renaissance facility scheme (LKR 11.658 Bn).

**36. FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS**

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>Total Due to Depositors</b>	<b>440,303,126</b>	<b>400,731,358</b>
<b>36.1 Analysis of Due to Depositors</b>		
<b>36.1.1 By Product</b>		
<b>Local Currency</b>		
Demand Deposits	27,614,891	19,438,400
Savings Deposits	100,204,483	79,208,251
Time Deposits	255,676,202	251,643,284
Certificates of Deposit	2,738,998	2,833,926
<b>Total Due to Depositors - Local Currency</b>	<b>386,234,574</b>	<b>353,123,861</b>
<b>Foreign Currency</b>		
Demand Deposits	4,340,305	3,238,241
Savings Deposits	13,257,075	11,877,218
Time Deposits	36,471,172	32,492,038
<b>Total Due to Depositors - Foreign Currency</b>	<b>54,068,552</b>	<b>47,607,497</b>
<b>Total Due to Depositors by Product</b>	<b>440,303,126</b>	<b>400,731,358</b>

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>36.1.2 By Currency</b>		
Sri Lankan Rupee	386,234,574	353,123,861
United States Dollar	45,489,143	39,704,462
Great Britain Pound	3,217,685	3,103,413
Euro	2,101,291	2,071,375
Australian Dollar	1,862,662	1,397,092
Japanese Yen	937,737	964,342
Canadian Dollar	232,083	208,492
Singapore Dollar	139,622	68,539
Swiss Franc	64,986	53,023
New Zealand Dollar	12,716	27,177
Danish Krone	7,123	6,460
Swedish Krona	1,849	1,573
Norwegian Krone	1,219	1,136
Chinese Renminbi	240	174
Hong-Kong Dollar	196	239
<b>Total Due to Depositors by Currency</b>	<b>440,303,126</b>	<b>400,731,358</b>
<b>36.1.3 By Customer Category</b>		
Banks	4,678,809	9,524,086
Finance Companies	6,530,705	10,948,699
Other Customers	429,093,612	380,258,573
<b>Total Due to Depositors by Customer Category</b>	<b>440,303,126</b>	<b>400,731,358</b>
<b>36.1.4 By Maturity</b>		
Due within One Year	410,629,887	375,176,837
Due after One Year	29,673,239	25,554,521
<b>Total Due to Depositors by Maturity</b>	<b>440,303,126</b>	<b>400,731,358</b>

### 37. FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEBT SECURITIES HOLDERS

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
Securities Sold under Repurchase Agreements (Repo)	2,575,873	8,425,884
	<b>2,575,873</b>	<b>8,425,884</b>

### 38. FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO OTHER BORROWERS

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
Refinance Borrowings - Other Institutions (Coconut Cultivation Board)	14,123	23,407
	<b>14,123</b>	<b>23,407</b>

### 39. GROUP BALANCES PAYABLE

	Bank	
	2020	2019
	LKR '000	LKR '000
Seylan Developments PLC	261,462	200,969
	<b>261,462</b>	<b>200,969</b>

### 40. DEBT SECURITIES ISSUED

Issue	Interest Rate	Colombo Stock Exchange Listing	Subordinated/ Unsubordinated	Interest Payable Frequency	Allotment Date	Maturity Date	Face Value	Bank/ Group	
								Amortised Cost	
								2020	2019
							LKR '000	LKR '000	
<b>40.1 Fixed Rate Debentures</b>									
2014 - 2020	8.60% p.a.	Listed	Unsubordinated	Semi - Annually	23.12.2014	22.12.2020	2,505,520	-	2,506,168
2014 - 2020	8.75% p.a.	Listed	Unsubordinated	Annually	23.12.2014	22.12.2020	300,520	-	305,833
2016 - 2021	13.00% p.a.	Listed	Subordinated	Semi - Annually	15.07.2016	14.07.2021	1,710,320	1,813,669	1,813,669
2016 - 2023	13.75% p.a.	Listed	Subordinated	Semi - Annually	15.07.2016	14.07.2023	3,272,280	3,482,063	3,482,063
2018 - 2023	12.85% p.a.	Listed	Subordinated	Semi - Annually	29.03.2018	28.03.2023	3,910,000	3,936,085	3,936,085
2018 - 2025	13.20% p.a.	Listed	Subordinated	Semi - Annually	29.03.2018	28.03.2025	715,000	739,306	739,306
2018 - 2028	13.50% p.a.	Listed	Subordinated	Semi - Annually	29.03.2018	28.03.2028	1,609,000	1,664,940	1,664,940
2019 - 2024	15.00% p.a.	Listed	Subordinated	Annually	18.04.2019	17.04.2024	3,773,400	4,141,409	4,141,409
2019 - 2024	14.50% p.a.	Listed	Subordinated	Semi - Annually	18.04.2019	17.04.2024	1,226,600	1,263,146	1,263,146
<b>Total Fixed Rate Debentures</b>							<b>17,040,618</b>	<b>19,852,619</b>	
<b>40.2 Floating Rate Debentures</b>									
2016 - 2021	Six Months Treasury Bill Rate + 1.5% p.a.	Listed	Subordinated	Semi - Annually	15.07.2016	14.07.2021	17,400	17,940	18,325
<b>Total Floating Rate Debentures</b>							<b>17,940</b>	<b>18,325</b>	
<b>Total Debentures</b>							<b>17,058,558</b>	<b>19,870,944</b>	

40.3 Debentures due	Face Value	Bank/ Group	
		Amortised Cost	
		2020	2019
		LKR '000	LKR '000
<b>2020</b>			
- Within One Year	1,727,720	1,831,609	-
- After One Year	14,506,280	15,226,949	-
<b>2019</b>			
- Within One Year	2,806,040	-	2,812,001
- After One Year	16,234,000	-	17,058,943
<b>Total Debentures</b>		<b>17,058,558</b>	<b>19,870,944</b>

#### 40.4 Proposed Debenture Issue

The Board of Directors of the Bank at the meeting held on 29 July 2020 decided that the Bank shall raise a maximum sum of LKR 10 Bn by way of a public issue, Hundred Million fully paid Debentures at a par value of LKR 100.00 each, comprising the following debenture instruments;

- (i) Senior, Listed, Rated, Unsecured, Redeemable Debentures
- (ii) Basel III compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a feature for Non-Viability Conversion to Ordinary Voting Shares by the Company – limited to qualified investors

At the Extraordinary General Meeting of the Bank held on 4 November 2020, the shareholders approved the issue of BASEL III compliant Debentures described under (ii) above.

At the meeting of the Board of Directors ('the board') held on 26 November 2020, the Board taking into consideration the prevailing market conditions decided to postpone the debenture issue to the first half of 2021. The Board decided to review the market conditions during the first quarter in 2021 and consider the timing of proceeding with issue subject to receiving the approval of the CSE on the listing of the Debentures. An announcement will be made to the CSE, accordingly.

#### 41. CURRENT TAX LIABILITIES

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Opening Balance as at 1 January	525,389	1,209,464	490,699	1,185,533
Charge for the Year	1,355,040	1,188,231	1,366,468	1,224,390
Tax Impact of Gain on Sale of Property	-	3,103	-	3,103
Payments	(976,468)	(1,827,863)	(976,468)	(1,829,340)
Deductions	(34,065)	(47,546)	(34,117)	(92,987)
<b>Closing Balance as at 31 December</b>	<b>869,896</b>	<b>525,389</b>	<b>846,582</b>	<b>490,699</b>

#### 42. DEFERRED TAX LIABILITIES

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	725,326	(270,275)	947,225	(99,648)
<b>Recognised in the Profit or Loss</b>				
Charge/ (Reversal) for the Year (Note 16.1.2)	(223,864)	261,030	(137,661)	275,351
<b>Recognised in Other Comprehensive Income</b>				
Effect on Revaluation of Property, Plant and Equipment	-	-	11,659	36,621
Effect on Net Fair Value Losses/ (Gains) on Financial Investment measured at FVOCI (Note 46.4)	968,316	737,674	968,643	738,004
<b>Recognised in Equity</b>				
Effect on Revaluation of Property, Plant and Equipment	-	(3,103)	-	(3,103)
<b>Balance as at 31 December (Notes 42.1 and 42.2)</b>	<b>1,469,778</b>	<b>725,326</b>	<b>1,789,866</b>	<b>947,225</b>

The Cabinet of Ministers has approved the reduction of Income Tax rate applicable to companies to 24% from 28% with effect from 1 January 2020. The said provisional amendment is yet to be approved by the Parliament and cannot be construed as an amendment. Under such circumstances, the Bank continued using 28% in calculating the current tax charge and the deferred tax liabilities/ assets for the years 2019 and 2020 ending 31 December as the particular amendment has not been substantially enacted by the end of the reporting periods.

	Bank			
	2020		2019	
	Temporary Difference LKR '000	Tax LKR '000	Temporary Difference LKR '000	Tax LKR '000
<b>42.1 Analysis of Deferred Tax Assets and Liabilities</b>				
<b>Deferred Tax - Liabilities</b>				
Property, Plant and Equipment	1,255,471	351,532	1,323,958	370,707
Lease Receivables	1,889,855	529,159	1,725,857	483,240
Revaluation Gains brought forward	61,736	17,286	61,736	17,286
Revaluation Surplus on Land	828,531	231,989	828,531	231,989
Right-of-use Assets	79,656	22,304	107,385	30,068
Expected Credit Loss Allowances	160,100	44,828	1,104,229	309,184
Fair Value Changes recognised through OCI	2,715,992	760,478	-	-
	<b>6,991,341</b>	<b>1,957,576</b>	<b>5,151,696</b>	<b>1,442,474</b>
<b>Deferred Tax - Assets</b>				
Leave Encashment Provision (Note 43.2)	253,248	70,909	203,373	56,944
Other Provisions	126,604	35,449	149,850	41,958
Additional Gratuity	1,341,376	375,585	1,444,838	404,555
Balance as at 31 December	20,911	5,855	20,911	5,855
Fair Value Changes recognised through OCI	-	-	742,274	207,836
	<b>1,742,139</b>	<b>487,798</b>	<b>2,561,246</b>	<b>717,148</b>
<b>Balance as at 31 December</b>	<b>5,249,202</b>	<b>1,469,778</b>	<b>2,590,450</b>	<b>725,326</b>

#### 42.1.1 Movement in Temporary Differences

	Bank									
	2020					2019				
	Balance as at 1 January LKR '000	Recognised in Profit or Loss LKR '000	Recognised in Other Comprehensive Income LKR '000	Recognised in Equity LKR '000	Balance as at 31 December LKR '000	Balance as at 1 January LKR '000	Recognised in Profit or Loss LKR '000	Recognised in Other Comprehensive Income LKR '000	Recognised in Equity LKR '000	Balance as at 31 December LKR '000
<b>Deferred Tax Liabilities on</b>										
Property, Plant And Equipment	1,323,958	(68,487)	-	-	1,255,471	1,179,857	144,101	-	-	1,323,958
Lease Receivables	1,725,857	163,998	-	-	1,889,855	2,035,473	(309,616)	-	-	1,725,857
Revaluation Gains Brought Forward	61,736	-	-	-	61,736	72,818	-	-	(11,082)	61,736
Revaluation Surplus on Land	828,531	-	-	-	828,531	828,531	-	-	-	828,531
Right-of-use Assets	107,385	(27,729)	-	-	79,656	-	107,385	-	-	107,385
Expected Credit Loss Allowances	1,104,229	(944,129)	-	-	160,100	-	1,104,229	-	-	1,104,229
Fair Value Changes recognised through OCI	-	-	2,715,992	-	2,715,992	-	-	-	-	-
	<b>5,151,696</b>	<b>(876,347)</b>	<b>2,715,992</b>	<b>-</b>	<b>6,991,341</b>	<b>4,116,679</b>	<b>1,046,099</b>	<b>-</b>	<b>(11,082)</b>	<b>5,151,696</b>
<b>Deferred Tax Assets on</b>										
Leave Encashment Provision	203,373	49,875	-	-	253,248	168,386	34,987	-	-	203,373
Other Provisions	149,850	(23,246)	-	-	126,604	159,034	(9,184)	-	-	149,850
Additional Gratuity	1,444,838	(103,462)	-	-	1,341,376	897,470	547,368	-	-	1,444,838
Reversal of Revaluation Loss on Property, Plant and Equipment	20,911	-	-	-	20,911	20,911	-	-	-	20,911
Expected Credit Loss Allowances	-	-	-	-	-	459,322	(459,322)	-	-	-
Fair Value Changes recognised through OCI	742,274	-	(742,274)	-	-	3,376,825	-	(2,634,551)	-	742,274
	<b>2,561,246</b>	<b>(76,833)</b>	<b>(742,274)</b>	<b>-</b>	<b>1,742,139</b>	<b>5,081,948</b>	<b>113,849</b>	<b>(2,634,551)</b>	<b>-</b>	<b>2,561,246</b>
<b>Balance as at 31 December</b>	<b>2,590,450</b>	<b>(799,514)</b>	<b>3,458,266</b>	<b>-</b>	<b>5,249,202</b>	<b>(965,269)</b>	<b>932,250</b>	<b>2,634,551</b>	<b>(11,082)</b>	<b>2,590,450</b>

		Group			
		2020		2019	
		Temporary Difference	Tax	Temporary Difference	Tax
		LKR '000	LKR '000	LKR '000	LKR '000
<b>42.2</b>	<b>Analysis of Deferred Tax Assets and Liabilities</b>				
	<b>Deferred Tax - Liabilities</b>				
	Property, Plant and Equipment	1,405,108	393,430	1,474,050	412,734
	Lease Receivables	1,889,853	529,159	1,725,857	483,240
	Revaluation Gains brought forward	1,313,093	367,666	1,271,454	356,007
	Revaluation Surplus on Land	828,531	231,989	828,531	231,989
	Right-of-use Assets	15,174	4,249	-	-
	Reversal of Revaluation Loss on Property, Plant and Equipment	51,116	14,312	51,116	14,312
	Expected Credit Loss/ Impairment	160,100	44,828	1,104,229	309,185
	Fair Value Changes recognised through OCI	2,682,003	750,961	-	-
		<b>8,344,978</b>	<b>2,336,594</b>	<b>6,455,237</b>	<b>1,807,467</b>
	<b>Deferred Tax - Assets</b>				
	Leave Encashment Provision (Note 43.2)	253,248	70,909	203,373	56,944
	Other Provisions	126,604	35,449	149,850	41,958
	Additional Gratuity	1,341,377	375,586	1,444,838	404,555
	Right-of-use Assets	-	-	65,715	18,400
	Tax Losses Carried Forward (Note 16.3)	231,372	64,784	431,078	120,702
	Fair Value Changes recognised through OCI	-	-	777,438	217,683
		<b>1,952,601</b>	<b>546,728</b>	<b>3,072,292</b>	<b>860,242</b>
	Balance As At 31 December	<b>6,392,377</b>	<b>1,789,866</b>	<b>3,382,945</b>	<b>947,225</b>

## 42.2.1 Movement in Temporary differences

	Group									
	2020					2019				
	Balance as at 1 January	Recognised in profit or loss	Recognised in Other Comprehensive Income	Recognised in Equity	Balance as at 31 December	Balance as at 1 January	Recognised in profit or loss	Recognised in Other Comprehensive Income	Recognised in Equity	Balance as at 31 December
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Deferred Tax Liabilities on</b>										
Property, Plant and Equipment	1,474,050	(68,942)	-	-	1,405,108	1,267,886	206,164	-	-	1,474,050
Lease Receivables	1,725,857	163,996	-	-	1,889,853	2,035,473	(309,616)	-	-	1,725,857
Revaluation Gains brought Forward	1,271,454	-	41,639	-	1,313,093	1,187,433	-	(35,685)	119,706	1,271,454
Revaluation Surplus on Land	828,531	-	-	-	828,531	828,531	-	-	-	828,531
Right-of-use Assets	-	15,174	-	-	15,174	-	-	-	-	-
Reversal of Revaluation Loss on Property, Plant and Equipment	51,116	-	-	-	51,116	18,305	-	32,811	-	51,116
Expected Credit Loss Allowances	1,104,229	(944,129)	-	-	160,100	-	1,104,229	-	-	1,104,229
Fair Value Changes recognised through OCI	-	-	2,682,003	-	2,682,003	-	-	-	-	-
	<b>6,455,237</b>	<b>(833,901)</b>	<b>2,723,642</b>	<b>-</b>	<b>8,344,978</b>	<b>5,337,628</b>	<b>1,000,777</b>	<b>(2,874)</b>	<b>119,706</b>	<b>6,455,237</b>
<b>Deferred Tax Assets on</b>										
Leave Encashment Provision	203,373	49,875	-	-	253,248	168,386	34,987	-	-	203,373
Other Provisions	149,850	(23,246)	-	-	126,604	159,034	(9,184)	-	-	149,850
Additional Gratuity	1,444,838	(103,461)	-	-	1,341,377	897,470	547,368	-	-	1,444,838
Right-of-use Assets	65,715	(65,715)	-	-	-	-	65,715	-	-	65,715
Tax Losses Carried Forward	431,078	(199,706)	-	-	231,372	593,260	(162,182)	-	-	431,078
Expected Credit Loss Allowances	-	-	-	-	-	459,322	(459,322)	-	-	-
Fair Value Changes recognised through OCI	777,438	-	(777,438)	-	-	3,416,041	-	(2,638,603)	-	777,438
	<b>3,072,292</b>	<b>(342,253)</b>	<b>(777,438)</b>	<b>-</b>	<b>1,952,601</b>	<b>5,693,513</b>	<b>17,382</b>	<b>(2,638,603)</b>	<b>-</b>	<b>3,072,292</b>
Balance as at 31 December	<b>3,382,945</b>	<b>(491,648)</b>	<b>3,501,080</b>	<b>-</b>	<b>6,392,377</b>	<b>(355,885)</b>	<b>983,395</b>	<b>2,635,729</b>	<b>119,706</b>	<b>3,382,945</b>

### 43. OTHER LIABILITIES

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Accrued Expenses	740,460	699,607	754,521	712,753
Margin Accounts	1,064,363	821,765	1,064,363	821,765
Deposit Funding Accounts	2,244,370	2,393,096	2,244,370	2,393,096
Dividend Payable	43,585	42,748	59,797	60,684
Provision for Defined Benefit Obligations (Net) (Note 43.1.1)	1,007,992	457,758	1,001,601	451,646
Sundry Creditors	1,064,668	1,164,753	1,064,668	1,164,753
Value Added Tax and Other Statutory Payables	455,709	360,678	459,652	364,035
Cheques Payable	846,549	619,058	846,549	619,058
Leave Encashment Provision (Note 43.2)	253,248	203,373	253,248	203,373
Expected Credit Loss Allowance on Undrawn Credit Commitments and Financial Guarantees (Note 43.3)	342,216	264,087	342,216	264,087
Other Creditors	958,626	792,474	968,615	842,223
<b>Total Other Liabilities</b>	<b>9,021,786</b>	<b>7,819,397</b>	<b>9,059,600</b>	<b>7,897,473</b>

#### 43.1 Defined Benefit Obligations

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

Refer to the note 5.16.1 to the Financial Statements on "Defined Benefit Plan". The shares acquired by the Gratuity Trust Fund for the settlement of enhanced gratuity liabilities have been recorded under plan assets.

Based on the Sri Lanka Accounting Standard (LKAS) 19 – "Employee Benefits" the Subsidiary have adopted the Actuarial Valuation Method. Accordingly provisions have been made based on the above method.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

Actuarial Valuation as at 31 December 2020 was carried out by Actuarial and Management Consultants (Private) Limited.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>43.1.1 The Amount Recognised in the Statement of Financial Position</b>				
Present Value of Defined Benefit Obligations - ( Note 43.1.3 )	3,919,923	3,238,921	3,929,832	3,247,324
Fair Value of Plan Assets - ( Note 43.1.4 )	(2,911,931)	(2,781,163)	(2,928,231)	(2,795,678)
<b>Provision for Defined Benefit Obligations</b>	<b>1,007,992</b>	<b>457,758</b>	<b>1,001,601</b>	<b>451,646</b>

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>43.1.2 Plan Assets</b>				
Balance with Banks	29,914	185,154	30,004	185,214
Investment in Treasury Bills, Bonds and Repo	1,359,028	1,200,387	1,359,134	1,200,487
Investments in Fixed Deposits	908,617	707,822	924,721	722,177
Expected Proceeds from Sale of Shares to be transferred (Note 43.1.7)	1,781	21,874	1,781	21,874
Investment in Shares	612,591	665,926	612,591	665,926
	<b>2,911,931</b>	<b>2,781,163</b>	<b>2,928,231</b>	<b>2,795,678</b>

Plan Assets are held by an approved external Gratuity Trust Fund.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>43.1.3 Movement in the Present Value of Defined Benefit Obligations (PV DBO)</b>				
Liability for Defined Benefit Obligations as at 1 January	3,238,921	2,632,072	3,247,324	2,637,707
Current Service Cost	191,664	163,139	192,214	163,644
Interest Cost	356,281	315,849	357,205	316,524
Actuarial (Gains)/ Losses on PV DBO (Note 43.1.5)	347,095	279,149	348,188	281,277
Benefits Paid by the Plan	(214,038)	(151,288)	(215,099)	(151,828)
<b>Liability for Defined Benefit Obligations as at 31 December</b>	<b>3,919,923</b>	<b>3,238,921</b>	<b>3,929,832</b>	<b>3,247,324</b>
<b>43.1.4 Movement in Plan Assets</b>				
Fair Value of Plan Assets as at 1 January	2,781,163	2,519,071	2,795,678	2,532,664
Expected Return on Plan Assets	303,522	242,148	305,118	243,779
Expected Proceeds from Sale of Shares to be transferred (Note 43.1.7)	1,781	21,874	1,781	21,874
Less : Reversal of Expected Proceeds from Sale of Shares transferred	(21,874)	(501,166)	(21,874)	(501,166)
Contribution Paid into Plan*	209,762	193,914	209,762	193,914
Benefits Paid by the Plan	(214,038)	(151,288)	(215,099)	(151,828)
Actuarial Gains/ (Losses) on Plan Assets (Note 43.1.5)	(148,385)	456,610	(147,135)	456,441
<b>Fair Value of Plan Assets as at 31 December</b>	<b>2,911,931</b>	<b>2,781,163</b>	<b>2,928,231</b>	<b>2,795,678</b>

\*Expected contribution for 2021 - LKR 220.3 Mn.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>43.1.5 Actuarial (Gains) or Losses</b>				
Actuarial (Gains)/ Losses for the Year - Obligation	347,095	279,149	348,188	281,277
Actuarial (Gains)/ Losses for the Year - Plan Assets	148,385	(456,610)	147,135	(456,441)
	<b>495,480</b>	<b>(177,461)</b>	<b>495,323</b>	<b>(175,163)</b>
<b>43.1.6 Amount Recognised in the Income Statement</b>				
Current Service Cost	191,664	163,139	192,214	163,644
Interest Cost	356,281	315,849	357,205	316,524
Expected Return on Plan Assets	(303,522)	(242,148)	(305,118)	(243,779)
<b>Amount recognised in the Income Statement as Personnel Expenses (Note 15)</b>	<b>244,423</b>	<b>236,840</b>	<b>244,301</b>	<b>236,389</b>
<b>Amount recognised in the Income Statement for Additional Gratuity ( Note 15/ Note 43.1.7)</b>	<b>79,493</b>	<b>81,212</b>	<b>79,493</b>	<b>81,212</b>
	<b>323,916</b>	<b>318,052</b>	<b>323,794</b>	<b>317,601</b>
<b>43.1.7 Amount Recognised in the Income Statement for Additional Gratuity Expense</b>				
Payments made to Ex. Staff Members	27,334	103,086	27,334	103,086
Expected Proceeds from Sale of Shares to be Transferred	(1,781)	(21,874)	(1,781)	(21,874)
Decrease in Value of Expected Proceeds Booked in Previous Years	53,940	-	53,940	-
	<b>79,493</b>	<b>81,212</b>	<b>79,493</b>	<b>81,212</b>
<b>43.1.8 Amount Recognised in the Other Comprehensive Income</b>				
Actuarial Gains/ (Losses) recognised in the Year	(495,480)	177,461	(495,323)	175,163
	<b>(495,480)</b>	<b>177,461</b>	<b>(495,323)</b>	<b>175,163</b>

**43.1.9 Actuarial Assumptions**

	Bank			
	2020		2019	
<b>Demographic Assumptions</b>				
Mortality in Service	A 1967/ 70 Mortality Table Issued by the Institute of Actuaries London		A 1967/ 70 Mortality Table Issued by the Institute of Actuaries London	
Retirement Age	Bank	57 Years	Bank	57 Years
	Subsidiary	55 Years	Subsidiary	55 Years
<b>Financial Assumptions</b>				
Discount Rate		9.00%		11.00%
Salary Increment	2021-5%, 2022-3%, 2023-3%, 2024-7%, 2025-3%, 2026-3%, 2027-7% and 2028-3%		2020-8.5%, 2021-5%, 2022-3%, 2023-3%, 2024-10%, 2025-3%, 2026-3% and 2027-10%	
		Next Increment due on 1 January 2021		Next Increment due on 1 January 2020

### 43.1.10 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Income Statement and employment benefit obligation for the year.

#### Bank

		2020	
Increase/ (Decrease) in Discount Rate %	Increase/ (Decrease) in Salary Increment Rate - %	Sensitivity Effect on Income Statement Increase/ (Decrease) in Charge for the Year (LKR ' 000)	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability (LKR ' 000)
1	**	(276,954)	(276,954)
(1)	**	310,742	310,742
*	1	340,786	340,786
*	(1)	(307,228)	(307,228)

\* Discount Rate is Fixed at 9%.

\*\* 2021-5%, 2022-3%, 2023-3%, 2024-7%, 2025-3%, 2026-3%, 2027-7% and 2028-3%.

#### Subsidiary

		2020	
Increase/ (Decrease) in Discount Rate %	Increase/ (Decrease) in Salary Increment Rate %	Sensitivity Effect on Income Statement Increase/ (Decrease) in Charge for the Year (LKR ' 000)	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability (LKR ' 000)
1	**	(588)	(588)
(1)	**	645	645
*	1	706	706
*	(1)	(652)	(652)

\* Discount Rate is Fixed at 9%

\*\* Salary Increment Rate 7.0% over the period.

#### 43.1.11 Maturity Profile of the Defined Benefit Obligation

Bank		Defined Benefit Obligation LKR '000
Future Working Life Time		
Within next 12 Months		283,697
Between 1-2 Years		385,919
Between 2-5 Years		753,747
Between 5-10 Years		1,616,157
Beyond 10 Years		880,403
<b>Total</b>		<b>3,919,923</b>
Weighted Average Duration of Defined Benefit Obligation		8.08 years

Subsidiary		Defined Benefit Obligation LKR '000
Future Working Life Time		
Within next 12 Months		645
Between 1-2 Years		680
Between 2-5 Years		3,178
Between 5-10 Years		3,857
Beyond 10 Years		1,551
<b>Total</b>		<b>9,911</b>
Weighted Average Duration of Defined Benefit Obligation		6.69 years

#### 43.1.12 Impact of Changing the Assumption on Retirement Age to 60 Years

If the Bank changes the Assumption on Retirement Age to 60 Years, the Present Value of Defined Benefit Obligations (PV DBO) will be increased by LKR 357 Mn as at 31 December 2020.

#### 43.2 Leave Encashment Provision

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	203,373	168,386	203,373	168,386
Leave Encashment during the Year	(19,461)	-	(19,461)	-
Amount Charged to Income Statement during the Year	69,336	34,987	69,336	34,987
<b>Balance as at 31 December</b>	<b>253,248</b>	<b>203,373</b>	<b>253,248</b>	<b>203,373</b>

#### 43.2.1 Actuarial Assumptions

	Bank			
	2020		2019	
<b>Demographic Assumptions</b>				
Mortality in service	A 1967/ 70 Mortality Table issued by the Institute of Actuaries London		A 1967/ 70 Mortality Table issued by the Institute of Actuaries London	
Retirement Age	Bank	57 Years	Bank	57 Years
	Subsidiary	55 Years	Subsidiary	55 Years
<b>Financial Assumptions</b>				
Discount Rate	9.00%		11.00%	
Salary Increment	2021-5%, 2022-3%, 2023-3%, 2024-7%, 2025-3%, 2026-3%, 2027-7% and 2028-3%		2020-8.5%, 2021-5%, 2022-3%, 2023-3%, 2024-10%, 2025-3%, 2026-3% and 2027-10%	
	Next increme due on 1 January 2021		Next increment due on 1 January 2020	

### 43.2.2 Sensitivity of Assumptions Employed in Actuarial Valuation

<b>Bank</b>			
<b>2020</b>			
Increase/ (Decrease) in Discount Rate %	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Income Statement Increase/ (Decrease) in Charge for the Year (LKR '000)	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability (LKR '000)
1	**	(19,665)	(19,665)
(1)	**	22,409	22,409
*	1	24,452	24,452
*	(1)	(21,693)	(21,693)

\* Discount Rate is Fixed at 9.00%.

\*\* Salary Increment Rates 2021-5%, 2022-3%, 2023-3%, 2024-7%, 2025-3%, 2026-3%, 2027-7% and 2028-3%.

		<b>Bank/ Group</b>	
		<b>2020</b>	2019
		<b>LKR '000</b>	LKR '000
<b>43.3</b>	<b>Expected Credit Loss Allowance on Undrawn Credit Commitments and Financial Guarantees</b>		
	<b>Stage 1</b>		
	Balance as at 1 January	264,087	264,035
	Charged to Income Statement (Note 13)	78,129	52
	<b>Balance as at 31 December</b>	<b>342,216</b>	<b>264,087</b>

## 44. STATED CAPITAL

		<b>Bank/ Group</b>	
		<b>2020</b>	2019
		<b>LKR '000</b>	LKR '000
	Ordinary Shares - Voting (Note 44.1)	11,136,187	10,884,710
	Ordinary Shares - Non-Voting (Note 44. 2)	6,412,160	6,160,014
	<b>Total Stated Capital</b>	<b>17,548,347</b>	<b>17,044,724</b>

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
<b>44.1 Ordinary Shares - Voting</b>		
Balance as at 1 January	10,884,710	7,723,207
Issued for Scrip Dividend - 4,504,394 Ordinary Shares of LKR 70.30 each	-	316,659
Issued during the Year - Rights - 62,869,468 Ordinary Shares of LKR 45.25 each	-	2,844,844
Issued for Scrip Dividend - 5,239,122 Ordinary Shares of LKR 48.00 each	251,477	-
<b>256,716,994 Ordinary Shares - Voting</b>		
(33,560,000 shares of LKR 10.00 each , 4,000,000 shares of LKR .25.00 each, 92,440,000 shares of LKR 35.00 each, 5,239,122 Ordinary Shares of LKR 48.00 each, 2,644,068 shares of LKR 59.00 each, 43,333,333 shares of LKR 75.00 each, 3,636,268 shares of LKR 98.00 each, 4,490,341 shares of LKR 90.00 each and 4,504,394 Shares of LKR 70.30 each and 62,869,468 Shares of LKR 45.25 each and Net of issue expenses LKR 114,277,751.29)	<b>11,136,187</b>	<b>10,884,710</b>
<b>44.2 Ordinary Shares - Non-Voting</b>		
Balance as at 1 January	6,160,014	4,302,588
Issued for Scrip Dividend - 7,114,354 Ordinary Shares of LKR 44.00 each	-	313,032
Issued during the Year - Rights - 63,036,478 Ordinary Shares of LKR 24.50 each	-	1,544,394
Issued for Scrip Dividend - 8,160,061 Ordinary Shares of LKR 30.90 each	252,146	-
<b>260,305,975 Ordinary Shares - Non-Voting</b>		
( 83,560,000 shares of LKR 12.50 each, 40,000,000 shares of LKR 25.00 each,8,160,061 Ordinary Shares of LKR 30.90 each, 45,423,009 shares of LKR 35.00 each, 5,859,428 shares of LKR 58.40 each, 7,152,645 shares of LKR 55.00 each and 7,114,354 Shares of LKR 44.00 each and 63,036,478 Shares of LKR 24.50 each and Net of issue expenses LKR 67,302,925.00)	<b>6,412,160</b>	<b>6,160,014</b>

#### 45. STATUTORY RESERVE FUND

	Bank/ Group	
	2020	2019
	LKR '000	LKR '000
Balance as at 1 January	1,952,957	1,768,944
Transferred during the Year*	150,565	184,013
<b>Balance as at 31 December</b>	<b>2,103,522</b>	<b>1,952,957</b>

\* 5% of Net Profit after Tax.

Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

## 46. OTHER RESERVES

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Capital Reserve (Note 46.1 )	418,021	418,021	673,234	673,234
Revaluation Reserve (Note 46.2 )	858,312	858,312	1,735,867	1,714,728
General Reserve (Note 46.3)	33,787	33,787	33,787	33,787
Fair Value through Other Comprehensive Income Reserve (Note 46.4 )	2,285,332	(14,219)	2,257,027	(44,601)
Cash Flow Hedge Reserve (Note 46.5)	(6,761)	(33,533)	(6,761)	(33,533)
Investment Fund Reserve (Note 46.6)	1,043,191	1,543,986	1,043,191	1,543,986
<b>Total Other Reserves</b>	<b>4,631,882</b>	<b>2,806,354</b>	<b>5,736,345</b>	<b>3,887,601</b>
<b>46.1 Movement in Capital Reserve</b>				
Balance as at 1 January	418,021	418,021	673,234	673,234
<b>Balance as at 31 December</b>	<b>418,021</b>	<b>418,021</b>	<b>673,234</b>	<b>673,234</b>

**Bank** - Capital Reserve consists of the Debenture Redemption Reserve Fund of LKR 400 Mn transferred to Capital Reserve in 2004. Debenture Redemption Reserve Fund was created for the redemption of five year Debentures amounting to LKR 400 Mn issued in November 1999. Balance consisting of LKR 18 Mn was transferred to Capital Reserve in 1991.

**Subsidiary** - Capital Redemption Reserve Fund, which was created at the time of redeeming the Preference Shares of Seylan Developments PLC ( Transferred to Capital Reserve in 2011).

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>46.2 Movement in Revaluation Reserve</b>				
Balance as at 1 January	858,312	866,290	1,714,728	1,662,627
Surplus/ (Deficit) on Revaluation during the Year	-	-	41,639	118,360
Deferred Tax Impact on Revaluation (Surplus)/ Deficit during the Year	-	-	(11,659)	(33,141)
Transferred to Non-controlling Interest	-	-	(8,841)	(25,131)
Transferred to Retained Earnings	-	(7,978)	-	(7,987)
<b>Balance as at 31 December</b>	<b>858,312</b>	<b>858,312</b>	<b>1,735,867</b>	<b>1,714,728</b>

In addition to the Bank's Revaluation Reserve, Group includes the surplus on revaluation of Property, Plant and Equipment of the Subsidiary.

<b>46.3 Movement in General Reserve</b>				
Balance as at 1 January	33,787	33,787	33,787	33,787
<b>Balance as at 31 December</b>	<b>33,787</b>	<b>33,787</b>	<b>33,787</b>	<b>33,787</b>

General Reserve consists of LKR 25 Mn transferred in 1995 to General Reserve, LKR 2.7 Mn transferred from Bad Debts Reserve and LKR 6 Mn transferred from Contingency Reserve in 2002 to General Reserve.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>46.4 Movement in Fair Value through Other Comprehensive Income Reserve</b>				
Balance as at 1 January	(14,219)	(1,879,301)	(44,601)	(1,914,326)
Net Gains/ (Losses) on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	1,720,427	2,539,877	1,723,699	2,545,242
Change in Fair Value on Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income	1,548,622	315,941	1,548,622	316,841
Deferred Tax Impact on Net Fair Value (Gains)/ Losses (Note 42 )	(968,316)	(737,674)	(968,643)	(738,004)
Transferred to Non-controlling Interest	-	-	(868)	(1,942)
Reversal of FVOCI Reserve of Equity Instruments Written-off	-	-	-	800
Net Gain on Disposal Equity Investments Transferred to Retained Earnings (Note 27.8)	(1,490)	(253,062)	(1,490)	(253,212)
Net Loss on reclassification of Debt Instruments measured at Fair Value through Other Comprehensive Income transferred to Retained Earnings	427	-	427	-
Deferred Tax Impact on Net Loss on reclassification of Debt Instruments measured at Fair Value through Other Comprehensive Income transferred to Retained Earnings	(119)	-	(119)	-
<b>Balance as at 31 December</b>	<b>2,285,332</b>	<b>(14,219)</b>	<b>2,257,027</b>	<b>(44,601)</b>
<b>46.5 Movement in Cash Flow Hedge Reserve</b>				
Balance as at 1 January	(33,533)	28,540	(33,533)	28,540
Transferred to Income Statement	26,772	(62,073)	26,772	(62,073)
<b>Balance as at 31 December</b>	<b>(6,761)</b>	<b>(33,533)</b>	<b>(6,761)</b>	<b>(33,533)</b>
<b>46.6 Movement in Investment Fund Reserve</b>				
Balance as at 1 January	1,543,986	1,549,076	1,543,986	1,549,076
Transferred to Retained Earnings	(500,795)	(5,090)	(500,795)	(5,090)
<b>Balance as at 31 December</b>	<b>1,043,191</b>	<b>1,543,986</b>	<b>1,043,191</b>	<b>1,543,986</b>

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011 , Bank transferred 8% on value addition attributable to financial services and 5% of taxable profits, from retained profits to Investment Fund Reserve with effect from 1 January 2011. The requirement of this transfer ceased with effect from 1 October 2014.

LKR '000

<b>Transfers to the Investment Fund Reserve</b>	
8% on the Value Addition Attributable to Financial Services	1,257,105
5% of Taxable Profits	409,598
	<b>1,666,703</b>

## Utilisation of Investment Fund Reserve

### Qualifying Investments

Long Term Government Securities with Maturity Period Over 7 Years	Maturity Value (LKR)	Date of Maturity	Interest Rate %
Treasury Bond	519,000,000	01.05.2021	9.00
Treasury Bond	290,000,000	01.01.2022	8.00
Treasury Bond	80,000,000	01.07.2022	11.20
Treasury Bond	230,000,000	01.07.2028	9.00
<b>Total Investment in Government Securities</b>	<b>1,119,000,000</b>		

Qualifying Loans Purpose	No of Loans Granted	Amount Outstanding (LKR)	Tenure of the Loan in Years	Interest Rate %
Construction of Hotels and for Related Purpose	1	51,874,000	10	5 year Treasury Bond rate + 2%
<b>Total Qualifying Loans</b>		<b>51,874,000</b>		
<b>Total Investment in Government Securities and Qualifying Loans</b>		<b>1,170,874,000</b>		

## 47. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>47.1 Contingent Liabilities</b>				
Acceptances	20,241,510	10,394,142	20,241,510	10,394,142
Standby Letters of Credit	666,105	522,262	666,105	522,262
Guarantees	56,376,382	43,246,095	56,376,382	43,246,095
Documentary Credit	13,089,012	11,645,108	13,089,012	11,645,108
Bills for Collection	4,731,733	3,566,992	4,731,733	3,566,992
Forward Exchange Contracts (Net)	402,137	(312,845)	402,137	(312,845)
<b>Total Contingent Liabilities</b>	<b>95,506,879</b>	<b>69,061,754</b>	<b>95,506,879</b>	<b>69,061,754</b>
<b>47.2 Commitments</b>				
Undrawn Credit commitments	99,116,305	80,279,277	99,116,305	80,279,277
Capital Commitments (Note 49.1)	530,970	806,240	550,131	848,431
<b>Total Commitments</b>	<b>99,647,275</b>	<b>81,085,517</b>	<b>99,666,436</b>	<b>81,127,708</b>
<b>Total Contingent Liabilities and Commitments</b>	<b>195,154,154</b>	<b>150,147,271</b>	<b>195,173,315</b>	<b>150,189,462</b>

### 47.3 Other Contingent Liabilities

The Bank has not recognised an additional gratuity liability in the financial statement for ex-employees who have not entered into the "Memorandum of settlement (MOS)" with the Bank for the conformant of the additional gratuity and giving the right to settle the said liability by utilising proceeds expected from disposal of shares held by share trust companies, as the establishment of the liability is contingent upon the date of signing the "Memorandum of Settlement" and the prevailing Share Prices as at that date of signing. If the above uncertainties are resolved, the Bank estimates an additional cash outflow of LKR 122 Mn (net of tax).

## 48. CASES AGAINST THE BANK

In the normal course of business, the Bank is involved in various types of litigation with borrowers or others who have asserted or threatened claims/ counter claims against the Bank, including the following;

### Civil Cases

#### 1. CHC 157/ 2001(1) - (SC (CHC) APP 01/ 10)

Plaintiff filed action against the Bank for dishonouring a Guarantee issued by former BCCI Bank after Seylan Bank took over the local operations of BCCI. Judgement delivered in favour of the plaintiff. Seylan Bank has appealed. (Guarantee value USD 72,730.23 and USD 56,732.25) Argument on 2 July 2021.

#### 2. CHC 14/ 98(1)- (SC (APP) CHC 26/ 2005 and SC (APP) CHC 26A/ 2005)

Action filed claiming damages of LKR 111 Mn for dishonouring cheques and a Letter of Credit. Judgement delivered against the Bank awarding LKR 2.5 Mn as damages. Both the plaintiff and the Bank filed appeals against the said Judgement. Argument on 16 July 2021.

#### 3. DC RATNAPURA 23391/ MR and HC (CIVIL) 159/ 06 (I)

Two actions filed claiming LKR 23,761,000.00 for wrongful takeover of property under Parate Action by the Bank. Case No. 23391/ MR to be called on 4 June 2021 and in respect of HC (Civil) 159/ 06 (I) case is fixed for Judgement on 1 April 2021.

#### 4. CHC 744/ 2010/ MR – (SC (APP) 52/ 2012)

Plaintiff filed action claiming damages of LKR 10 Mn, alleging negligence of the Bank due to credit card not being activated and thereby not being able to make payment. Plaintiff's action dismissed and Court allowed to proceed with the claim in reconvention. Plaintiff has appealed. Appeal case judgement

delivered allowing the plaintiff to amend the plaint. Amended plaint and answer filed and the matter is fixed for Replication on 30 March 2021.

#### 5. CHC 377/ 12 MR

Plaintiff filed action for negligence against a cheque fraud claiming LKR 5.0 Mn as damages. Case is fixed for Trial on 4 March 2021.

#### 6. DC AMPARA 356/ DAMAGES

The plaintiff who is an ex-staff member of the Bank filed action claiming damages of LKR 50.0 Mn for wrongful termination from work, wrongful custody and remand, defamation and pain of mind. Ex-parte judgement delivered in favour of the plaintiff on 20 June 2016. Further inquiry is fixed for 7 May 2021 in respect of the vacation of Ex- parte Judgement.

#### 7. CHC 157/ 2007/ MR - (SC CHC (APP) 34/ 12)

Action filed against the Bank for collecting a forged cheque to an account of a client and for unjust enrichment claiming LKR 9.5 Mn Judgement delivered in favour of the Plaintiff. Bank has appealed to the Supreme Court against the judgement. Argument on 25 February 2021.

#### 8. DC COLOMBO 17/ 99/ CO - (SC (APP) 85A/ 2009)

Action filed by Hatton National Bank to nullify the Mortgage Bond executed in favour of the Bank on an immovable property that has now been acquired by the Government under the provisions of "Revival of Underperforming Enterprises or Underutilised Assets Act No.43 of 2011". Argument is on 15 June 2021 (Mortgage Bond Value LKR 38,774,635.81).

#### 9. DC MOUNT LAVINIA 4246/ 03/ M (WP/ HCCA/ MT/ 03/ 18/ F)

Action filed claiming damages for LKR 2.0 Mn alleging wrongful seizure of goods in execution of a writ by the Bank. Judgement delivered against the Bank on 6 November 2017. Bank appealed on the said Judgement. Case is fixed

for Argument on 5 May 2021.

#### 10. DC KURUNEGALA 7945/ L

Action filed by a third party who purchased an acquired property sold by the Bank, claiming damages of LKR 200,000.00 per month from March 2013 until final determination of the action alleging that an erroneous entry has been made in Land Registry records. Case is fixed for Trial on 1 April 2021.

#### 11. CHC 90/ 2020 MR (DC COLOMBO DMR 1674/ 15)

The plaintiff company has filed the above case claiming LKR 50.0 Mn as damages stating that the Bank has given wrong information to the Magistrate Court under case No: B 2326/ 13 where one Director of the company was remanded. At the Trial Bank raised a preliminary objection on the jurisdiction and the same was dismissed by the District Court. Bank appealed against the said order Appellate Court delivered the order in favour of the Bank. Accordingly matter transferred to Commercial High Court. Further Trial is on 19 May 2021.

#### 12. CHC 713/ 19 MR (DC COLOMBO DMR 1675/ 15)

The plaintiff company has filed the above case claiming LKR 50.0 Mn as damages stating that the Bank has given wrong information to the Magistrate Court under case No: B 2326/ 13 where one Director of the company was remanded. At the Trial Bank raised a preliminary objection on the jurisdiction and the same was dismissed by the District Court. Bank appealed against the said order and Appellate Court delivered the order in favour of the Bank. Accordingly the matter was transferred to Commercial High Court. Further Trial is fixed on 1 April 2021.

#### 13. DC COLOMBO 0093/ 15/ DMR (WP/ HCCA/ 82/ 2019/ F)

This case has been filed claiming LKR 505,510.10 alleging a wrongful reduction of savings account balance. Judgement delivered in favour of the plaintiff. The Bank has

appealed against the judgement. Appeal petition was filed on 3 June 2019. Not yet listed.

#### **14. DC AMPARA 3547/ M and DC AMPARA 3548/ M**

These actions have been instituted by the plaintiffs claiming LKR 200.0 Mn from each case as damages and to obtain a direction from Court to return articles pawned by the plaintiffs. Both cases are fixed for further Trial on 12 March 2021.

#### **15. CHC CIVIL 518/ 2012/ MR**

This action has been instituted by the plaintiff stating that, the Bank has recovered more than the amount due from the plaintiff, therefore claiming a sum of LKR 49.025 Mn. Case is fixed for Judgement on 25 February 2021.

#### **16. SC APPEAL 157/ 19 (SC HC LA 63/ 19)**

The case bearing HC Civil 253/ 17/ MR has been instituted by the plaintiff and obtained a stay order preventing the Bank from paying of USD 1,368,750.00 on a Letter of Credit. Summons returnable on the 3rd defendant who are the bankers of the beneficiary of the Letter of Credit and final order of same was delivered to release the Fixed Deposits held under lien with the Bank. Bank appealed against the said order. This case is re-fixed for Argument on 1 March 2021.

#### **17. DC KALMUNAI 6029/ 2017/ M**

This action has been instituted by the plaintiff claiming that a sum of LKR 2.0 Mn has been withdrawn from her account while her pass book and the passport was in custody of a Foreign Employment Agency. Case is fixed for Trial on 26 April 2021.

#### **18. CHC 144/ 2018 MR**

Plaintiff has filed this action against the Bank *inter alia*, the Bank has acted in contrary to their Swift instructions on a remittance and therefore suffered loss and damages in a sum of USD 3,880,000.00. Trial is on 23 February 2021.

#### **19. DC TRINCOMALEE 4604/ 18/ SPL**

A customer has filed this case claiming LKR 30.0Mn from the Bank as damages stating that since the Bank increased the interest charged on the overdraft he was unable to complete his construction work which resulted a loss of LKR 18.0 Mn Pre- Trial is on 25 February 2021.

#### **20. DC COLOMBO 4237/ 18/ DMR**

A case had been filed under case No. HC (Civil) 311/ 14/ MR to recover outstanding due to the Bank. Subsequently the said case was withdrawn by the Bank. Thereafter customer filed a case under DC Colombo 4237/ 18/ DMR against the Bank claiming LKR 200 Mn as damages for instituting the said case No. HC(Civil) 311/ 14/ MR. Case is fixed for Trial on 11 May 2021.

#### **Cross Claims Made against the Bank on Cases Filed by the Bank**

#### **21. CHC 638/ 09/ MR (DC COLOMBO 6033/ SPL)**

Case was filed against a former Deputy Chairman preventing him from using confidential information gathered by him, during his tenure as a Director of the Bank. Bank withdrew the reliefs as prayed for in the plaint and the case was proceeding based on the claim in reconvention. Judgement delivered in favour of the Bank on 7 September 2017. Notice of appeal filed against the said judgement. Petition of appeal filed under Case No. SC/ CHC/ App/ 60/ 2018 and not yet listed.

#### **22. DC RATNAPURA 12734/ M**

Bank has filed this case in DC Ratnapura to recover the dues, there is a cross claim of LKR 2,500,000.00 made by the defendant. Trial is on 9 June 2021.

#### **23. CHC331/ 11/ MR**

Bank has initiated legal action to recover the dues of a leasing facility. Customer has filed the answer with a cross claim of LKR 100.0 Mn. Pre trial is on 1 April 2021.

#### **24. Tax Matters Filed by the Bank**

#### **CA TAX 23/ 2013 (SC/ APP/ 46/ 2016)**

The Commissioner General of Inland Revenue had issued an assessment on the Bank for the year of assessment 2007/ 2008 disallowing the financial cost relating to an investment by the Bank in Sri Lanka Development Bonds. The Bank appealed against this assessment, and the Tax Appeals Commission upheld assessment. This case was filed by the Bank to get an opinion from the Court of Appeal against the determination given by the Tax Appeals Commission. Court of Appeal gave an interim order in respect of a preliminary issue raised by the Bank in favour of the Commissioner General of Inland Revenue. The Bank appealed to the Supreme Court under Case No. SC/ APP/ 46/ 2016 and the Supreme Court granted leave to appeal and the hearing was concluded on 28 March 2017. The judgement in this matter was reserved. CA Tax 23/ 2013 was listed on 4 August 2020 for Judgement on the main matter. New date for judgement yet to be received from courts.

#### **Cases Filed against the Bank (others)**

Apart from the above cases, there are appeals filed against the Bank, Land related cases and Partition cases filed over the properties mortgaged to the Bank, Winding up actions filed against the customers who have been enjoying credit facilities with the Bank, Claim cases filed over the properties seized under court action, Testamentary Cases filed over the estate of deceased clients who have been enjoying credit facilities, Fundamental rights case on a property seized by the Government which has been mortgaged to the Bank, writ applications filed in Court of Appeal, appeals filed on eviction orders, appeal filed against the defamation case filed by the Bank and cases filed against the Bank on other matters.

## Labour Related Cases

### 25. Cases against Share Owning Trust Companies and the Bank and Orders Made by the Commissioner General of Labour

Filed DTR 003/ 2016 to DTR 006/ 2016 against the share owning trust companies, Seybest (Private) Limited, Seyfest (Private) Limited, Sesot (Private) Limited and Seyshop (Private) Limited and the Bank in District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Plaintiffs filed evidence by affidavit. Cross examination of plaintiffs/ hearing is due on 9 June 2021.

Filed DTR 154/2016 to DTR 159/2016 against the share owning trust companies Esots (Private) Limited, Sesot (Private) Limited, Sotse (Private) Limited, Seyfest (Private) Limited, Seybest (Private) Limited and Seyshop (Private) Limited and the Bank in District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Plaintiffs served interrogatories and the Bank was directed by Court to reply those. The Bank appealed to Civil Appeal High Court of Colombo (CA/HC/ CMB) against that directive. These Appeals were dismissed on 13 October 2020 and both parties appealed to Supreme Court. These Appeals, SC(HC)CA/LA 338/2020 to SC(HC)CA/LA 343/2020 are to be supported on 1 March 2021 to obtain a stay order suspending further proceedings in the District Court on interrogatories and to fix a date to hear the substantive Appeal.

To verify the status of the Supreme Court appeals;

- DTR 154/2016 and DTR 156/2016 will be called on 11 May 2021.
- DTR 155/2016, DTR 157/2016, DTR 158/2016 and DTR 159/2016 will be called on 2 March 2021.

DTR 007/2017 and DTR 008/2017 filed by 59 ex-employees against the Bank and Seyfest (Private) Limited and Sesot (Private) Limited.

The relief sought is to obtain judgement declaring the trusts as valid and its implementation. Plaint was amended reflecting withdrawal and death of parties and substitution in place of dead parties. Plaintiffs made a settlement offer to the Bank and Trust companies. Hearing / pre-trial is due on 26 March 2021.

Filed DTR 001/2018 to DTR 004/2018 against the share owning trust companies Esots (Private) Limited, Seyshop (Private) Limited, Sotse (Private) Limited and Seybest (Private) Limited and the Bank in District Court Colombo. The relief sought is to obtain judgement declaring the trust as valid and its implementation. Plaint was amended reflecting withdrawal and death of parties and substitution in place of dead parties. The first defendant of the case DTR 001/2018 withdrew his case and the second defendant had died, and therefore this case stands withdrawn, terminated and concluded. Hearing / pre-trial of the other three cases DTR 002/2018 to DTR 004/2018 are due on 26 March 2021.

Writ application CA 88/ 2019 in Court of Appeal against the Commissioner General of Labour and an ex-employee. The Bank filed this case seeking:

- A Writ of Certiorari invalidating the directive of Commissioner General of Labour to pay additional gratuity in excess of the statutory gratuity.
- A Writ of Prohibition prohibiting the Commissioner General of Labour and its officers from initiating action for recovery of such additional gratuity.

This matter is fixed for Argument/ hearing on 30 June 2021.

Apart from the above, there are matters filed by ex-employees against the Bank relating to determination of retirement age, termination of employment, seeking reinstatement and appeals thereof including appeals against

orders for payment of additional gratuity and surcharge. An ex-employee has filed an action claiming the amount offered as voluntary retirement scheme where he has resigned from the services while a disciplinary inquiry was proceeding against him. The spouse of a deceased employee has sought to substitute legal heirs and compensation for loss of employment.

Based on the available information and current status of the above cases, the Bank is not in a position to quantify the potential financial impact if any, as at the reporting date. However, we are of the opinion that the outcome of any action will not have a material effect on the financial position of the Bank.

## 49. CAPITAL COMMITMENTS

Capital expenditure approved by the Board of Directors for which provision, has not been made in these Financial Statements amounted to approximately;

	Bank		Group	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>49.1</b> Approved and Contracted for	530,970	806,240	550,131	848,431
<b>49.2</b> Approved but not Contracted for	18,973	34,927	26,754	34,927

## 50. EVENTS AFTER THE REPORTING PERIOD

### Proposed Final Dividend

The Board of Directors of the Bank recommended a final dividend of LKR 1.50 per share on both voting and non-voting shares of the Bank, to be paid by way of LKR 1.50 scrip dividend per share for the financial year 2020.

Further, this dividend is to be approved at the Annual General Meeting to be held on 30 March 2021. This proposed final dividend has not been recognised as a liability as at 31 December 2020. Final dividend proposed for the year 2020 amounts to LKR 775,534,453.50.

**Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007-** As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied that the Bank would satisfy the solvency test in accordance with the section 57, prior to recommending the final dividend.

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements other than above.

## 51. RELATED PARTY TRANSACTIONS

The Bank/ Group carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard -LKAS 24 -"Related Party Disclosure", other than transactions that are the Key Management Personnel(KMP) have availed under schemes uniformly applicable to all staff at concessionary rate.

### 51.1 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures', Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director (whether executive or otherwise) of that entity. Accordingly, the Board of Directors, Director/ Chief Executive Officer, Key Employees of the Bank holding directorships in Subsidiary company have been classified as Key Management Personnel (KMP) of the Bank. As the Bank is the Ultimate Parent of its Subsidiary mentioned in Note 51.2 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group. Accordingly, the Board of Directors of the Bank is also KMP of the Group.

	Bank		Group	
	2020	2019	2020	2019
	LKR Mn	LKR Mn	LKR Mn	LKR Mn
<i>For the Year ended 31 December</i>				
<b>51.1.1 Compensation of KMP</b>				
Short -Term Employment Benefits	111.38	94.95	114.06	98.49
Post- Employment Benefits	8.65	8.16	8.65	8.16
<b>Total</b>	<b>120.03</b>	<b>103.11</b>	<b>122.71</b>	<b>106.65</b>
Other Non-cash Benefits to KMP	1.92	5.12	1.92	5.12

### 51.1.2 Transactions, Arrangements and Agreements Involving KMP and their CFM

Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner. CFM are related parties to the Bank/ Group.

As at 31 December	2020	2019
	LKR Mn	LKR Mn
<b>51.1.2.1 Statement of Financial Position - Bank/ Group</b>		
<b>ASSETS</b>		
Loans and Advances	11.59	11.89
Credit Cards	0.34	0.93
Securities Purchased under Resale Agreement	45.23	-
<b>Total</b>	<b>57.16</b>	<b>12.82</b>
<b>LIABILITIES</b>		
Deposits	117.60	68.96
Other Investments	123.27	123.27
<b>Total</b>	<b>240.87</b>	<b>192.23</b>
<b>51.1.2.2 Contingencies and Commitments - Bank/ Group</b>		
Undrawn Facilities	30.52	28.83
<b>Total</b>	<b>30.52</b>	<b>28.83</b>

Expected credit loss (Stage 01) as at 31.12.2020 related to the outstanding Loans and advances, credit cards and undrawn balances of KMPs' and CFMs' is an insignificant amount.

At the time of evaluating accommodations, the Board Credit Committee considered the adequacy of securities proposed for the accommodations.

As at 31 December	2020	2019
<b>51.1.2.3 Accommodation as a percentage of Bank's Regulatory capital</b>		
Direct and Indirect Accommodation (%)*	0.15	0.07
* Includes Securities Purchased under Resale Agreement		

For the year ended 31 December	2020	2019
	LKR Mn	LKR Mn
<b>51.1.2.4 Income Statement - Bank/ Group</b>		
Income (Interest and Other)	2.86	1.71
Interest Expenses	24.29	13.39
Compensation to KMP-Bank	121.95	108.23
Compensation to KMP-Group	124.63	111.77

As at 31 December	2020	2019
<b>51.1.2.5 Shareholding of KMP and CFM</b>		
Investment in Bank Shares -Voting (No. of Shares)	64,911	73,383
Investment in Bank Shares -Non Voting (No. of Shares)	214,150	233,128
Net Dividend Paid (LKR Mn)	0.56	0.53

## 51.2 Other Related Party Transactions

The Bank/ Group had the following financial dealings during the year 2020 with its related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates.

The parties given below are considered related parties mainly due to significant influence arising as a result of common directorships and through shareholdings.

### 51.2.1 Transactions with Other Related Parties/ Common Directorships

As at 31 December	Subsidiary		Share Trust Companies and Post-Employment Benefit Plans		State Institutions		Shareholders with Significant Influence		Common Directorship Entities	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn

#### 51.2.1.1 Statement of Financial Position - Bank/ Group

ASSETS										
Loans and Advances	-	-	96.58	96.58	-	-	8,849.72	8,126.21	800.54	1,287.04
Other Receivable-Rent Deposit	40.00	40.00	-	-	-	-	-	-	-	-
Equities (Quoted/ Unquoted)	-	-	-	-	-	-	9.91*	9.91*	2,332.00	2,332.00
Debentures (Quoted/ Unquoted)	-	-	-	-	-	-	50.00**	124.53**	631.75	665.00
Interest and Other Receivable	-	-	1,091.75	604.44	-	-	23.48	22.52	5.56	4.72
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	<b>1,188.33</b>	<b>701.02</b>	<b>-</b>	<b>-</b>	<b>8,933.11</b>	<b>8,283.17</b>	<b>3,769.85</b>	<b>4,288.76</b>

#### LIABILITIES

Deposit	125.79	65.50	5,085.78	4,240.53	1,212.52	4,258.17	729.91	1,398.95	2,270.93	955.28
Securities Sold under Repurchase Agreements	-	-	1,225.00	1,225.00	-	-	-	14.64	-	-
Other Instruments Including Debentures	129.00	129.00	4,142.86	5,146.34	5,169.09	5,169.09	10.84	10.84	-	-
Interest and Other Payable	6.67	6.47	425.29	321.48	62.47	10.56	4.66	4.15	38.48	41.58
<b>Total</b>	<b>261.46</b>	<b>200.97</b>	<b>10,878.93</b>	<b>10,933.35</b>	<b>6,444.08</b>	<b>9,437.82</b>	<b>745.41</b>	<b>1,428.58</b>	<b>2,309.41</b>	<b>996.86</b>

#### 51.2.1.2 Contingencies and Commitments - Bank/ Group

Non - Funded Facilities	-	-	-	-	-	-	2,167.97	1,604.13	272.85	513.01
Undrawn Facilities	175.00	175.00	104.71	104.71	-	-	2,980.38	2,594.99	2,172.77	1,704.61
<b>Total</b>	<b>175.00</b>	<b>175.00</b>	<b>104.71</b>	<b>104.71</b>	<b>-</b>	<b>-</b>	<b>5,148.35</b>	<b>4,199.12</b>	<b>2,445.62</b>	<b>2,217.62</b>

#### 51.2.1.3 Accommodation as a Percentage of Bank's Regulatory Capital

Direct and Indirect Accommodation (%)	0.31	0.31	0.35	0.35	-	-	24.59	21.96	6.79	7.35
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\* Includes Quoted Equities held by Seylan Developments PLC (1,981,038 Shares @ LKR. 5.00 each)

\*\* Includes Quoted Debenture Investment held by Seylan Developments PLC (500,000 Debentures @ LKR.100.00 each)

For the Year ended 31 December	Subsidiary		Share Trust Companies and Post-Employment Benefit Plans		State Institutions		Shareholders with Significant Influence		Common Directorship Entities	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn

#### 51.2.1.4 Income Statement - Bank/ Group

Income	115.05	90.49	56.52	43.97	-	-	536.65	529.66	76.21	139.39
Expenses	286.35	247.28	816.00	822.32	759.08	810.27	26.27	136.35	66.25	74.40

#### 51.2.1.5 Other Transactions - Bank/ Group

Other Payments (Note 43.1.4)	-	-	209.76	193.91	-	-	-	-	-	-
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As at 31 December	Share Trust Companies and Post-Employment Benefit Plans		State Institutions		Shareholders with Significant Influence		Common Directorship Entities	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>51.2.1.6 Shareholding of Other Related Parties</b>								
Investment in Bank Shares -Voting (No. of Shares)	17,190,239	16,839,421	83,712,706	82,004,258	60,139,790	58,912,449	-	-
Investment in Bank Shares -Non Voting (No. of Shares)	-	-	18,025,946	17,460,870	122,145,879	113,742,196	52,403	50,761
Net Dividend Paid (LKR Mn)	33.68	29.29	198.93	167.06	346.38	273.90	0.10	0.07

### 51.2.2 Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

Bank has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government Related Entities) as Related Parties according to LKAS 24 'Related Party Disclosures'.

However, limited disclosures have been made in accordance with LKAS 24 'Related Party Disclosures' for transactions that are individually significant because of their size although these transactions were undertaken on normal terms in the ordinary course of business.

#### 51.2.2.1 Voting Share Holding by State Institutions in Seylan Bank PLC is 32.61% as at 31 December 2020

	No of Shares-Voting	%
Sri Lanka Insurance Corporation Limited	38,507,542	15.00
Employees' Provident Fund	25,305,909	9.86
Bank of Ceylon	14,440,329	5.62
Employees' Trust Fund Board	5,458,926	2.13

#### 51.2.2.2 Non-Voting Share Holding by State Institutions in Seylan Bank PLC is 6.92% as at 31 December 2020

	No of Shares-Non Voting	%
Employees' Provident Fund	13,884,618	5.33
Employees' Trust Fund Board	4,141,328	1.59

#### 51.2.2.3 Central Bank of Sri Lanka

Relationship with the Bank	Nature of the Transactions	Amount (LKR '000)
Government Related Entity	Treasury Bills	10,328,127
	Treasury Bonds including Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds	96,840,158
	Securities Purchased Under Resale Agreement	6,142,893
	Interest Income (Note 8.3)	8,757,804
	Interest Expenses (Note 8.3)	192,280
	Annual License Fees	27,156
	Sri Lanka Deposit Insurance Fund Contribution (Note 14)	371,414
	Balance with Central Bank of Sri Lanka (Note 21)	7,371,203

Other than above, the Bank has carried out transactions in the ordinary cause of business with the Government of Sri Lanka and other Government related entities in the form of accommodation (funded/ non-funded), deposits, utility bills, telephone charges, crib charges and statutory payments, etc. There are no other transactions that are collectively significant with Government related entities.

## 52. MATURITY ANALYSIS

### 52.1 Assets - Bank

An analysis of the total assets employed as at 31 December 2020 based on the remaining period at the reporting date to the respective contractual Cash Flows/ Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2020 LKR '000
<b>Interest Earning Assets</b>						
Loans and Advances	159,319,010	77,524,538	66,375,670	51,881,302	38,665,627	393,766,147
Placements with Banks and Finance Companies	10,730,528	-	-	-	-	10,730,528
Government of Sri Lanka Treasury Bills/ Bonds, Development and Sovereign Bonds	10,543,586	21,631,571	52,596,832	15,720,353	6,675,943	107,168,285
Investments in Debentures	11,863	33,250	141,284	66,500	465,500	718,397
Securities Purchased under Resale Agreements	6,142,893	-	-	-	-	6,142,893
<b>Total Interest Earning Assets</b>	<b>186,747,880</b>	<b>99,189,359</b>	<b>119,113,786</b>	<b>67,668,155</b>	<b>45,807,070</b>	<b>518,526,250</b>
<b>Non Interest Earning Assets</b>						
Cash In Hand	8,286,388	-	-	-	-	8,286,388
Balances with Central Bank of Sri Lanka	7,371,203	-	-	-	-	7,371,203
Balances with Banks	1,749,756	-	-	-	-	1,749,756
Investments in Equities	-	3,232,980	-	-	1,153,602	4,386,582
Group Balances Receivable	-	40,000	-	-	-	40,000
Property, Plant and Equipment/ Intangible Assets/ Right-of-use Assets	-	-	-	-	9,102,642	9,102,642
Derivative Financial Instruments	403,984	-	-	-	-	403,984
Other Assets	7,838,845	34	2	81	1,653	7,840,615
<b>Total Non Interest Earning Assets</b>	<b>25,650,176</b>	<b>3,273,014</b>	<b>2</b>	<b>81</b>	<b>10,257,897</b>	<b>39,181,170</b>
<b>Total Assets</b>	<b>212,398,056</b>	<b>102,462,373</b>	<b>119,113,788</b>	<b>67,668,236</b>	<b>56,064,967</b>	<b>557,707,420</b>

## 52.2 Liabilities and Equity - Bank

An analysis of the total Liabilities and Equity as at 31 December 2020 based on the remaining period at the reporting date to the respective contractual Cash Flows/ Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2020 LKR '000
<b>Interest Bearing Liabilities</b>						
Financial Liabilities at Amortised Cost-due to Depositors	156,586,009	222,088,682	14,316,133	5,502,582	9,854,524	408,347,930
Financial Liabilities at Amortised Cost-due to Debt Securities Holders	2,389,458	186,415	-	-	-	2,575,873
Due to Banks and Other Borrowings	8,460,483	937,500	23,295,827	-	-	32,693,810
Debt Securities Issued	710,681	1,967,127	7,085,750	5,686,000	1,609,000	17,058,558
Group Balances Payable	89,877	3,075	100,000	29,000	-	221,952
Lease Liabilities	77,901	195,793	633,824	273,476	3,265,181	4,446,175
<b>Total Interest Bearing Liabilities</b>	<b>168,314,409</b>	<b>225,378,592</b>	<b>45,431,534</b>	<b>11,491,058</b>	<b>14,728,705</b>	<b>465,344,298</b>
<b>Non Interest Bearing Liabilities</b>						
Demand Deposits	31,955,196	-	-	-	-	31,955,196
Other Liabilities	8,978,201	-	-	-	-	8,978,201
Derivative Financial Instruments	39,981	-	-	-	-	39,981
Current Tax Liabilities	869,896	-	-	-	-	869,896
Deferred Tax Liabilities	1,469,778	-	-	-	-	1,469,778
Dividend Payable	43,585	-	-	-	-	43,585
Group Balances Payable	39,510	-	-	-	-	39,510
Equity	-	-	-	-	48,966,975	48,966,975
<b>Total Non Interest Bearing Liabilities</b>	<b>43,396,147</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,966,975</b>	<b>92,363,122</b>
<b>Total Liabilities and Equity</b>	<b>211,710,556</b>	<b>225,378,592</b>	<b>45,431,534</b>	<b>11,491,058</b>	<b>63,695,680</b>	<b>557,707,420</b>

## 52.3 Assets - Group

An analysis of the total assets employed as at 31 December 2020 based on the remaining period at the reporting date to the respective contractual Cash Flows/ Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2020 LKR '000
<b>Interest Earning Assets</b>						
Loans and Advances	159,319,010	77,524,538	66,375,670	51,881,302	38,665,627	393,766,147
Placements with Banks and Finance Companies	10,730,528	-	-	-	-	10,730,528
Government of Sri Lanka Treasury Bills/ Bonds, Sovereign Bonds and Development Bonds	10,543,586	21,631,571	52,596,832	15,720,353	6,675,943	107,168,285
Investments in Debentures	11,863	33,250	198,559	66,500	465,500	775,672
Securities Purchased under Resale Agreements	6,142,893	-	-	-	-	6,142,893
<b>Total Interest Earning Assets</b>	<b>186,747,880</b>	<b>99,189,359</b>	<b>119,171,061</b>	<b>67,668,155</b>	<b>45,807,070</b>	<b>518,583,525</b>

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2020 LKR '000
<b>Non Interest Earning Assets</b>						
Cash In Hand	8,286,428	-	-	-	-	8,286,428
Balances with Central Bank of Sri Lanka	7,371,203	-	-	-	-	7,371,203
Balances with Banks	1,749,756	-	-	-	-	1,749,756
Investments in Equities	-	3,240,905	-	-	-	3,240,905
Investment Properties	-	-	-	-	856,604	856,604
Property, Plant and Equipment/ Intangible Assets/ Right-of-use Assets	-	-	-	-	9,613,742	9,613,742
Derivative Financial Instruments	403,984	-	-	-	-	403,984
Other Assets	7,898,015	34	2	81	1,653	7,899,785
<b>Total Non Interest Earning Assets</b>	<b>25,709,386</b>	<b>3,240,939</b>	<b>2</b>	<b>81</b>	<b>10,471,999</b>	<b>39,422,407</b>
<b>Total Assets</b>	<b>212,457,266</b>	<b>102,430,298</b>	<b>119,171,063</b>	<b>67,668,236</b>	<b>56,279,069</b>	<b>558,005,932</b>

## 52.4 Liabilities and Equity - Group

An analysis of the total Liabilities and Equity as at 31 December 2020 based on the remaining period at the reporting date to the respective contractual Cash Flows/ Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2020 LKR '000
<b>Interest Bearing Liabilities</b>						
Financial Liabilities at Amortised Cost-due to Depositors	156,586,009	222,088,682	14,316,133	5,502,582	9,854,524	408,347,930
Financial Liabilities at Amortised Cost-due to Debt Securities Holders	2,389,458	186,415	-	-	-	2,575,873
Due to Banks and Other Borrowings	8,460,483	937,500	23,295,827	-	-	32,693,810
Debt Securities Issued	710,681	1,967,127	7,085,750	5,686,000	1,609,000	17,058,558
Lease Liabilities	77,901	195,793	633,824	273,476	401,943	1,582,937
<b>Total Interest Bearing Liabilities</b>	<b>168,224,532</b>	<b>225,375,517</b>	<b>45,331,534</b>	<b>11,462,058</b>	<b>11,865,467</b>	<b>462,259,108</b>
<b>Non Interest Bearing Liabilities</b>						
Demand Deposits	31,955,196	-	-	-	-	31,955,196
Other Liabilities	8,999,803	-	-	-	-	8,999,803
Derivative Financial Instruments	39,981	-	-	-	-	39,981
Current Tax Liabilities	846,582	-	-	-	-	846,582
Deferred Tax Liabilities	1,789,866	-	-	-	-	1,789,866
Dividend Payable	59,797	-	-	-	-	59,797
Equity	-	-	-	-	50,769,823	50,769,823
Non - Controlling Interest	-	-	-	-	1,285,776	1,285,776
<b>Total Non Interest Bearing Liabilities</b>	<b>43,691,225</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,055,599</b>	<b>95,746,824</b>
<b>Total Liabilities and Equity</b>	<b>211,915,757</b>	<b>225,375,517</b>	<b>45,331,534</b>	<b>11,462,058</b>	<b>63,921,066</b>	<b>558,005,932</b>

### 53. SEGMENT REPORTING

Segment information is presented in respect of the Group's Operating Segments. Operating Segments are based on the Group's management and internal reporting structure.

The Group comprises the following main Operating Segments.

#### Banking

Loans and Advances (including Leases and Bills), Margin Trading, Insurance, Deposits and other transactions and balances with corporate and retail customers.

#### Treasury

The Treasury Department is responsible for managing Bank's assets and liabilities statutory reserve requirement, liquidity, foreign exchange position and investment portfolios.

#### Property/ Investment

The property investment income, expenses, assets and liabilities.

	Banking		Treasury	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Interest Income	40,962,500	44,354,198	8,565,861	8,149,517
Less : Interest Expenses	27,390,331	30,653,923	5,293,167	5,882,915
<b>Net Interest Income</b>	<b>13,572,169</b>	<b>13,700,275</b>	<b>3,272,694</b>	<b>2,266,602</b>
Fee and Commission Income	3,889,076	4,411,155	5,424	7,282
Less : Fee and Commission Expenses	177,884	198,864	24,051	25,690
<b>Net Fee and Commission Income</b>	<b>3,711,192</b>	<b>4,212,291</b>	<b>(18,627)</b>	<b>(18,408)</b>
<b>Net Interest, Fee and Commission Income</b>	<b>17,283,361</b>	<b>17,912,566</b>	<b>3,254,067</b>	<b>2,248,194</b>
Net Gains/ (Losses) from Trading	-	-	347,554	(497,595)
Net Gains from Derecognition of Financial Assets	-	-	782,565	320,472
Net Other Operating Income	119,976	214,631	679,302	1,350,554
Inter Segment Revenue	(73,983)	(185,939)	-	105,396
<b>Total Operating Income</b>	<b>17,329,354</b>	<b>17,941,258</b>	<b>5,063,488</b>	<b>3,527,021</b>
Less : Depreciation and Amortisation Expenses	767,132	856,557	5,595	11,847
Less : Impairment Charges	6,747,023	3,848,468	245,953	34,250
Less : Operating Expenses, VAT, NBT and DRL	9,771,956	10,870,775	870,426	957,728
<b>Reportable Segment Profit before Income Tax</b>	<b>43,243</b>	<b>2,365,458</b>	<b>3,941,514</b>	<b>2,523,196</b>
Less : Income Tax Expense				
<b>Profit for the Year</b>				
Profit Attributable to:				
Equity Holders of the Bank				
Non-controlling Interest				
<b>Profit for the Year</b>				
Other Comprehensive Income for the Year, net of Tax				
<b>Other Information</b>				
Reportable Segment Assets	393,123,043	380,038,661	141,583,855	111,573,070
Segment Accumulated Amortisation	(2,125,478)	(1,799,351)	(50,924)	(46,798)
<b>Total Assets</b>	<b>390,997,565</b>	<b>378,239,310</b>	<b>141,532,931</b>	<b>111,526,272</b>
Reportable Segment Liabilities and Equity	439,087,233	398,777,673	44,231,401	61,975,807
<b>Total Liabilities and Equity</b>	<b>439,087,233</b>	<b>398,777,673</b>	<b>44,231,401</b>	<b>61,975,807</b>
Cash Flows From Operating Activities	33,888,015	(12,001,658)	4,193,062	2,569,293
Cash Flows From Investing Activities	(323,839)	(492,086)	(19,005,863)	4,951,502
Cash Flows From Financing Activities	(750,450)	(748,544)	(5,280,598)	1,153,780
Capital Expenditure	(330,474)	(498,398)	(1,771)	(6,913)

SLFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters (the "management approach").

Such operating segments are identified on the basis of internal reports that the entity's Board of Directors reviews regularly in allocating resources and in assessing their performance.

Bank reviewed the exiting reporting segments and concluded that no material change is required.

Property/ Investments		Unallocated/ Eliminations		Total	
2020	2019	2020	2019	2020	2019
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
28,664	27,987	2,771,053	2,899,177	52,328,078	55,430,879
294	801	(166,497)	(49,557)	32,517,295	36,488,082
<b>28,370</b>	<b>27,186</b>	<b>2,937,550</b>	<b>2,948,734</b>	<b>19,810,783</b>	<b>18,942,797</b>
-	-	36,827	38,672	3,931,327	4,457,109
1,088	-	-	-	203,023	224,554
<b>(1,088)</b>	<b>-</b>	<b>36,827</b>	<b>38,672</b>	<b>3,728,304</b>	<b>4,232,555</b>
<b>27,282</b>	<b>27,186</b>	<b>2,974,377</b>	<b>2,987,406</b>	<b>23,539,087</b>	<b>23,175,352</b>
1,189	1,585	-	-	348,743	(496,010)
-	-	-	-	782,565	320,472
390,602	322,706	(137,201)	(244,092)	1,052,679	1,643,799
-	-	73,983	80,543	-	-
<b>419,073</b>	<b>351,477</b>	<b>2,911,159</b>	<b>2,823,857</b>	<b>25,723,074</b>	<b>24,643,613</b>
1,028	890	712,451	457,817	1,486,206	1,327,111
-	(16)	-	16	6,992,976	3,882,718
84,746	94,801	2,221,128	2,243,370	12,948,256	14,166,674
<b>333,299</b>	<b>255,802</b>	<b>(22,420)</b>	<b>122,654</b>	<b>4,295,636</b>	<b>5,267,110</b>
				1,197,578	1,468,858
				<b>3,098,058</b>	<b>3,798,252</b>
				3,038,629	3,732,691
				59,429	65,561
				<b>3,098,058</b>	<b>3,798,252</b>
				1,865,107	2,322,388
5,915,190	5,772,164	25,481,207	26,379,927	566,103,295	523,763,822
(4,282)	(3,254)	(5,916,679)	(5,383,150)	(8,097,363)	(7,232,553)
<b>5,910,908</b>	<b>5,768,910</b>	<b>19,564,528</b>	<b>20,996,777</b>	<b>558,005,932</b>	<b>516,531,269</b>
5,910,908	5,768,910	68,776,390	50,008,879	558,005,932	516,531,269
<b>5,910,908</b>	<b>5,768,910</b>	<b>68,776,390</b>	<b>50,008,879</b>	<b>558,005,932</b>	<b>516,531,269</b>
246,754	183,991	462,642	468,109	38,790,473	(8,780,265)
(78,683)	(80,110)	(294,901)	(950,309)	(19,703,286)	3,428,997
(162,761)	(147,965)	(94,179)	4,408,991	(6,287,988)	4,666,262
(34,953)	(72,623)	(357,720)	(1,002,318)	(724,918)	(1,580,252)

## 54. NON - UNIFORM ACCOUNTING POLICIES

The impact of non-uniform accounting policies adopted by subsidiary company has been adjusted in the Consolidated Financial Statements as set out below:

### Adjustment due to Different Accounting Policies of the Parent and the Group Entity, Seylan Developments PLC (SD)

Seylan Bank PLC accounts for investment properties at cost, whereas Seylan Developments PLC accounts for investment properties at fair value.

Seylan Towers (East Towers) owned by Seylan Developments PLC is rented out to Seylan Bank PLC and is occupied by the Bank.

Therefore the land and buildings do not qualify as investment property in the Consolidated Financial Statements.

The building is treated as a Property in the Consolidated Financial Statements and has been depreciated accordingly (LKAS 40).

The leased land has also been depreciated accordingly in the Consolidated Financial Statements and categorized under Right-of-use Assets.

	Adjustments LKR '000	Group Impact LKR '000	Non Controlling Interest Impact LKR '000
<b>Adjustments to Revaluation Gains/ (Losses) on Investment Properties, Deferred Tax and on SLFRS 16</b>			
Reversal of Revaluation Gain recognised in the Statement of Comprehensive Income by SD in 2020	(15,502)	(10,930)	(4,572)
Reversal of Deferred Tax recognised in the Statement of Comprehensive Income by SD in 2020	(2,872)	(2,025)	(847)
Gain on Revaluation of East Tower in 2020 Adjusted to Revaluation Reserves in Consolidated Financial Statements.	41,639	29,360	12,279
Deferred Tax on Revaluation Gain of East Tower in 2020 recognised in Consolidated Financial Statements.	(11,659)	(8,221)	(3,438)
Adjustment on SLFRS 16 in the Consolidated Financial Statements	60,133	42,400	17,733
Tax adjustment on SLFRS 16 in the Consolidated Financial Statements	(21,211)	(14,956)	(6,255)
	50,528	35,628	14,900
<b>Charging of Depreciation</b>			
Depreciation Charges Adjusted in Consolidated Financial Statements for 2020	(78,776)	(55,545)	(23,231)
	(78,776)	(55,545)	(23,231)

# CONNECTING TOWARDS SUSTAINABLE PERFORMANCE

## Annexes

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# TEN YEARS AT A GLANCE

Year Ended 31 December	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	LKR Mn									
<b>Trading Results</b>										
<b>Gross Income</b>	<b>58,440</b>	<b>61,370</b>	<b>54,873</b>	<b>49,161</b>	<b>37,873</b>	<b>28,586</b>	<b>28,564</b>	<b>28,091</b>	<b>23,726</b>	<b>18,824</b>
Profit before Income Tax	4,111	5,098	4,666	6,656	5,734	5,777	4,649	3,454	3,199	1,181
Income Tax	1,100	1,418	1,477	2,226	1,724	1,946	1,571	1,138	1,135	505
<b>Profit after Taxation</b>	<b>3,011</b>	<b>3,680</b>	<b>3,189</b>	<b>4,430</b>	<b>4,010</b>	<b>3,831</b>	<b>3,078</b>	<b>2,316</b>	<b>2,064</b>	<b>676</b>
Other Comprehensive Income, net of Tax	1,832	2,234	(617)	2,426	(345)	(1,054)	(55)	913	(139)	(346)
<b>Total Comprehensive Income</b>	<b>4,843</b>	<b>5,914</b>	<b>2,572</b>	<b>6,856</b>	<b>3,665</b>	<b>2,777</b>	<b>3,023</b>	<b>3,229</b>	<b>1,926</b>	<b>330</b>
Dividend Proposed (Ordinary) LKR per Share	1.50	2.00	2.50	3.50	3.25	2.75	2.50	2.25	2.00	1.00
As At 31 December	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	LKR Mn									
<b>Financial Position</b>										
<b>Assets</b>										
Cash and Short Term Funds (Including Securities Purchased under Resale Agreements)	16,179	16,924	18,036	10,070	15,653	10,113	24,436	10,910	6,728	7,865
Balances with Central Bank of Sri Lanka	7,371	14,459	18,472	19,120	16,212	8,564	7,432	7,505	8,029	7,071
Investments (Including Investment Properties)	111,119	84,583	87,820	82,976	73,336	72,203	48,859	49,351	33,879	35,033
Loans and Advances, Placements with Banks and Finance Companies (Including Leases and Bills of Exchange)	404,496	380,432	326,883	282,317	236,355	193,862	157,297	137,523	124,728	106,390
Investment in Subsidiary	1,154	1,154	1,154	1,154	1,154	1,152	1,106	801	793	793
Other Assets (Including Taxation)	8,285	9,293	10,214	8,590	8,669	6,915	6,887	5,994	6,871	5,977
Property, Plant and Equipment, Right-of-use Assets and Intangible Assets	9,103	9,449	4,354	3,899	4,634	3,522	3,294	3,077	2,633	2,815
<b>Total Assets</b>	<b>557,707</b>	<b>516,294</b>	<b>466,933</b>	<b>408,126</b>	<b>356,013</b>	<b>296,331</b>	<b>249,311</b>	<b>215,161</b>	<b>183,661</b>	<b>165,944</b>
<b>Liabilities</b>										
Customer Deposits and Due to Banks	472,982	429,501	383,939	334,152	291,185	244,310	197,540	178,916	152,865	131,292
Borrowings and Debentures	19,648	28,320	37,456	29,148	28,491	18,605	20,090	7,830	4,896	12,203
Other Liabilities	13,726	12,552	9,674	8,197	7,756	7,486	6,327	5,546	6,353	4,906
Taxation (Including Deferred Tax)	2,340	1,251	1,209	2,381	762	843	1,324	1,091	683	217
Dividends Payable	44	43	45	42	46	31	21	16	13	24
<b>Total Liabilities</b>	<b>508,740</b>	<b>471,667</b>	<b>432,323</b>	<b>373,920</b>	<b>328,240</b>	<b>271,275</b>	<b>225,302</b>	<b>193,399</b>	<b>164,810</b>	<b>148,642</b>
<b>Equity</b>										
Stated Capital	17,548	17,045	12,026	11,228	10,530	10,530	10,530	10,530	10,225	10,259
Reserve Fund	2,104	1,953	1,769	1,609	1,388	1,187	996	842	726	619
Other Reserves	29,315	25,629	20,815	21,369	15,855	13,339	12,483	10,390	7,900	6,424
<b>Total Equity</b>	<b>48,967</b>	<b>44,627</b>	<b>34,610</b>	<b>34,206</b>	<b>27,773</b>	<b>25,056</b>	<b>24,009</b>	<b>21,762</b>	<b>18,851</b>	<b>17,302</b>
<b>Total Equity and Liabilities</b>	<b>557,707</b>	<b>516,294</b>	<b>466,933</b>	<b>408,126</b>	<b>356,013</b>	<b>296,331</b>	<b>249,311</b>	<b>215,161</b>	<b>183,661</b>	<b>165,944</b>
<b>Contingent Liabilities and Commitments</b>	<b>195,154</b>	<b>150,147</b>	<b>129,693</b>	<b>99,501</b>	<b>64,111</b>	<b>57,222</b>	<b>45,098</b>	<b>35,473</b>	<b>31,287</b>	<b>36,247</b>

# SUMMARY OF PERFORMANCE INDICATORS

	Measure	2020	2019	2018	2017	2016
<b>SIZE</b>						
Assets Growth	%	8.02	10.57	14.41	14.64	20.14
Contingencies and Commitments/ (Total Assets + Contingencies and Commitments)	%	25.92	22.53	21.74	19.60	15.26
Interest Earning Assets/ Total Assets	%	92.97	90.74	89.63	89.50	88.67
Cash and Balances with CBSL/ Total Assets	%	3.12	5.08	6.65	6.72	6.90
Risk Weighted Assets Growth	%	4.58	16.37	19.36	14.47	23.21
<b>PROFITABILITY</b>						
Return on Average Assets	%	0.56	0.75	0.73	1.16	1.23
Return on Average Equity	%	6.43	9.29	9.27	14.30	15.18
Profit for the Year/ (Total Assets + Contingencies and Commitments)	%	0.40	0.55	0.53	0.87	0.95
Net Interest Margin on Average Total Assets	%	3.63	3.79	4.06	4.05	4.13
Net Interest Margin on Average Interest Earning Assets	%	3.95	4.20	4.53	4.55	4.62
Net Interest Income/ Total Income	%	33.36	30.36	32.34	31.40	35.35
Cost to Income Ratio	%	56.31	63.12	64.90	61.02	62.35
Cost to Income Ratio (Excluding VAT , NBT and DRL)	%	50.30	51.76	55.78	51.97	54.75
Average Interest Yield	%	10.60	12.50	12.56	12.79	11.26
Average Interest Cost	%	7.29	8.82	8.47	8.73	7.35
Interest Rate Spread	%	3.31	3.68	4.09	4.06	3.91
Interest Yield on Average Customer Advances	%	10.45	12.73	13.13	13.17	11.56
Interest Cost on Average Customer Deposits	%	6.63	8.12	7.92	8.01	6.44
Spread on Customer Deposits and Advances	%	3.82	4.61	5.21	5.16	5.12
Dividend Payout*	%	25.75	27.37	28.70	28.00	27.95
Growth Rate of Equity	%	9.72	28.94	1.18	23.17	10.84
Earnings per Share**	LKR	5.82	8.70	7.71	10.71	9.69
Ordinary Dividend per Share	LKR	1.50	2.00	2.50	3.50	3.25
Net Assets Value per Share	LKR	94.71	88.61	94.54	96.50	80.51
<b>ASSET QUALITY</b>						
Expected Credit Loss on Loans and Advances	LKR Mn	15,535	10,732	9,893	5,607	6,053
Expected Credit Loss on Loans and Advances/ Loans and Advances	%	3.80	2.75	2.94	1.96	2.50
Provision Cover	%	43.68	42.03	44.09	40.31	43.93
<b>CAPITAL ADEQUACY</b>						
Leverage on Shareholders Funds	Times	10.39	10.57	12.49	10.93	11.82
Leverage on Capital Funds(Including Debentures)	Times	7.45	7.00	8.17	7.74	7.84
Percentage of Earnings Retained	%	74.25	72.63	71.30	72.00	72.05
Equity/ Deposits, Borrowings and Securities Sold Under Re-purchase Agreements	%	10.30	10.19	8.54	9.75	9.04
Equity/ Total Assets	%	8.78	8.64	7.41	8.38	7.80
Equity/ Loans and Advances	%	11.96	11.44	10.28	11.94	11.47
<b>LIQUIDITY AND FUNDING</b>						
Loans and Advances/ Deposits, Borrowings and Securities Sold under Re-purchase Agreements	%	86.06	89.05	83.14	81.66	78.80
Deposits/ Deposits, Borrowings, Debentures and Securities Sold under Re-purchase Agreements	%	89.38	87.53	84.85	84.53	85.54
Liquid Assets/ Total Assets	%	25.76	21.38	22.57	24.06	24.83
Liquid Assets/ Deposits, Borrowings and Securities Sold under Re-Purchase Agreements	%	30.21	25.20	26.02	27.99	28.78
Net Lending or ( Borrowings ) in Call Money Market	LKR Mn	1,576	(14,596)	(10,796)	(11,056)	(16,382)
<b>OTHER DATA</b>						
Number of Banking Centres		172	173	170	166	166
Number of Staff Members		3,251	3,360	3,344	3,199	3,165
Profit per Staff Member	LKR '000	926	1,095	954	1,385	1,267
Number of Ordinary Shares						
- Voting	000	256,717	251,478	184,104	179,614	175,977
- Non Voting	000	260,306	252,146	181,995	174,842	168,983
Share Prices as at 31 December						
- Voting	LKR	46.00	52.50	78.00	87.20	90.00
- Non Voting	LKR	34.00	33.80	44.50	56.00	59.00

\* Dividends for the year 2020 are accounted for as per Sri Lanka Accounting Standard - LKAS 10.

\*\* Earnings per Share has been restated as per Sri Lanka Accounting Standard - LKAS 33.

# STATEMENT OF COMPREHENSIVE INCOME IN US DOLLARS

For the Year ended 31 December	Bank			Group		
	2020 US\$ '000	2019 US\$ '000	Change %	2020 US\$ '000	2019 US\$ '000	Change %
<b>Gross Income</b>	311,678	338,311	(7.87)	311,699	338,238	(7.85)
Interest Income	279,042	305,531	(8.67)	279,084	305,573	(8.67)
Less : Interest Expenses	175,054	202,816	(13.69)	173,426	201,148	(13.78)
<b>Net Interest Income</b>	<b>103,988</b>	<b>102,715</b>	<b>1.24</b>	<b>105,658</b>	<b>104,425</b>	<b>1.18</b>
Fee and Commission Income	20,968	24,572	(14.67)	20,967	24,571	(14.67)
Less : Fee and Commission Expenses	1,077	1,238	(13.00)	1,083	1,238	(12.52)
<b>Net Fee and Commission Income</b>	<b>19,891</b>	<b>23,334</b>	<b>(14.76)</b>	<b>19,884</b>	<b>23,333</b>	<b>(14.78)</b>
Net Gains/ (Losses) from Trading	1,854	(2,743)	167.59	1,860	(2,734)	168.03
Net Gains from Derecognition of Financial Assets	4,173	1,766	136.30	4,174	1,767	136.22
Net Other Operating Income	5,641	9,185	(38.58)	5,614	9,061	(38.04)
<b>Total Operating Income</b>	<b>135,547</b>	<b>134,257</b>	<b>0.96</b>	<b>137,190</b>	<b>135,852</b>	<b>0.98</b>
Less : Impairment Charges	37,296	21,404	74.25	37,296	21,404	74.25
<b>Net Operating Income</b>	<b>98,251</b>	<b>112,853</b>	<b>(12.94)</b>	<b>99,894</b>	<b>114,448</b>	<b>(12.72)</b>
Less : Operating Expenses						
Personnel Expenses	36,751	36,240	1.41	36,932	36,428	1.38
Depreciation and Amortisation Expenses	7,719	7,171	7.64	7,926	7,316	8.34
Other Expenses	23,704	26,081	(9.11)	23,975	26,414	(9.23)
<b>Total Operating Expenses</b>	<b>68,174</b>	<b>69,492</b>	<b>(1.90)</b>	<b>68,833</b>	<b>70,158</b>	<b>(1.89)</b>
<b>Operating Profit before Taxes</b>	<b>30,077</b>	<b>43,361</b>	<b>(30.64)</b>	<b>31,061</b>	<b>44,290</b>	<b>(29.87)</b>
Less : Value Added Tax on Financial Services	8,151	8,937	(8.79)	8,151	8,937	(8.79)
Less : Nation Building Tax on Financial Services	-	1,065	(100.00)	-	1,065	(100.00)
Less : Debt Repayment Levy	-	5,252	(100.00)	-	5,252	(100.00)
<b>Profit before Income Tax</b>	<b>21,926</b>	<b>28,107</b>	<b>(21.99)</b>	<b>22,910</b>	<b>29,036</b>	<b>(21.10)</b>
Less : Income Tax Expense	5,866	7,819	(24.98)	6,387	8,097	(21.12)
<b>Profit for the Year</b>	<b>16,060</b>	<b>20,288</b>	<b>(20.84)</b>	<b>16,523</b>	<b>20,939</b>	<b>(21.09)</b>
Profit Attributable to :						
- Equity Holders of the Bank	16,060	20,288	(20.84)	16,206	20,578	(21.25)
- Non-controlling Interest	-	-	-	317	361	(12.19)
<b>Profit for the Year</b>	<b>16,060</b>	<b>20,288</b>	<b>(20.84)</b>	<b>16,523</b>	<b>20,939</b>	<b>(21.09)</b>
<b>Basic/ Diluted Earnings per Share (US\$)</b>	<b>0.03</b>	<b>0.05</b>	<b>(40.00)</b>	<b>0.03</b>	<b>0.05</b>	<b>(40.00)</b>
<b>Other Comprehensive Income, net of Tax</b>						
<b>Items that are or may be reclassified to Income Statement</b>						
Net Movement of Cash Flow Hedge Reserve	143	(342)	141.81	143	(342)	141.81
Net Gains/ (Losses) on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	9,176	14,001	(34.46)	9,193	14,031	(34.48)
Less : Deferred Tax effect relating to Items that are or may be reclassified to Income Statement	2,569	3,920	(34.46)	2,571	3,922	(34.45)
<b>Items that never be reclassified to Income Statement</b>						
Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	8,259	1,742	374.11	8,259	1,746	373.02
Revaluation of Property, Plant and Equipment	-	-	-	222	652	(65.95)
Actuarial Gains/ (Losses) on Defined Benefit Obligations	(2,643)	978	(370.25)	(2,642)	966	(373.50)
Less : Deferred Tax Effect relating to Items that will never be reclassified to Income Statement	2,595	146	1,677.40	2,657	329	707.60
<b>Other Comprehensive Income for the Year, net of Tax</b>	<b>9,771</b>	<b>12,313</b>	<b>(20.64)</b>	<b>9,947</b>	<b>12,802</b>	<b>(22.30)</b>
<b>Total Comprehensive Income for the Year</b>	<b>25,831</b>	<b>32,601</b>	<b>(20.77)</b>	<b>26,470</b>	<b>33,741</b>	<b>(21.55)</b>
Total Comprehensive Income Attributable to :						
- Equity Holders of the Bank	25,831	32,601	(20.77)	26,101	33,235	(21.47)
- Non-controlling Interest	-	-	-	369	506	(27.08)
<b>Total Comprehensive Income for the Year</b>	<b>25,831</b>	<b>32,601</b>	<b>(20.77)</b>	<b>26,470</b>	<b>33,741</b>	<b>(21.55)</b>

Exchange rate of US\$ 1 was LKR 187.50 as at 31 December 2020 (LKR 181.40 as at 31 December 2019).

The Statement of Comprehensive Income given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

# STATEMENT OF FINANCIAL POSITION IN US DOLLARS

As at 31 December	Bank			Group		
	2020 US\$ '000	2019 US\$ '000	Change %	2020 US\$ '000	2019 US\$ '000	Change %
<b>Assets</b>						
Cash and Cash Equivalents	53,526	64,822	(17.43)	53,526	64,822	(17.43)
Balances with Central Bank of Sri Lanka	39,313	79,708	(50.68)	39,313	79,708	(50.68)
Placements with Banks and Finance Companies	57,229	6,468	784.80	57,229	6,468	784.80
Derivative Financial Instruments	2,155	743	190.04	2,155	743	190.04
Financial Assets recognised through Profit or Loss	-	-	-	-	-	-
- Measured at Fair Value	24,245	39,239	(38.21)	24,287	39,276	(38.16)
- Designated at Fair Value	-	-	-	-	-	-
Financial Assets at Amortised Cost						
- Loans and Advances	2,100,086	2,090,734	0.45	2,100,086	2,090,734	0.45
- Debt and Other instruments	286,360	149,056	92.12	286,360	149,056	92.12
Financial Assets measured at Fair Value through Other Comprehensive Income	314,796	306,458	2.72	315,101	306,756	2.72
Investment in Subsidiary	6,153	6,359	(3.24)	-	-	-
Group Balances Receivable	213	221	(3.62)	-	-	-
Property, Plant and Equipment	21,501	23,969	(10.30)	36,121	39,076	(7.56)
Right-of-use Assets	23,737	24,774	(4.19)	11,843	12,296	(3.68)
Investment Properties	-	-	-	4,569	4,703	(2.85)
Intangible Assets	3,309	3,348	(1.16)	3,309	3,348	(1.16)
Other Assets	41,816	50,265	(16.81)	42,132	50,485	(16.55)
<b>Total Assets</b>	<b>2,974,439</b>	<b>2,846,164</b>	<b>4.51</b>	<b>2,976,031</b>	<b>2,847,471</b>	<b>4.51</b>
<b>Liabilities</b>						
Due to Banks	174,292	158,598	9.90	174,292	158,598	9.90
Derivative Financial Instruments	213	1,229	(82.67)	213	1,229	(82.67)
Financial liabilities at amortised cost						
- Due to Depositors	2,348,283	2,209,103	6.30	2,348,283	2,209,103	6.30
- Due to Debt Securities Holders	13,738	46,449	(70.42)	13,738	46,449	(70.42)
- Due to Other Borrowers	75	129	(41.86)	75	129	(41.86)
Group Balances Payable	1,394	1,108	25.81	-	-	-
Debt Securities Issued	90,979	109,542	(16.95)	90,979	109,542	(16.95)
Current Tax Liabilities	4,639	2,896	60.19	4,515	2,705	66.91
Deferred Tax Liabilities	7,839	3,998	96.07	9,546	5,222	82.80
Lease Liabilities	23,713	23,989	(1.15)	8,442	8,311	1.58
Other Liabilities	48,117	43,107	11.62	48,319	43,538	10.98
<b>Total Liabilities</b>	<b>2,713,282</b>	<b>2,600,148</b>	<b>4.35</b>	<b>2,698,402</b>	<b>2,584,826</b>	<b>4.39</b>
<b>Equity</b>						
Stated Capital	93,591	93,962	(0.39)	93,591	93,962	(0.39)
Statutory Reserve Fund	11,219	10,766	4.21	11,219	10,766	4.21
Retained Earnings	131,644	125,817	4.63	135,369	129,515	4.52
Other Reserves	24,703	15,471	59.67	30,593	21,431	42.75
<b>Total Equity Attributable to Equity Holders of the Bank</b>	<b>261,157</b>	<b>246,016</b>	<b>6.15</b>	<b>270,772</b>	<b>255,674</b>	<b>5.91</b>
<b>Non-controlling Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,857</b>	<b>6,971</b>	<b>(1.64)</b>
<b>Total Equity</b>	<b>261,157</b>	<b>246,016</b>	<b>6.15</b>	<b>277,629</b>	<b>262,645</b>	<b>5.71</b>
<b>Total Equity and Liabilities</b>	<b>2,974,439</b>	<b>2,846,164</b>	<b>4.51</b>	<b>2,976,031</b>	<b>2,847,471</b>	<b>4.51</b>
<b>Contingent Liabilities and Commitments</b>	<b>1,040,822</b>	<b>827,714</b>	<b>25.75</b>	<b>1,040,924</b>	<b>827,946</b>	<b>25.72</b>
<b>Net Assets Value per Share (US\$)</b>	<b>0.51</b>	<b>0.49</b>	<b>4.08</b>	<b>0.52</b>	<b>0.51</b>	<b>1.96</b>

Exchange rate of US\$ 1 was LKR 187.50 as at 31 December 2020 (LKR 181.40 as at 31 December 2019).

The Statement of Financial Position given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

# INVESTOR INFORMATION

## Twenty Largest Ordinary Voting Shareholders as at 31 December 2020

	2020		Comparative holdings of the top 20 holders in 2019	
	NO OF SHARES	PERCENTAGE	NO OF SHARES	PERCENTAGE
1 Sri Lanka Insurance Corporation Ltd [includes General Fund and Life Fund]	38,507,542	15.00	37,721,674	15.00
2 Brown and Company PLC A/ C NO. 1**	35,619,312	13.87	34,892,388	13.87
3 Mr K D D Perera	25,390,669	9.89	-	-
4 Employees Provident Fund	25,305,909	9.86	24,789,462	9.86
5 LOLC Investments Ltd	24,520,351	9.55	24,019,936	9.55
6 National Development Bank PLC	22,398,200	8.72	21,941,094	8.72
7 Bank of Ceylon No.1 Account	14,440,329	5.62	14,145,629	5.62
8 Seylan Bank PLC A/ C No. 04 - Employees Gratuity Trust Fund	13,317,202	5.19	12,684,300	5.04
9 Peoples Leasing and Finance PLC/ Don and Don Holdings (Pvt) Ltd	6,814,650	2.65	4,476,431	1.78
10 Employees Trust Fund Board	5,458,926	2.13	5,347,520	2.13
11 Sisil Investment Holdings (Pvt) Ltd	2,763,796	1.08	2,616,186	1.04
12 NDB Capital Holdings Limited A/ C No.02	2,600,214	1.01	2,547,149	1.01
13 AIA Insurance Lanka Ltd A/ C No.07	2,389,114	0.93	2,340,357	0.93
14 Mr M J Fernando	1,296,330	0.50	1,226,585	0.49
15 Mr R R Leon	1,214,825	0.47	1,190,033	0.47
16 Mr K R B Fernando	1,110,792	0.43	1,088,123	0.43
17 Sampath Bank PLC/ Dr T Senthilverl	999,679	0.39	666	0.00
18 Dr T Senthilverl	730,336	0.28	-	-
19 Seyshop (Pvt) Ltd	687,611	0.27	734,583	0.29
20 Esots (Pvt) Ltd	675,813	0.26	722,604	0.29
Total shares held by the top 20 holders	226,241,600	88.10		
Balance shares held by other 10,235 Ordinary Voting share holders -as at 31 December 2020	30,475,394	11.90		
Total Ordinary Voting shares issued by the Bank	256,716,994	100.00	251,477,872	
Total Ordinary Voting share holders	10,255		10,041	

### Notes :

\* Brown and Company PLC and LOLC Investments Ltd collectively hold 23.42% of the issued capital of the Bank. This joint shareholding limit has been approved by the Central Bank vide their letter dated 14 September 2011, subject to the joint holding of Brown and Company PLC A/ C No.1 and LOLC Investments Ltd being reduced from 23.42% to 15% within a period of 15 years from 13 October 2009.

\*\* The Board decided at its meeting held on 15 April 2020 to limit the voting rights of Brown and Co PLC's shareholding in Seylan Bank PLC to 9.55% with effect from 31 March 2020 in compliance with the direction issued by the Monetary Board vide Director – Bank Supervision's letter dated 6 April 2020.

### Twenty Largest Ordinary Non-voting Shareholders as at 31 December 2020

	2020		Comparative holdings of the top 20 holders in 2019		
	NO OF SHARES	PERCENTAGE	NO OF SHARES	PERCENTAGE	
1	LOLC Holdings PLC	119,758,426	46.01	111,429,583	44.19
2	Employees Provident Fund	13,884,618	5.33	13,449,364	5.33
3	Peoples Leasing & Finance PLC/ Don and Don Holdings (Pvt) Ltd	8,466,079	3.25	5,911,428	2.34
4	Akbar Brothers Pvt Ltd A/ C No. 1	5,590,459	2.15	5,415,210	2.15
5	Deutsche Bank AG As Trustee For JB Vantage Value Equity Fund	4,807,733	1.85	4,657,021	1.85
6	Mr R S Captain	4,305,165	1.65	308,877	0.12
7	Employees Trust Fund Board	4,141,328	1.59	4,011,506	1.59
8	Acuity Partners (Pvt) Ltd/ Mr E Thavagnanasooriyam and Mr E Thavagnanasundaram	3,800,000	1.46	-	-
9	Pershing LLC S/ A Averbach Grauson & Co.	3,676,464	1.41	4,273,884	1.70
10	Peoples Leasing & Finance PLC/ Mrs P Thavarajah	3,606,977	1.39	3,420,424	1.36
11	Merrill J Fernando & Sons (Pvt) Limited	2,891,466	1.11	2,800,825	1.11
12	First Capital Limited	2,628,985	1.01	3,187,073	1.26
13	Mr R R Leon	2,387,974	0.92	2,223,116	0.88
14	LOLC Technology Services Limited	2,273,063	0.87	2,201,808	0.87
15	J.B. Cocoshell (Pvt) Ltd	2,145,653	0.82	3,011,739	1.19
16	Mr. N. Balasingam	2,036,473	0.78	1,972,634	0.78
17	GF Capital Global Ltd	1,557,271	0.60	1,475,758	0.59
18	Mr M J Fernando	1,425,131	0.55	1,268,314	0.50
19	Mr. R. Gautam	1,397,119	0.54	1,296,789	0.51
20	Mr D N N Lokuge	1,387,958	0.53	1,344,449	0.53
	Total shares held by the top 20 holders	192,168,342	73.82		
	Balance shares held by other 7,403 Ordinary Non-voting shareholders - as at 31 December 2020	68,137,633	26.18		
	Total Ordinary Non-voting shares Issued by the Bank	260,305,975	100.00	252,145,914	
	Total Ordinary Non-voting shareholders	7,423		7,784	

### Shareholdings of Directors as at 31 December 2020

Directors' shareholdings including the Director/ Chief Executive Officer's holding as at 31 December 2020 are given on page 111 of the Report of the Board of Directors.

**Ordinary Shares (Quoted)**

	Voting (SEYB-N)		Non-Voting (SEYB-X)	
	2020	2019	2020	2019
No. of shares issued	<b>256,716,994</b>	251,477,872	<b>260,305,975</b>	252,145,914
Dividend (per share)	Cash LKR	Paid:1.00	-	Paid :1.00
	Scrip LKR	Paid:1.00	<b>Proposed: 1.50</b>	Paid :1.00
Share Prices				
Highest	LKR	79.90	<b>35.70</b>	45.90
Lowest	LKR	47.00	<b>19.30</b>	27.10
Last traded	LKR	52.50	<b>34.00</b>	33.80

**Compliance with Minimum Public Holding Requirement**

Period	Option under which the Bank is compliant	Float adjusted market capitalization	Public Holding Percentage	No. of Public shareholders
As at 31/ 12/ 2019	Option 3	LKR 7.240 Bn	54.84%	10,021
As at 31/ 12/ 2020	Option 3	LKR 6.477 Bn	54.85%	10,235

**Analysis of The Distribution of Shareholders as at 31 December 2020****Ordinary Voting Shares**

Range of Shareholding	No. of Shareholders	No. of Shares	Percentage (%) of Shareholding
1 _ 1,000	7,370	1,583,746	0.617
1,001 _ 10,000	2,427	6,691,214	2.606
10,001 _ 100,000	390	9,515,222	3.707
100,001 _ 1,000,000	52	15,778,651	6.146
1,000,001 and Above	16	223,148,161	86.924
<b>Total</b>	<b>10,255</b>	<b>256,716,994</b>	<b>100.000</b>
<b>Resident/ Non Resident</b>			
Resident	10,107	253,468,048	98.73
Non-Resident	148	3,248,946	1.27
<b>Individuals/ Institutions</b>			
Individuals	9,914	49,881,440	19.43
Companies/ Institutions	341	206,835,554	80.57

**Ordinary Non-Voting Shares**

Range of Shareholding	No. of Shareholders	No. of Shares	Percentage (%) of Shareholding
1 _ 1,000	3,674	1,039,589	0.399
1,001 _ 10,000	2,837	9,638,481	3.703
10,001 _ 100,000	775	21,491,197	8.256
100,001 _ 1,000,000	111	29,317,600	11.263
1,000,001 and Above	26	198,819,108	76.379
<b>Total</b>	<b>7,423</b>	<b>260,305,975</b>	<b>100.000</b>
<b>Resident/ Non Resident</b>			
Resident	7,351	245,466,096	94.30
Non-Resident	72	14,839,879	5.70
<b>Individuals/ Institutions</b>			
Individuals	7,105	63,318,267	24.32
Companies/ Institutions	318	196,987,708	75.68

## Debentures

### Debentures 2014

(Listed on CSE in December 2014) (SEYB D313, D314, D315, D316, D317)	Type A 4Year Debentures 8.0% p.a. Semi-annual		Type B 5Year Debentures 8.35% p.a. Semi-annual		Type C 5Year Debentures 8.60% p.a. Annual		Type D 6Year Debentures 8.60% p.a. Semi-annual		Type E 6Year Debentures 8.75% p.a. Annual	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
No. of Debentures Issued	4,622,800		300		18,665,200		25,055,200		3,005,200	
<b>Debenture Prices</b>										
Highest (LKR)										85.00
Lowest (LKR)		Redeemed on 23.12.2018		Redeemed on 23.12.2019		Redeemed on 23.12.2019		Not traded in 2019 and 2020		Not traded in 2020
Last traded (LKR)										85.00

### Debentures 2016

(Listed on CSE in July 2016) (SEYB D391, D392, D393)	Type A 5 Year Debentures 13.0% p.a. Semi-annual		Type B 5 Year Debentures 6 MONTH T-Bill (gross)+1.5% p.a. Semi-annual		Type C 7 year Debentures 13.75% Semi-annual	
	2020	2019	2020	2019	2020	2019
No of Debentures Issued	17,103,200		174,000		32,722,800	
<b>Debenture Prices</b>						
Highest (LKR)	102.70	100.00			102.98	102.60
Lowest (LKR)	100.00	100.00		Not traded in 2019 and 2020	102.98	96.00
Last Traded (LKR)	102.70	100.00			102.98	100.00

### Debentures 2018

Listed on CSE in April 2018) (SEYB D432, D433, D434)	Type A 5 Year Debentures 12.85% p.a. Semi-annual		Type B 7 Year Debentures 13.20% p.a. Semi-annual		Type C 10 Year Debentures 13.50% p.a. Semi-annual	
	2020	2019	2020	2019	2020	2019
No. of Debenture Issued	39,100,000		7,150,000		16,090,000	
<b>Debenture Prices</b>						
Highest (LKR)		99.81		100.00	107.97	105.00
Lowest (LKR)	Not traded in 2020	99.81	Not traded in 2020	99.00	98.00	100.00
Last traded (LKR)		99.81		100	107.97	100.00

### Debentures 2019

(Listed on CSE in April 2019) (SEYB D458, D459)	Type A 5 Year Debentures 15.00% p.a. Annual		Type B 5 Year Debentures 14.50% p.a. Semi-annual	
	2020	2019	2020	2019
No. of Debentures Issued	37,734,000		12,266,000	
<b>Debenture Prices</b>				
Highest (LKR)	116.44	107.49	99.99	100.73
Lowest (LKR)	99.93	106.49	99.99	100.72
Last traded (LKR)	116.44	107.49	99.99	100.72

	2020	2019
<b>Debt (Debentures)/ Equity Ratio (Times)</b>	0.35	0.45
<b>Debt (Debentures plus Long Term Debt)/ Equity Ratio (Times)</b>	0.50	0.67
<b>Interest Cover (Times)</b>	2.67	3.11
<b>Quick Asset Ratio (Times)</b>	0.72	0.74
<b>2014 Issue</b>		
<b>Interest Yield as at Date of Last Trade</b>		
5 Year Fixed Semi Annual - 8.35% p.a. (Debenture Matured and Redeemed on 23/ 12/ 2019)		*
5 Year Fixed Annual - 8.60% p.a. (Debenture Matured and Redeemed on 23/ 12/ 2019)		*
6 Year Fixed Semi Annual - 8.60% p.a. (Debenture Matured and Redeemed on 23/ 12/ 2020)	*	*
6 Year Fixed Annual - 8.75% p.a.*/(04/ 06/ 2019) (Debenture Matured and Redeemed on 23/ 12/ 2020)	*	10.29%
<b>Yield to Maturity of Trade Done on</b>		
5 Year Fixed Semi Annual - 8.35% p.a. (Debenture Matured and Redeemed on 23/ 12/ 2019)		*
5 Year Fixed Annual - 8.60% p.a. (Debenture Matured and Redeemed on 23/ 12/ 2019)		*
6 Year Fixed Semi Annual - 8.60% p.a. (Debenture Matured and Redeemed on 23/ 12/ 2020)	*	*
6 Year Fixed Annual - 8.75% p.a.*/(04/ 06/ 2019) (Debenture Matured and Redeemed on 23/ 12/ 2020)	*	20.88%
<b>Interest Rate of Comparable Government Security</b>		
5 Years (Debenture matured and redeemed on 23/ 12/ 2019)		
6 Years (Debenture matured and redeemed on 23/ 12/ 2020)		8.36%
<b>2016 Issue</b>		
<b>Interest Yield as at Date of Last Trade</b>		
5 Year Fixed Semi Annual - 13.00% p.a. (13/ 08/ 2020)/(05/ 12/ 2019)	13.07%	13.42%
5 Year Floating Semi Annual - six months treasury bill rate + 1.5%	*	*
7 Year Fixed Semi Annual - 13.75% p.a. (13/ 01/ 2020)/(24/ 09/ 2019)	13.81%	14.22%
<b>Yield to Maturity of Trade Done on</b>		
5 Year Fixed Semi Annual - 13.00% p.a. (13/ 08/ 2020)/(05/ 12/ 2019)	9.83%	12.98%
5 Year Floating Semi Annual - six months treasury bill rate + 1.5%	*	*
7 Year Fixed Semi Annual - 13.75% p.a. (13/ 01/ 2020)/(24/ 09/ 2019)	12.67%	13.73%
<b>Interest Rate of Comparable Government Security</b>		
5 Years	4.76%	8.58%
7 Years	5.93%	9.39%
<b>2018 Issue</b>		
<b>Interest Yield as at Date of Last Trade</b>		
5 Year Fixed Semi Annual - 12.85% p.a.*/(11/ 06/ 2019)	*	13.29%
7 Year Fixed Semi Annual - 13.20% p.a.*/(22/ 10/ 2019)	*	13.64%
10 Year Fixed Semi Annual - 13.50% p.a. (28/ 05/ 2020)/(17/ 12/ 2019)	12.93%	13.96%
<b>Yield to Maturity of Trade Done on</b>		
5 Year Fixed Semi Annual - 12.85% p.a.*/(11/ 06/ 2019)	*	12.90%
7 Year Fixed Semi Annual - 13.20% p.a.*/(22/ 10/ 2019)	*	13.19%
10 Year Fixed Semi Annual - 13.50% p.a. (28/ 05/ 2020)/(17/ 12/ 2019)	11.90%	13.49%
<b>Interest Rate of Comparable Government Security</b>		
5 Years	5.96%	9.42%
7 Years	6.71%	9.88%
10 Years	7.03%	10.12%
<b>2019 Issue</b>		
<b>Interest Yield as at Date of Last Trade</b>		
5 Year Fixed Annual - 15.00% p.a (28/ 07/ 2020)/(16/ 10/ 2019)	12.88%	13.95%
5 Year Fixed Semi Annual - 14.50% p.a. (26/ 05/ 2020)/(17/ 05/ 2019)	15.03%	14.92%
<b>Yield to Maturity of Trade Done on</b>		
5 Year Fixed Annual - 15.00% p.a. (28/ 07/ 2020)/(16/ 10/ 2019)	9.50%	12.65%
5 Year Fixed Semi Annual - 14.50% p.a. (26/ 05/ 2020)/(17/ 05/ 2019)	14.49%	14.28%
<b>Interest Rate of Comparable Government Security</b>		
5 Years	6.29%	9.69%

\*No Trading during the Period.

# BRANCH AND ATM NETWORK

## Province-wise distribution

 Branches 18

 ATMs 19

### NORTH WESTERN

Bowatta  
Chilaw  
Dankotuwa  
Dummalasuriya  
Giriulla  
Hettipola  
Katuneriya  
Kuliyapitiya  
Kurunegala  
Kalpitiya  
Mawathagama  
Narammala  
Pannala  
Puttalam  
Rideegama  
Udappu  
Wariyapola  
Wennappuwa

 Branches 75

 ATMs 85

### WESTERN

Aluthgama  
Attidiya  
Athurugiriya  
Awissawella  
Bambalapitiya  
Bandaragama  
Baduraliya  
Borella  
Battaramulla  
Boralesgamuwa  
Beruwala  
Colombo Gold Centre  
Cinnamon Gardens  
Colombo Fort  
Dehiwala  
Dam Street  
Gampaha  
Godagama  
Ganemulla  
Grandpass  
Gothatuwa  
Homagama  
Horana  
Havelock Town  
Ingiriya  
Ja-ela  
Katunayaka  
Kalubowila  
Kiribathgoda  
Kochchikade  
Kandana  
Kadawatha  
Kalutara  
Kelaniya  
Kottawa  
Kollupitiya  
Kirindiwela  
Kirulapone  
Kotahena  
Millennium Branch

 ATMs 30

### OFF-SITE ATMS

Arugambay  
Bambalapitiya (Marina Casino)  
Batticaloa  
Bloomfield  
Borella (IBSL)  
Colombo 07 (General Hospital)  
Dehiwala (Saranankara Rd)  
Ella  
Head Office (Mobile)  
Hikkaduwa  
Horana (MDK)  
Katunayaka (Smart Shirt)  
Kegalle (ASR Rubber Co.)  
Kuruwita  
Mahiyangana (EAM Maliban Garment)  
Makola (Yoshida)  
Makumbura  
Malabe (Horizon Campus)  
Mirissa  
Mount Lavinia  
Negombo (Beach Side)  
Negombo (Pizza Hut)  
One Galle Face  
Padukka (SLTC)  
Pinnawala  
Ragama (National Hospital)  
Rajagiriya  
Sethsiripaya  
Trincomalee  
Unawatuna

Marandagahamula  
Maradana  
Meegoda  
Maharagama  
Malabe  
Mount Lavinia  
Minuwangoda  
Moratuwa  
Mirigama  
Matugama  
Moratumulla  
Mutwal  
Negombo  
Nugegoda  
Nawala  
Nittambuwa  
Old Moor Street  
Padukka  
Pettah  
Pitakotte  
Piliyandala  
Panadura  
Raddalugama  
Ranpokunagama  
Sarikkamulla  
Soysapura  
Union Place  
Veyangoda  
Wellawatta  
Wadduwa  
Wijerama  
Weliweriya  
Wattala  
Yakkala  
Foreign Employment Bureau (EBC)

 Branches 10

 ATMs 10

### NORTHERN

Chavakachcheri  
Chankanai  
Chunnakam  
Jaffna  
Kilinochchi  
Mannar  
Manipay  
Mullativu  
Nelliady  
Vavuniya

 Branches 11

 ATMs 11

### NORTH CENTRAL

Anuradhapura  
Aralaganwila  
Eppawala  
Galenbidunuwewa  
Hingurakgoda  
Kaduruwela  
Kekirawa  
Manampitiya  
Medawachchiya  
Nochchiyagama  
Padaviya

 Branches 12

 ATMs 12

### EASTERN

Akkaraipattu  
Ampara  
Batticaloa  
Chenkalady  
Dehiattakandiya  
Kantale  
Kattankudy  
Kalmunai  
Kalawanchikudy  
Pothuvil  
Sammanthurai  
Trincomalee

 Branches 14

 ATMs 15

### CENTRAL

Bogawantalawa  
Dambulla  
Gampola  
Hatton  
Kandy  
Katugastota  
Matale  
Nawalapitiya  
Nuwara Eliya  
Peradeniya  
Pussellawa  
Pallekele  
Pilimathalawa  
Thalawakele

 Branches 12

 ATMs 12

### SABARAGAMUWA

Balangoda  
Eheliyagoda  
Embilipitiya  
Godakawela  
Kegalle  
Kotiyakumbura  
Mawanella  
Pelmadulla  
Ruwanwella  
Ratnapura  
Warakapola  
Yatiantota

 Branches 13

 ATMs 14

### SOUTHERN

Ambalangoda  
Akuressa  
Ambalantota  
Beliatte  
Galle  
Hikkaduwa  
Hambantota  
Koggala  
Karapitiya  
Kamburupitiya  
Matara Bazaar  
Matara  
Tissamaharama

 Branches 07

 ATMs 07

### UVA

Badulla  
Bandarawela  
Katharagama  
Monaragala  
Mahiyanganaya  
Siyambalanduwa  
Welimada

# GEOGRAPHICAL ANALYSIS

## Deposits, Loans and Advances

As at 31 December 2020

Province	No. of Banking Centres	Deposits LKR Mn	Loans and Advances	
			%	LKR Mn
Western	75	316,950	72.0	315,487
Southern	13	19,751	4.5	23,865
Uva	7	5,712	1.3	3,196
North-Central	11	9,025	2.0	5,942
North-Western	18	23,621	5.4	14,642
Eastern	12	11,913	2.7	9,954
Northern	10	12,368	2.8	7,410
Sabaragamuwa	12	17,716	4.0	14,117
Central	14	23,247	5.3	14,688
	<b>172</b>	<b>440,303</b>	<b>100.0</b>	<b>409,301</b>
Total Expected Credit Loss Allowance for Loans and Advances		-		(15,535)
<b>Total</b>	<b>172</b>	<b>440,303</b>		<b>393,766*</b>

\*Loans and Advances Net of Expected Credit Loss Allowance.

## Contingencies and Commitments

As at 31 December 2020

Province	No. of Banking Centres	Acceptances LKR Mn	Standby Letters of Credit LKR Mn	Guarantees LKR Mn	Documentary Credit LKR Mn	Bills for Collection LKR Mn	Forward Exchange Contracts (Net) LKR Mn	Total LKR Mn
<b>Contingencies</b>								
Western	75	18,373	666	47,080	12,089	3,298	402	81,908
Southern	13	8	-	2,428	43	328	-	2,807
Uva	7	-	-	304	13	-	-	317
North-Central	11	15	-	1,769	-	-	-	1,784
North-Western	18	966	-	2,134	483	558	-	4,141
Eastern	12	42	-	579	8	2	-	631
Northern	10	-	-	586	14	-	-	600
Sabaragamuwa	12	371	-	666	24	-	-	1,061
Central	14	467	-	830	415	546	-	2,258
	<b>172</b>	<b>20,242</b>	<b>666</b>	<b>56,376</b>	<b>13,089</b>	<b>4,732</b>	<b>402</b>	<b>95,507</b>
<b>Commitments</b>								
Undrawn Credit Lines and Capital Commitments								99,647
<b>Total</b>	<b>172</b>	<b>20,242</b>	<b>666</b>	<b>56,376</b>	<b>13,089</b>	<b>4,732</b>	<b>402</b>	<b>195,154</b>

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# GLOSSARY

## A

### ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words, a Bill of Exchange that has been accepted.

### ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

### ACTUARIAL GAIN/ LOSS

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

### AMORTISED COST OF A FINANCIAL ASSET OR FINANCIAL LIABILITY

The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules, and practices adopted by an entity in preparing and presenting Financial Statements.

## B

### BASEL III

The Basel Committee on Banking Supervision (BCBS) issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

### BILLS OF COLLECTION

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

## C

### CAPITAL ADEQUACY

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 Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

### CAPITAL RESERVES

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and reserve fund set aside for specific

purposes defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

### CASH EQUIVALENTS

Short-term highly liquid investments those are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

### 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.

### COST TO INCOME RATIO

Operating expenses as a percentage of total operating income

### COST METHOD

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

### COST-PUSH INFLATION

A continuous increase in average price levels due to an increase in production costs.

### CREDIT RATINGS

An evaluation of a corporate ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

## D

### DEFERRED TAX

Sum set aside in the Financial Statements 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.

### 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.

### DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

### DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

### DOCUMENTARY CREDITS (L/ CS)

Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

## E

### EARNINGS PER SHARE (EPS)

The profit attributable to each ordinary share in the Bank, based on the profit for the period after tax and after deducting minority interest and preference share dividends.

### 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

Provision for taxation excluding deferred tax divided by the profit before taxation.

### 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.

### EXPECTED CREDIT LOSS (ECL)

The weighted average of credit losses with the respective risks of a default occurring as the weights.

### EXPOSURE AT DEFAULT (EAD)

The amount that a bank is exposed to at the time of default of its borrower.

## 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.

**FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)**

A financial asset/ liability acquired incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

**FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)**

Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

**FOREIGN EXCHANGE CONTRACT**

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

**FOREIGN EXCHANGE INCOME**

The realised 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.

**FINANCIAL INSTRUMENT**

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

**G****GROSS DIVIDEND**

The portion of profits distributed to the shareholders including the tax withheld.

**GROUP**

A group is a parent and all its subsidiaries.

**GUARANTEES**

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

**H****HEDGING**

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

**HIGH QUALITY LIQUID ASSETS (HQLA)**

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be Central Bank eligible. These include, for example, cash and claims

on Central Governments and Central Banks.

**I****IMPAIRMENT**

This occurs when recoverable amount of an asset is less than its carrying amount.

**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 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 (KMP)**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

**L****LIFETIME EXPECTED CREDIT LOSSES**

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

**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 and Bonds.

**LIQUIDITY COVERAGE RATIO (LCR)**

Refers to highly liquid assets held by Banks to meet short-term obligations. The ratio represents a generic stress scenario that aims to anticipate market-wide shocks.

**LOSS GIVEN DEFAULT (LGD)**

The percentage of an exposure that a lender expects to not recover in the event of default.

**LEASE LIABILITIES**

Present value of contractual lease payments.

**M****MARKET CAPITALISATION**

The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

**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 (NII)**

The difference between the amount 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 INTEREST MARGIN (NIM)**

The margin is expected as net interest income divided by average interest earning assets.

**NET STABLE FUNDING RATIO (NSFR)**

Measures the amount of long-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

**NON-CONTROLLING INTEREST (NCI)**

Non-Controlling Interest is the equity in a subsidiary not attributable directly or indirectly to a parent.

**NON-PERFORMING ADVANCES (NPA)**

All loans are classified as nonperforming when a payment is 90 days in arrears.

**NPA RATIO (NET OF IIS)**

Total non-performing advances (net of interest in suspense) divided by total advances portfolio (net of interest in suspense).

**O****OFF-BALANCE SHEET TRANSACTIONS**

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position but which give rise to contingencies and commitments.

**OPEN CREDIT EXPOSURE RATIO**

Total net non-performing loans and advances expressed as a percentage of equity.

**P****PARENT**

A parent is an entity that has one or more subsidiaries.

**PAST DUE**

A financial asset is past due when counterparty has failed to make a payment when that payment was contractually due.

**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)**

The likelihood of a default over a particular time horizon. It provides an estimate of the probability that a borrower will be unable to meet its debt obligations.

**PROVISION COVER**

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

**R****RELATED PARTIES**

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

**RELATED PARTY TRANSACTION (RPT)**

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

**REPURCHASE AGREEMENT**

Contract to sell and subsequently repurchase securities at a specified date and price.

**RETURN ON AVERAGE ASSETS (ROA)**

Net income 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 EQUITY (ROE)**

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

**REVERSE REPURCHASE AGREEMENT**

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified 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 Statement of Financial Position

(or credit) equivalents and then by applying appropriate risk weighting factors.

**RIGHT-OF-USE ASSET**

An asset that represents a lessee's right to use an underlying asset for the lease term.

**S****SECURITIES SOLD UNDER REPURCHASE AGREEMENT (REPO)**

This relates to Treasury Bills and Bonds sold subject to a commitment to repurchase them at a predetermined price on a specified future date. Securities purchased under resale agreement (reverse REPO). These are loans collateralised by the purchase of Treasury Bills and/ or guaranteed commercial papers from the counterparty to which the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price on a specific future date.

**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/ EQUITY**

Total of issued and fully paid share capital and capital and revenue reserves.

**STATUTORY RESERVE FUND**

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

**SUBSIDIARY COMPANY**

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

**T****TIER 1 CAPITAL (COMMON EQUITY TIER 1 – CET 1)**

Common Equity Tier 1 (CET 1) is a component of Tier 1 capital that consists mostly of Stated Capital. It is a capital measure that was introduced as a precautionary measure to protect the economy from a financial crisis.

**TIER 1 CAPITAL (ADDITIONAL TIER 1 CAPITAL – AT I)**

Additional Tier 1 Capital (AT I) is a component of Tier 1 Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

**TIER 2 CAPITAL**

Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

**TOTAL CAPITAL**

Capital base is summation of the core capital (Tier 1) and the supplementary capital (Tier 2).

**U****UNDRAWN CREDIT LINES**

Credit facilities approved but not yet utilised by the clients as at the reporting date.

**V****VALUE ADDED**

Wealth created by providing banking and other 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 at which the present value of future payments would equal the security's current price.

**12-MONTH EXPECTED CREDIT LOSS**

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

# සමාජනීතිමාලයේ පණිවිඩය

හිතවත් පාර්ශවකරුවන්,  
කොවිඩ්-19 වසංගතයේ සමග අන් සියලු දෙනාට මෙන්ම අපට ද පෙර හොඳු විරූ අභියෝගයන්ට මුහුණ පාන්නට සිදුවුවත්, ඒ හරහා ජීවිත හා ජීවනෝපායන්ට දැඩි බාධා එල්ල වුවත්, සමාලෝචනයට ලක් වූ වසර, පරිපූර්ණ වසරක් බවට සනාථ වී තිබේ. මෙතෙක් අප අත්හොදුව සිදුවූ රැකියා මධ්‍යයේ පවා, සැමට අභියෝගාත්මක වූ මෙම වසරේ ද සෙලාන් බැංකුව සුපුරුදු ස්ථාවරත්වය රැකගන්නට සමත් විය.

ගනුදෙනුකරුවන් සමග කාලයක් පුරා අප විසින් ගොඩනගන ලද සබඳතා තවදුරටත් ශක්තිමත් කරමින්, සුපුරුදු පරිදි ඔවුන්ගේ අවශ්‍යතාවන්ට මුලිකව දෙමින්, නොසැලෙන කැපවීමකින් යුතුව මෙම වසරේත් අපගේ අසීමිත සේවා මට්ටම් අඩුකරමින් ඔවුන් වෙත සැලසීමට ඉදිරිපත් වීම, මෙකී වසර දෙස ආපසු හැරී බලන විට, සෙලාන් කණ්ඩායම ගැන මා කළ ඇති වන්නේ නිහඬවන ආකාරයකි. උපකල්පනය කළ නොහැකි අන්දමේ දැඩි අභියෝගයට පිරි වාසාවරණයක් යටතේ ඔවුන් සැලොම් වන හා සමානව පෙන්නුම් කළ නොසැලෙන ශක්තිය, ඔබගේතු දීමේ හැකියාව වනන්තිමය හා විය සැබවින්ම ප්‍රයෝජනීයයි.

### කාර්යසාධනය පිළිබඳව

මෙකී වසංගතයේ පැමිණීමත් සමග 2020 වර්ෂයේ දී ශ්‍රී ලංකාවට මුහුණපෑමට සිදුවූයේ මෙතෙක් හොඳු විරූ අභියෝගයන් රාශියකට ය. රට වසා දැමීම, ගුවන්ගොටුපොළ වසා දැමීමට ගත් පියවර සහ දුර්වල තත්ත්වයට පත් ආර්ථික කටයුතු හේතුවෙන් හැකිවීමට ලක් වූ දේශීය ආර්ථිකය පෙන්නුම් කළේ අඩු වැඩිකමක් සහිත කාලසීමාවකි. රටේ ආර්ථිකය පිළිබඳව කෙරෙන මූල්‍ය සේවා ක්ෂේත්‍රය තුළ දක්නට ලැබුණේ සාමාන්‍ය වර්ධනයකි. රට හේතු වූයේ, ණය ඉල්ලුම අවම වීමත් අක්‍රීය ණය සංඛ්‍යාත්මකව ඉහළ යාමත් ය. විවෘත ව්‍යාපාරිකයක් යටතේ ආර්ථික වර්ධනය අතිශය පහළ මට්ටමක් පෙන්නුම් කළේ සංවිධාන කාර්මාන්තය සහ ආශ්‍රිත ව්‍යාපාර වල නිෂ්පාදන සහ කඩා සහ මධ්‍ය පරිමාණ ව්‍යවසායකයන් දැඩි බලපෑමට ලක් වූ හෙයිනි. මෙම අසීරු අවස්ථාවට බෙහෙවින් ප්‍රතිචාර දක්වමින්, සහන ලබාදීමේ පියවර ගැනීමටත්, කඩා වැටුණු ව්‍යාපාර යළි ගොඩනැගීමේ පිණිස මහා පරිමාණ ප්‍රතිපත්තියමය වෙනස්කම් සිදුකරමින් ණය සහන ලබාදීමටත් ශ්‍රී ලංකා මහ බැංකුව කටයුතු කළේ ය. ප්‍රතිපත්තියමය අනුපාතිකයන් සහ ව්‍යවස්ථාපිත සංචිත අනුපාතික (Statutory Reserve Ratio - SRR) සම්බන්ධයෙන් පිහිටි අඩුකිරීම් ආදී මූල්‍යමය පහසුකම් සපයන පියවර මාලාවක් හඳුන්වාදෙන ලද්දේ වෙළඳපොළ වෙත දුර්වලතාව එක් කරමින් හා ණය ගැනීමේ පිරිවැය සැලසිය යුතු අන්දමින් අඩුකරමිනි.

### ඔබගේතු දීමේ හැකියාව පෙන්නුම් කළ කාර්යසාධනය

සමාලෝචනයට ලක් වූ වසරේ කාර්යසාධනය විමසා බලන විට, අපගේ සමස්ත ව්‍යාපාර ආකාරය දැඩි මෙහෙයුම් තත්ත්වයන් යටතේ පවා ඔබගේතු දීමේ හැකියාව සහ සම්පත් බව පෙන්නුම් කර තිබේ. වසංගතයේ උච්චතම කාලයේ දී ණය ලබාගැනීමට තිබූ ඉල්ලුමකින් අඩුවත් පෙන්නුම් කළ ද වසර අවසානය වනවිට විය ක්‍රමයෙන් හැවරනත් යථා තත්ත්වයට පත්වනු අපි පුටුවෙමු. එම සුභවාදී තත්ත්වය 2021 වසරේ දී ද අඩුකිරීම් පවතිනු ඇතැයි අප අනුමාන කරමු.

ශ්‍රී ලංකා මහ බැංකුව විසින් පනවන ලද රෙගුලාසි වලට අනුකූලව මූල්‍ය සහන රැකියා ඉදිරිපත් කිරීමේ වැඩිපිළිවෙළක් වෙත යොමු වන්නට අප කටයුතු කළේ, මෙම වසංගතය හේතුවෙන් ආර්ථික වශයෙන් ව්‍යාපාර සහ ජීවනෝපායන්ගේ කෙරෙහි කෙරෙහි දැඩි බලපෑමක් ඇති කළේ ද යන්න වටහා ගැනීම නිසා ය. ඒ හරහා, අපගේ ආයතනික හා සාමාන්‍ය ගනුදෙනුකරුවන් හට, වසංගත සමයේ පවා යහපත් මූල්‍ය තත්ත්වයක් පවත්වාගෙන යාමේ ශක්තිය ලබාදීමට අපට හැකි විය.

ශ්‍රී ලංකා මහ බැංකුවේ මහපෙන්නුම් වලට අනුකූල වෙමින්, දැඩි බලපෑමට ලක් වූ ක්ෂේත්‍රයන් වෙත සහ මාසික ණය සහන කාලසීමාවක් ලබා දුණි. එසේම, කොවිඩ් 19 හේතුවෙන් බලපෑමට ලක් වූ ව්‍යාපාර සහ තනි පුද්ගලයන් වෙත "සෞභාග්‍ය පුනරුද සහන පහසුකම" යටතේ කාර්ම ප්‍රාග්ධන සහන ණය ලබාදීම සිදුකළේ ද මහ බැංකුවේ අනුග්‍රහය සහිතව ය.

### යහපාලනය

මෙම වසර තුළ දී, අපගේ ආයතනික පාලන ව්‍යුහය ශක්තිමත් කිරීම වෙත අපගේ අඩුකිරීම් අවධානය යොමු කෙරුණේ, නියමිත ප්‍රතිපත්ති හා මගපෙන්වීම් වලට සහන දක්වමින් හා ඒවාට අනුකූල වෙමින්, උසස් ආචාරධර්ම සම්මතයන් හා පිළිවෙත් අනුගමනය කිරීම මගින් ය. සමාලෝචනයට ලක් වූ වසර පුරාවට ම සියලු නියමිත බැඳීම් සපුරාලීමේ හැකියාව සැලසුණේ, බැංකුව සතු ස්ථාවර මූල්‍ය මූලධර්මයන් මගිනි.

### මූල්‍ය කළමනාකරණය

2020 වසරේ දී දියුණු කිරීමට සැලසුම් කළ ණයකර නිකුතුව පිළිබඳ අදහස කල් දමන ලද්දේ, මධ්‍යම කාලීන අපේක්ෂිත ව්‍යාපාර වර්ධන මට්ටම් වලට සහන දැක්විය හැකි පරිදි, ප්‍රාග්ධන අවශ්‍යතාවන් අතින් බැංකුව ඉතා හොඳින් ස්ථාවරතාව සිටි හෙයිනි. බැංකුවේ වර්ධන සැලැස්ම අප විසින් ඉතා ඕනෑකමින් සමාලෝචනය කරනු ලබන්නේ, අනාගත ප්‍රාග්ධන අවශ්‍යතාවන් සම්බන්ධයෙන් මහා සුදානමකින් සිටීම බෙහෙවින් වැදගත් වන නිසාවෙනි. වත්මන් තත්ත්වය යටතේ සාර්ව ආර්ථික විචල්‍යයන් සහ වසංගතය දිගින් දිගටම පැවතීම නිසාවෙන් අපගේ ණය කළමනාකරණය වන බලපෑම් ඉතා හොඳින් අධීක්ෂණය කරන්නට ද අප කටයුතු කළෙමු. අඩුකිරීම් ක්‍රියාවලියක එක් අංශයක් වශයෙන්, අවදානම් කළමනාකරණයෙහි ලා වැඩිදුරටත් අවශ්‍ය ක්‍රමෝපායයන් හඳුන්වාදීම ද සිදු කෙරුණි. බාසල් III අවශ්‍යතා පිළිබඳ නියමිත අවශ්‍යතා වලට සහ ශ්‍රී.ලං.ප්‍ර 9 යටතේ වන හානිකරණ ප්‍රතිපාදන බැඳීම් වලට අනුකූලව කටයුතු කිරීම සම්බන්ධයෙන් ද බැංකුව හොඳින් ස්ථාවරතාව ඒ තිබුණි.

### තොරතුරු තාක්ෂණය වැඩිදියුණු කිරීම

පසුගිය වසර වලදී ද අපගේ තොරතුරු තාක්ෂණ යටිතල පහසුකම් වෙනුවෙන් අප හොඳින් ආයෝජනය කළේ, සිප්ට්කරණය හරහා පාරිභෝගික සේවා වේදිකාවල වැඩිදියුණුව සැලකිල්ලට ගනිමින් ය. සිප්ට්කරණය සම්බන්ධයෙන් අප විසින් වැදගත් උසස් අන්දමේ සහ සුදානමක් පවත්වාගෙන යාම හේතුවෙන්, වසංගත සමයේ දී සහ ඉන් අනතුරුව එළඹුණු රට වසාදැමීමේ කාලපරිච්ඡේද වලදී සිප්ට්කරණය බැංකුකරණය සහ දුරස්ථ කාර්ය වේදිකා වෙත අනුගත වීම පහසුවෙන් කළ හැකි විය. බැංකුකරණ කටයුතු සරලව සහ ආරක්ෂිතව පවත්වාගෙන යාමට හැකියාව සැලසෙන අයුරින් සිප්ට්කරණයකින් ඉහළ තත්වයන්, මංගත ගෙවීම් ක්‍රමවේදයන් ක්‍රියාත්මක වීම අඩුකිරීම් සිදුවිය. සිප්ට්කරණ බැංකුකරණයේ දී ගනුදෙනුකරුවන් වෙත පහසුව හා කාර්යක්ෂමතාව සැලසීමට අප සමත් වූයේ ඒ අයුරිනි. එහි ප්‍රතිඵලයක් වශයෙන් 2020 වර්ෂයේ දී අප ගනුදෙනුකරුවන් සිප්ට්කරණ බැංකුකරණ වේදිකාවන් වෙත හැඹුරුවීමේ අනුපාතය ද ඉහළ ගොස්විය. මෙය බැංකුකරණ අනාගතය පිළිබඳ සුභ ලකුණකි. ඒ අනුව, ඉදිරියේ දී අපගේ ආයතනික හා සාමාන්‍ය ගනුදෙනුකරුවන් වෙත සිප්ට්කරණය පාදක කරගත් බැංකුකරණ පහසුකම් රැකියා කළුත්ත වීමට ද අදහස් කරමු.

### අපගේ පුළුල් සහ පරිසරයට සේවය සැලසීම

අපගේ සාර්වකල්ප රඳා පවතින්නේ, අප හා කටයුතු කරන මහජනතාවගේ සහ අප ජීවත් වන පරිසරයේ සහ මතු පරම්පරාවන් උදෙසා අප අද සුරකින මහජන වෙහෙලි දිගු කාලීන සුභසාධනය මත බව අප දැඩිව විශ්වාස කරමු. එබැවින්, අපගේ ව්‍යාපාරික ක්‍රමෝපායයන්ගේ අරමුද්‍රව වන්නේ පාරිසරික සහ සමාජීය යහපාලන සම්මතයන් (Environmental & Social Governance - ESG) ය. ඒ අනුව, මූල්‍ය කාර්යසාධනය සම්බන්ධව සමාජ සමානාත්මතාව සහ පාරිසරික හානිකරණයට අප වැදගත් තැනක් දෙමු. දිවයින පුරා විසිරී සිටින අඩු වරප්‍රසාද සහිත සිසු සිසුවියන්ගේ තත්ත්වය නගාසිටුවීම පිණිස, අධ්‍යාපනය හැරෙහි බලකොටස යටතේ වැඩිදායී ව්‍යාපෘති රැකියාට පසුගිය වසරවල අප විසින් දායකත්වය ලබාදීම ඊට කදිම නිදසුනකි.

සමාලෝචනයට ලක් වූ වසර තුළ දී වසංගතයට එරෙහිව සටන් කිරීමෙන් ලා පහතාවට සහය පළ කිරීමට ද අප අමතන නොකළෙමු. ඒ අනුව, කොවිඩ්-19 අරමුදලට දායකත්වය ලබාදීම සහ නැගෙනහිර කොළඹ මූලික රෝහලෙහි පරිපූර්ණ පහසුකම් සහිත දැඩි සත්කාර ඒකකයක් ඉදිකිරීමට කටයුතු කිරීම ද ඉදිරි පෙළ සෞඛ්‍ය සේවකයින් සහ පොලිසියේ කාර්ය මණ්ඩලයට සහය දැක්වීමේ සමාජ සත්කාර වගකීම් ක්‍රියාකාරකම් රැසක් ක්‍රියාවට නංවීම ද අප විසින් සිදු කළෙමු.

### ඉදිරි ගමන

හව සාමාන්‍යය වැළඳ ගනිමින්, පෙරට යන අප අදහස් කරන්නේ නුතනයට ගැළපෙන, සුරැලිය බැංකුවක් බවට පත්වීමයි. අපගේ තීරණයන්ට ඉලක්කය වන්නේ, විශ්වසනීයත්වය සහ විනිවිද කාවය අතින් උසස්තම ප්‍රමිතීන් පවත්වා ගනිමින්, අපගේ හදිවුකරුවන් වෙත විවිධාකාරී ලබාදීමයි. අප මුහුණදෙමින් සිටින්නේ මින් පෙර හොදු මණයේ වසංගතයකටයි. හමුත්, විසින් පසුබැසීමට ලක් නොවී, සිහිබුද්ධියෙන් හා ප්‍රවේශම සහිතව වේදනෙකු කටයුතු වල නියැලීමේ සුභවාදී ප්‍රවේශයක් ගන්නට හැකිවීම සතුටකි. මුල් අවධියේ දී මෙම තත්ත්වය නැත අවබෝධයක් ලබාගත් අප, මේ වනවිට හව සාමාන්‍යය යටතේ ව්‍යාපාර හා බැංකු වශයෙන් ආරක්ෂාකාරී ලෙස වේදනෙකු කටයුතු වල නියැලීමේ ක්‍රමවේදයන් ග්‍රහණය කරගෙන ඇති බව මම විශ්වාස කරමි.

පරිණාමිකය වෙමින් පවතින ව්‍යාපාරික ලෝකයට අනුගතවීම පිණිස තවදුරටත් නවීනීකරණ සහ සුවිදහර කටයුතු කිරීමට අප සුදානම ය. කුඩා සහ මධ්‍ය පරිමාණ ව්‍යවසායකයන්ට, අපගයන හා ආනයන කාර්මාන්තයන්ට යළි නැගී සිටින්නට සහන ලබාදීම උදෙසා අපගේ ණය ලබාදෙන සේවාවන්, සිප්ට්කරණ බැංකුකරණ සේවාවන් ආදිය වැඩිදියුණු කරමින්, හව දුර්වලතාව ඉස්මතු වන ඉඩ ප්‍රස්ථාවන් වෙත සෙලාන් බැංකුවේ පුරුණ අවධානය යොමු කර ඇත.

අනුකූල වීමේ හා ප්‍රතිචාර දැක්වීමේ හැකියාවන් ව්‍යාපාරික ආකාරයක් තුළ සිප්ට්කරණයට සහ පාරිභෝගිකයන් වෙත වැඩි පහසුවක් ලබාදීමට අප සතු හැකියාව නිසා ම, සාමූහිකව සුභවාදී ප්‍රතිචලන ගැනීමට සැමට අවස්ථාව ඇති බව මම විශ්වාස කරමි. නවීනතම සිප්ට්කරණය යොදා ගැනීමට බැංකුව තවදුරටත් අදහස් කරනුයේ, සාම්ප්‍රදායික හා සිප්ට්කරණ ග්‍රමවේදයන්ගේ සම්මුඛයක් තුළින් එකිනෙකට වෙනස් සේවාවන් රැසක් ආයතනික, කුඩා සහ මධ්‍ය පරිමාණ ව්‍යවසායකයන් වෙත වක සේවිතාවීමටයි. පවත්නා තත්ත්වය යටතේ තවදුරටත් අනපේක්ෂිත වාඩා මතු විය හැකි වුවත්, දශක තුනකට අධික කාලයක් පුරා අප ගොඩනැගූ ස්ථාවර පදනම යටතේ ඒ සියලු දේ ට සාර්වකව මුහුණ දීමේ දැඩි ශක්තියක් අප සතු ව පවතින බව ද අප දනිමු.

### දායකත්වය ඇගයීම

කෘතභක්තිය අන්දමින් පෙරමුණ ගෙන කටයුතු කළ සෙලාන් බැංකුවේ අධ්‍යක්ෂ/ප්‍රධාන විධායක නිලධාරී කපිල ආරියරත්න මහතා සහ කළමනාකාරිත්වයේ මහපෙන්නුම් යටතේ, මෙවන් වූ අභියෝගාත්මක කාලයක දී සිය වෘත්තීයමය හා සහ කැපවීම මනාව පෙන්නුම් කරමින් ගනුදෙනුකරුවන් වෙත කාර්යක්ෂමතාව සේවය සැලසූ සෙලාන් කණ්ඩායම වෙත මාගේ හදිසි කෘතභක්තිය පළ කිරීමට මම මෙය අවස්ථාවක් කරගනිමි. අධ්‍යක්ෂ මණ්ඩලය හොබවන මාගේ සහය කණ්ඩායමේ නිසි උපදේශන සහ ක්‍රමෝපාය ආදානය පිළිබඳව මාගේ අවංක ස්තූතිය පළ කිරීම ද මාගේ යුතුකමක් ලෙස සලකමි.

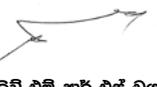
අපගේ වටිනා ගනුදෙනුකරුවන්, කොටස්කරුවන් සහ අනෙකුත් සියලුම පාරිභවකරුවන් වෙත මාගේ දැඩි කෘතභක්තිය පළ කරනුයේ, ඔවුන් විසින් අප කෙරෙහි තැබූ හොඳිම විශ්වාසය සහ පක්ෂපාතී හාවය වෙනුවෙනි. වසර පුරාවට ම අපට මගපෙන්වමින්, සිය සහය ලබාදුන් නියමකයන්ට ද විශේෂයෙන් ස්තූතිය කරමි.

අප 2021 වර්ෂය පිළිගනු ලබනුයේ අපගේ වටිනා ගනුදෙනුකරුවන් වෙත වැඩි හොඳ සේවාවක් සැලසීමේ ශක්තිය හා බෙදිරය පෙරදැරි කරගෙන ය.

ඔබ සැමට මාගේ උණුසුම් සුභපැතුම්.

**ඩබ්ලිව් එම් ආර් එස් ඩයස්**  
සභාපති

2021 පෙබරවාරි 22



# தலைவரின் செய்தி

அன்பர்ந்த பங்களாளர்களே,

மீளாய்வுக்குரிய ஆண்டு உலகளாவிய COVID-19 தொற்றுநோய் பரவலினால் தோற்றுவிக்கப்பட்ட முன்னொருபோதும் இல்லாத சவால்கள் நிறைந்த ஆண்டாக இருந்ததோடு, மக்களின் வாழ்க்கையிலும் வாழ்வாதாரங்களின் மீதும் தவிர்க்க முடியாத பாரிய தாக்கத்தை ஏற்படுத்தியது. முற்றிலும் அசாதாரணமான மற்றும் சவால்கள் நிறைந்த ஒரு காலப்பகுதியாக இது நல்லவியோதிலும் செலான் வங்கி உறுதியாக நின்று தனது செயற்பாடுகளில் கவனத்தைச் செலுத்தியது.

நாம் எமது வாடிக்கையாளர்களுக்கான சேவையின் மீது கொண்டுள்ள நிலையான அர்ப்பணிப்பை எடுத்துக்காட்டும் வகையில், வாடிக்கையாளர்களை வையமாகக் கொண்டு, இடைவிடாத மற்றும் தடைகளைத் தடுக்க சேவையை வழங்கியதன் மூலம் தொடர்ச்சியாக முன்னேக்கி நகர்ந்தோம். கடந்த ஆண்டைப் பின்னேக்கிப் பார்க்கும்போது, முற்றிலும் நிலையற்ற மற்றும் சவால்கள் நிறைந்த சூழ்நிலையில் சிறந்த மீளொத்தித் திறன், மனவலி மற்றும் நினைத்துவைத்தை வெளிப்படுத்திச் செயல்பற்றிய எமது செலான் ஊழியர்களுக்கிடையே நான் மிகவும் பெருமைப்படுகின்றேன்.

## செயற்பாட்டுச் சூழல்

தொற்றுநோய் பரவலின் காரணமாக 2020ஆம் ஆண்டில் இலங்கை புதிய சவால்களை எதிர்த்துக்கொண்டோம். பிரதேச முக்கல் மற்றும் ஊராட்சி சட்ட நடவடிக்கைகள், பலவீனமடைந்த நிலையம் முட்பட்டமை மற்றும் வலிமைமடைந்த பொருளாதார நடவடிக்கைகள் காரணமாக உடனடிப் பொருளாதாரம் கருங்கியது. வளர்ச்சி குன்றிய மற்றும் பொருள் காலப்பகுதியை நாம் சந்திக்க நேர்ந்தது. கடன் கோரிக்கைகளின் விழ்ச்சி, செயற்பாட்டின் கடைகளின் அதிகரிப்பு என்பவற்றின் விளைவாக பொருளாதார நிலையை பிரதிபலிக்கும் நிலைக்கண்ணடியான நிதி சேவைகள் துறை மிகவும் மிதமான வளர்ச்சியையே காட்டியது. சுற்றுலா மற்றும் தொழில்நுட்ப விவியாளர்கள், உற்பத்தித் துறை, சிறிய மற்றும் நடுத்தர தொழில் முயற்சிகள் போன்ற துறைகள் பெரிதும் பாதிக்கப்பட்டதால், பொருளாதார வளர்ச்சி மந்தநிலை அடைந்தது. இந்த நிலைமையில், விவியாளர்களின் மீட்சியை ஊக்குவிப்பதற்காக இலங்கை மத்திய வங்கி பல்வேறு நிர்வாக நடவடிக்கைகளை, பெரிய அளவிலான கொள்கைத் தூண்டுதல்கள் மற்றும் கடன் கால தாமதச் சலுகைகளை அமுலாக்கம் செய்தது. சந்தையில் தீவிரத் தன்மையை அதிகரிப்பதற்கும் கடன்சூடுகைச் சேவைகளைக் கணிசமான அளவு குறைப்பதற்கும் கொள்கை விதங்கள், சட்டபூர்வ ஒதுக்க விகிதம் (SRR) என்பவற்றிலான பல்வேறு குறைப்புகள் உட்பட பல்வேறு நாணயத் தளர்வு நடவடிக்கைகள் அறிமுகம் செய்யப்பட்டன.

## மீளொத்தித் திறன் வாய்ந்த செயல்பாற்றுகை

மீளாய்வுக்குரிய ஆண்டில் கடுமையான செயற்பாட்டு நிலைமைகளின் மத்தியிலும் நாம் நடவடிக்கை எடுத்தோம். எமது செயற்பாட்டு மீளாய்வு முறையின் மீளொத்தித் திறன் மற்றும் வலிமையை எடுத்துக்காட்டுகின்றன. தொற்றுநோய் பிரச்சினை உச்சமடைந்திருந்த வேளையில் கடன் கோரிக்கைகள் விழ்ச்சியடைந்தபோதிலும், வசூல் இறுதியளவில் அவை படிப்படியாக அதிகரித்ததைக் காணக்கூடியதாக இருந்தது. இந்த நிலைமை 2021ஆம் ஆண்டிலும் தொடருமென எதிர்பார்க்கப்படுகின்றது.

தொற்றுநோய் பரவலினால் வாழ்வாதாரங்கள் மீதும் விவியாளர் சம்பாத்தியங்கள் மீதும் ஏற்பட்ட பொருளாதாரத் தாக்கங்களின் பாரிய அளவை நன்கு புரிந்துகொண்ட நாம், எமது நிறுவன ரீதியான மற்றும் சிற்றளவு வாடிக்கையாளர்களின் நிதி நலன்களை உறுதிப்படுத்துவதற்காக, தொற்றுநோய் பரவலைத் தொடர்ந்து இலங்கை மத்திய வங்கியினால் விதிக்கப்பட்ட பிரயோஜனங்களுக்கு அமையாத பல்வேறு நிதி நிர்வாகங்களை வழங்க ஆரம்பித்தோம்.

மிக மோசமாகப் பாதிக்கப்பட்ட துறைகளுக்கு, இலங்கை மத்திய வங்கியின் பணிப்பிற்கேற்ப 6 மாத கடன் காலதாமதச் சலுகை வழங்கப்பட்டது. COVID-19 காரணமாகப் பாதிக்கப்பட்ட தொழில் முயற்சிகளுக்கும் தனிநபர்களுக்கும் இலங்கை மத்திய வங்கியின் ஆதரவான "சேளாக்கியா மீளொத்தித் திறன்" கீழ் சலுகை அடிப்படையில் மூலதனக் கடன்கள் வழங்கப்பட்டன.

## ஆளுகை

மீளாய்வுக்குரிய ஆண்டில், வங்கியின் ஒழுங்குபடுத்தல் கொள்கை வழிகாட்டுதல்களுக்கு ஆதரவான மற்றும் அமைவான மிகவுயர்ந்த நெறிமுறைத் தராதாரங்களைப் பின்பற்றுவதன் மூலம் நாம் எமது நிறுவன ஆட்சிக் கட்டமைப்பைப் பலப்படுத்துவதில் தொடர்ச்சியாகக் கவனம் செலுத்தினோம். ஆண்டு முழுவதிலும் சகல ஒழுங்குபடுத்தல் கட்டப்படுகையின் நிறைவேற்ற வங்கியின் உறுதியான நிதி அடித்தளம் எமக்கு உதவியது.

## நிதியியல் முகாமைத்துவம்

எதிர்பார்க்கப்பட்ட விவியாளர் வளர்ச்சிக்கு இடைக்காலத்தில் துணையாக இருக்கக்கூடிய மூலதனத் தேவைகளுடன் வங்கி நல்ல நிலையில் இருந்ததால், 2020இல் ஆரம்பிப்பதற்குத் திட்டமிடப்பட்ட தொகுதிக்கடன் வழங்கல் ஒத்திவைக்கப்பட்டது. எதிர்கால மூலதனத் தேவைகளுக்கு மிகப் பொருத்தமாக இருக்கும் வகையில் வங்கியின் மூலதன அதிகரிப்புத் திட்டத்தை நாம் உன்னிப்பாக மீளாய்வு செய்துவருகின்றோம்.

பேரளவுப் பொருளியியல் மாறுபாடுகள் மற்றும் தற்போதய தொற்றுநோய் பரவல் காரணமாக எமது கடன் திட்டங்கள் மீது ஏற்படும் அழுத்தங்களை நாம் உன்னிப்பாகக் கண்காணித்து வருகின்றோம். அவசியமான இடர் முகாமைத்துவ மூலோபாயங்கள் ஒரு தொடர்ச்சியான நடைமுறையாக அறிமுகம் செய்யப்பட்டுள்ளன. BASEL III தேவைப்படுத்தல்கள், SLFRS-9 கீழான பெறுமானக் குறைப்பு ஏற்பாட்டுக் கட்டப்படுகின்ற நேரம் ஒழுங்குபடுத்தல் நிபந்தனைகளுக்கு மாற்ற இணங்கியொழுமும் நிலையிலும் வங்கி உள்ளது.

## தகவல் தொழில்நுட்பத்தை (IT) மேம்படுத்துதல்

டிஜிட்டல் மயமாக்கல் ஊடாக வாடிக்கையாளர் சேவைத் தளங்களை மேம்படுத்தும் பொருட்டு, நாம் கடந்த வருடங்களில் எமது தகவல் தொழில்நுட்பக் கட்டமைப்பில் பெருமளவு முதலீடு செய்தோம். தொற்றுநோய் பரவலின் காரணமாக நாடு முட்பட்டபோது டிஜிட்டல் வங்கிச் சேவை மற்றும் தொலைவிலிச் செயற்பாட்டுத் தளங்களுக்கு விநிலை மாரக்கூடிய உயர் மட்டத்திலான டிஜிட்டல் தயார் நிலையை இது எமக்கு வழங்கியது. வாடிக்கையாளர்களுக்கான வசதி மற்றும் செயற்பாற்றை அதிகரிக்கக்கூடிய வங்கிச் சேவையை எளிமையான, பாதுகாப்பான மற்றும் வசதியான சேவையாக மாற்றுவதற்கு டிஜிட்டல் ஆற்றல்களை மேம்படுத்துவதில் எமது ஒன்லைன் கொடுப்பனவு அமைப்பு முறை தொடர்ச்சியாகக் கவனம் செலுத்தியது. இதன் பயனாக, டிஜிட்டல் தளங்களைப் பயன்படுத்த முன்வந்த எமது வாடிக்கையாளர்களின் விகிதம் வேகமாக அதிகரித்தது. இது சிறப்பான எதிர்காலத்திற்கு வழிகாட்டுகூடிய, ஊக்கமளிக்கின்ற போக்காகும். எமது சிற்றளவு வாடிக்கையாளர்களுக்கும் நிறுவன வாடிக்கையாளர்களுக்கும் டிஜிட்டல் முறையில் இயக்கப்படும் வங்கிச் சேவை வசதிகளை அறிமுகப்படுத்த நாம் எண்ணியுள்ளோம்.

## எமது சமூகத்திற்கும்

சுற்றுலாக்குமான சேவை நாம் ஈடுபாடுகொள்ளும் மக்கள், நாம் செயற்படும் இடங்கள், வருங்காலத் தலைமுறைகளுக்காக நாம் விட்டுச்செல்லும் இப் பூவுலகம் என்பவற்றின் நீண்டகாலச் சேமநலனை எமது வெற்றியை நிர்ணயிக்கின்றன என்பதில் நாம் உறுதியான நம்பிக்கை வைத்திருக்கின்றோம். ஆகவே, எமது விவியாளர் மூலோபாயத்தில் சுற்றுலா மற்றும் சமூக நிர்வாக (ESG) நியமங்கள் அதிகமுக்கிய இடத்தை வகிக்கின்றன. நிதிச் செயற்பாடுகளை மேற்கொள்ளும் அதே வேளையில் சமூக சமத்துவம், சுற்றுலாப் பாதுகாப்பு என்பவற்றிற்கும் நாம் முக்கியத்துவம் அளிக்கின்றோம். கல்விக் களம் உதவி என்ற முக்கிய கோட்டாட்டின் கீழ், நாட்டிலுள்ள வசதி குறைந்த மானவர்களின் நிலையை மேம்படுத்துவதற்குக் காத்திரமான பல வேலைத்திட்டங்களை நாம் கடந்த வருடங்களில் மேற்கொண்டுள்ளோம்.

மீளாய்வுக்குரிய ஆண்டில், COVID-19 நிதியத்திற்குப் பங்களிப்பு செய்ததன் மூலமும் கொழுப்பு கிழக்கு ஆதார வைத்தியசாலையில் சகல வசதிகளும் கொண்ட தீவிர சிகிச்சைப் பிரிவு ஒன்றை நிறுமணிப்பதற்கு உதவியதன் மூலமும் தொற்றுநோய் பரவலைத் தடுப்பதற்கான தேசிய முயற்சிகளுக்கு நாம் ஒத்துழைப்பு வழங்கியுள்ளோம். முன்னணி சுகாதார ஊழியர்கள் மற்றும் பொலீஸ் உத்தியோகத்தர்களுக்கு உதவும் வேறு சில கூட்டணமை சமூகப் பொறுப்பு முன்முயற்சிகளும் மம்மால் மேற்கொள்ளப்பட்டுள்ளன.

## எதிர்காலம் தொடர்பான முன்னோட்டம்

புதிய வழமை நிலையைத் தழுவிக்கொண்டு தொடர்ந்து முன்னேறும் நாம், எமது வங்கி சமகாலத்திற்குரியதாகவும் உயிர்த்துடிப்புள்ளதாகவும் விளங்க வேண்டுமென விருப்புகின்றோம். நேர்மை வெளிப்படைத் தன்மையின் மிகவுயர்ந்த தராதார நிலைமைகளைக் கடைப்பிடித்துக்கொண்டு எமது பங்களாளர்களுக்கு சிறந்த பெறுமதியைப் பெற்றுக்கொடுக்க நாம் தொடர்ச்சியாகத் தூண்டப்படுகின்றோம். தொற்றுநோய் பரவல் நாம் இதற்கு முன் அறிந்திருக்காத ஒரு புதிய நிலைமையாகும். எனவே, நாம் மதிநுட்பமாகவும் அவதானமாகவும் ஒரு நம்பிக்கையான நிலைப்பாட்டைக் கடைப்பிடிக்கின்றோம். ஆரம்பத்தில் கற்றுக்கொண்ட பாடங்களைத் தொடர்ந்து, விவியாளர்களுக்கும் வங்கிகளும் இப்பொழுது புதிய விவியாளர் சூழலின் ஊடாகப் பயனிக்கக்கூடிய ஒரு சாதகமான நிலைக்கு வந்துள்ளன என்று நான் கருதுகின்றேன்.

உருவாகிவரும் விவியாளர் முறைகளை எற்றுக்கொண்டு அதற்கேற்பச் செயற்படுவதற்கு எமது வங்கி நெகிழ்நமை உடையதாகவும் சுறுசுறுப்புள்ளதாகவும் விளங்க வேண்டுமென நாம் விருப்புகின்றோம். விரைவான மீட்சியைத் தூண்டும் வகையில் எமது கடன் வழங்கல் சேவைகள், டிஜிட்டல் வங்கிச் சேவைகள் என்பவற்றுக்கும் இடையில் முயற்சிகள், ஏற்றுமதியாளர்கள், தொகுமதிப் பதிவீட்டு உற்பத்தித் தொழில்கள் முதலியவற்றிற்கான உதவித் திட்டங்களை மீள் செய்ப்படுவதன் மூலம் புதியதாக உருவாக்கும் ஏதேனும் வாய்ப்புக்களைப் பயன்படுத்திக்கொள்ளவதிலும் வளர்ச்சிக்கு உதவேகமுடிகூடியும் செலான் வங்கி தொடர்ந்து கவனம் செலுத்தும்.

டிஜிட்டல் தொழில்நுட்பத்துக்கும் வாடிக்கையாளர்களின் வசதியையும் கருத்திற்கொண்டு செயற்படும் தகவலமைப்பான மற்றும் பதில் நடவடிக்கை பெறக்கூடிய விவியாளர் முறையானது சாதகமான பெறுமியைகளுக்குக் கூட்டாக வழிகோலும் என்று நான் நம்புகின்றேன். பாரம்பரிய மற்றும் டிஜிட்டல் வழிமுறைகளின் ஒரு மதிநுட்பமான கலவை ஊடாக SIME மற்றும் புதிய தொழில் நிறுவன வாடிக்கையாளர்களை அடையவும் வெவ்வேறுபட்ட சேவைகளை வழங்கவும் டிஜிட்டல் தொழில்நுட்பத்தை அதிகபட்சம் பயன்படுத்த செலான் வங்கி உதவித்தீர்த்துள்ளது. இம் முயற்சியில் தடைகளை எதிர்த்தாலும், கடந்த குறைந்த சராசரியான நாம் கட்டியெழுப்பியுள்ள வலிமையான மற்றும் நிலையான அடித்தளம் எமக்கு வலிமையான அத்தீவரமாக அமைபுமென்பதில் நாம் மிகுந்த நம்பிக்கை கொண்டுள்ளோம்.

## பாராட்டுதல்

பணிப்பாளர்/பிரதம நிறைவேற்ற அதிகாரி திரு. கபில் அரிபர்தன் மற்றும் முகாமைத்துவ அதிகாரிகளின் திறமையான வழிகாட்டுதலில், எமது வாடிக்கையாளர்களுக்குச் சிறந்த சேவையை வழங்குவதன் மூலம் கல்மமான ஒரு சூழ்நிலையிலும் பெறுமியைகளை ஈட்டித்தந்த செலான் ஊழியர்கள் அனைவருக்கும் இவர்களின் நிபுணத்துவம் மற்றும் அர்ப்பணிப்புக்காக அவர் சந்தர்ப்பத்தில் எமது மனமுவந்த நன்றியைத் தெரிவித்துக்கொள்கின்றேன். பணிப்பாளர் சபையிலுள்ள எமது சகபாக்கள் வழங்கிய ஆலோசனை மற்றும் மூலோபாய முன்னோட்டிக்காக அவர்களுக்கும் மனமாரந்த நன்றியைத் தெரிவிக்க விருப்புகின்றேன்.

எம்மில் நம்பிக்கை வைத்து எம்முடன் இணைந்திருந்த எமது மதிப்புக்குரிய வாடிக்கையாளர்கள், பங்குதாரர்கள் மற்றும் ஏனைய சகல பங்களாளர்களுக்கும் எமது நன்றிகள் உரித்தாகும். ஆண்டு முழுவதும் எமக்கு ஆதரவும் வழிகாட்டுதலும் வழங்கிய ஒழுங்குபடுத்தாதருக்கும் நன்றி.

நாம் வலிமையுடனும் வாடிக்கையாளர்களுக்குச் சேவையாற்றும் உத்தேசத்துடனும் 2021ஆம் ஆண்டில் பிரவேசித்துள்ளோம்.

உங்கள் ஒவ்வொருவருக்கும் எமது நல்வாழ்த்துகள்.

  
 D. S. Jayasinghe, எம்.ஆர்.எஸ். டபிள்யூ தலைவர்

22 பெப்ரவரி 2021

# CORPORATE INFORMATION

## NAME OF COMPANY

Seylan Bank PLC

## COMPANY REGISTRATION NUMBER

PQ 9

## REGISTERED OFFICE AND HEAD OFFICE

“Seylan Towers”

No.90, Galle Road, Colombo 03, Sri Lanka

Tel: (94)-(11)-2456000

Fax: (94)-(11)-2456456

Swift: SEYBLKLX

E-mail: info@seylan.lk

Website: www.seylan.lk

## LEGAL FORM

A public limited liability company incorporated in Sri Lanka on 28 August 1987 under the Companies Act No.17 of 1982 and re-registered under the Companies Act No. 7 of 2007 on 30 May 2007. Commenced business operations as a Licensed Commercial Bank regulated under the Banking Act No.30 of 1988 (as amended) on 24 March 1988. Company was listed in the Colombo Stock Exchange on 5 January 1989.

## COLOMBO STOCK EXCHANGE LISTING

The Bank's Ordinary Voting Shares, Ordinary Non-voting Shares and the Rated, Unsecured, Redeemable Debentures issued in the years 2014, 2016, 2018 and 2019 were listed on the Colombo Stock Exchange.

## ACCOUNTING YEAR END

31 December

## CREDIT RATING

The Bank has been assigned “A (lka)” National long term rating by Fitch Ratings Lanka limited.

## BOARD OF DIRECTORS

### Mr W M R S Dias

Chairman/ Non-Executive Director

### Mr W D Kapila Jayawardena

Deputy Chairman/ Non-Executive Director

### Ms M Coralie Pietersz

Independent Director/ Senior Director

### Mr Kapila P Ariyaratne

Director/ Chief Executive Officer

### Mr P L S Kumar Perera

Independent Director

### Mr S Viran Corea

Non-Executive Director

### Mr Anushka S Wijesinha

Independent Director

### Ms Sandya K Salgado

Independent Director

### Mr D M D Krishan Thilakaratne

Non-Executive Director

### Mr D R Abeysuriya

Independent Director

### Ms V G S S Kotakadeniya

Non-Executive Director (Alternate Director to Mr W D K Jayawardena)

## COMPANY SECRETARY

(Ms) N N Najumudeen  
ACIS (UK), ACCS (SL)

## AUDITORS

M/s KPMG,  
Chartered Accountants

## SUBSIDIARY

Seylan Developments PLC  
(Company Registration No. PQ 151)  
Level 15, Seylan Towers  
90, Galle Road, Colombo 03,  
Sri Lanka

For any clarifications on this Report, please contact :

### The Chief Financial Officer

Seylan Bank PLC

“Seylan Towers”

90, Galle Road

Colombo 03

Sri Lanka

Email : pmu@seylan.lk

Tel : 94-11-2456371,

94-11-2456367

Fax : 94-11-2452612

# CIRCULAR TO SHAREHOLDERS



Dear Shareholder/s

## FIRST AND FINAL DIVIDEND FOR THE YEAR ENDED 31 DECEMBER 2020 TO BE SATISFIED BY THE ALLOTMENT AND ISSUE OF NEW ORDINARY SHARES (SCRIP DIVIDEND)

### Recommendation of a First and Final Dividend

The Board of Directors of Seylan Bank PLC ("the Company") is pleased to inform the shareholders of the Company that a first and final dividend of Rupees One and Cents Fifty (LKR 1.50) on each Ordinary Voting share and Ordinary Non-voting share is recommended by the Board for the financial year ended 31 December 2020. The dividend is subject to due declaration and approval by the shareholders at the Company's Annual General Meeting ("AGM") to be held on Tuesday, 30 March 2021.

The dividend so declared will be satisfied by the allotment and issue of Ordinary Voting share/s and Ordinary Non-voting share/s for a value of Rupee One and Cents Fifty (LKR 1.50) for each Ordinary Voting share and Ordinary Non-voting share held.

Such dividend will be paid out of the profit of the Company for the year ended 31 December 2020 which said profit has been recorded under "retained earnings" in the Company's Statement of Financial Position as at 31 December 2020. The Company made a profit of LKR 3,011.3 Million, as reflected in the Audited Financial Statements for the year ended 31 December 2020.

The Board, in making the aforementioned recommendations aligned to its dividend policy and the Banking Act Directions issued by the Monetary Board of the Central Bank of Sri Lanka on liquidity and capital requirements, took into account the expected assets growth, business expansion and the impact of COVID-19 pandemic whilst ensuring that a

prudent balance is maintained between shareholders' expectations and preserving the organic capital which in return safeguards stakeholders' interest with long-term growth momentum as opposed to short-term strategies. Further, the impact due to the COVID-19 pandemic on businesses resulted in the impairment charges of the Company for Stage III advances increasing from LKR 3.9Bn to LKR 5.7Bn during the year, as reported in the Company's Annual Report for the year, 2020.

The total amount of the dividend that is proposed to be so declared is Rupees Seven Hundred and Seventy Five Million Five Hundred and Thirty Four Thousand Four Hundred and Fifty Three and Cents Fifty only (LKR775,534,453.50) by the allotment and issue of new Ordinary Voting and Ordinary Non-voting shares of the Company.

The Board of Directors is confident that the Company will be able to satisfy the 'Solvency Test' set out in Section 57 of the Companies Act No.07 of 2007 immediately after the payment of such dividends and have signed a Certificate of Solvency in terms of Section 56(3). The Bank also obtained a Certificate of Solvency from its Auditors, M/s KPMG, Chartered Accountants.

### Issue of New Ordinary Shares to Entitled Shareholders

In view of the aforementioned proposal, the Company intends to allot and issue new Ordinary Voting and new Ordinary Non-voting shares to those shareholders who are registered in the Company's Share Register as well as those shareholders whose names appear on the Central Depository System (Pvt) Ltd ("CDS") as at the end of trading on the date on which the requisite resolution of the shareholders declaring the dividend is duly passed. Accordingly, the shares to be allotted would be as follows:

- (a) One new fully paid Ordinary Voting share for every 34.0000037083 existing Ordinary Voting shares held by the entitled shareholders; and
- (b) One new fully paid Ordinary Non-voting share for every 27.0666689888 existing Ordinary Non-voting shares held by the entitled shareholders.

The above mentioned share ratio is based on a value of Rupees Fifty One (LKR 51.00) per Ordinary Voting share and Rupees forty and cents sixty (LKR 40.60) per Ordinary Non-voting share respectively, being the closing prices of the respective shares as at the end of trading on 19 February 2021. The Board is satisfied that the consideration for which the new shares are to be issued is fair and reasonable to the Company and to the existing shareholders of respective class of shares.

A maximum of seven million five hundred and fifty thousand four hundred and ninety nine (7,550,499) new Ordinary Voting shares and a maximum of nine million six hundred and seventeen thousand two hundred and fifteen (9,617,215) new Ordinary Non-voting shares will be issued. Accordingly, the Ordinary Voting shares in issue will increase from 256,716,994 to 264,267,493 and the Ordinary Non-voting shares in issue will increase from 260,305,975 to 269,923,190.

The new Ordinary Voting shares and Ordinary Non-voting shares to be so issued, shall, upon due allotment thereof to the entitled shareholders, rank equal and pari passu in all respects with the existing issued and fully paid Ordinary Voting shares and Ordinary Non-voting shares of the Company, respectively. Consequent to the allotment and issue of such new shares, the Stated Capital of the Company will increase from LKR17,548,347,003.01 to LKR18,323,881,456.51. Any difference in the Stated Capital arising due to the rounding-off of the number of shares to be issued to individual shareholders will be considered together with the residual share fractions.

### Fractions arising on Allotment and Issue of New Shares

The residual share fractions arising from the aforementioned issue and allotment of new Ordinary Voting shares and Ordinary Non-voting shares will be aggregated and the Ordinary Voting shares and Ordinary Non-voting shares arising consequent to such aggregation will be allotted to a trustee to be nominated and appointed by the Board of Directors. The trustee so nominated and appointed will hold the said shares in trust and dispose such shares on the trading floor of the Colombo Stock

Ordinary Voting shares	Number of Ordinary Voting shares held by a shareholder as at end of trading on the AGM date x 1 34.0000037083
Ordinary Non-voting shares	Number of Ordinary Non-voting shares held by a shareholder as at end of trading on the AGM date x 1 27.0666689888

Exchange ("CSE") within a reasonable period of time. The sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors.

Fractional entitlement referred to herein shall mean the fractions after applying the respective formula for the issue and allotment of the new shares as indicated below:

#### Listing on the Colombo Stock Exchange

Pursuant to an application made by the Company to the CSE, the CSE has granted approval in principle for the listing of the new Ordinary Voting shares and Ordinary Non-voting shares on the official list of the CSE upon allotment.

#### Allotment of New Shares

In the event that the shareholders pass the requisite resolution declaring the aforementioned dividend and its satisfaction partly by way of the allotment and issue of new Ordinary Voting shares and Ordinary Non-voting shares, the accounts of the shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares (to the extent each shareholder has become entitled thereto) within 7 market days from and excluding the date on which the resolution is passed.

In calculating the number of shares held by a shareholder as at the entitlement date, the shareholding of such shareholder as appearing in the CDS and the Shareholders' Register maintained by the Company will not be aggregated. However, if a shareholder holds shares with multiple stockbrokers the shares held with such stockbrokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed allotment and issue of new shares will be uploaded proportionately to the respective CDS accounts held with each broker.

#### Allotment of New Shares to Shareholders who do not hold CDS Accounts

In view of the Direction issued by the Securities and Exchange Commission of Sri Lanka and Circular No. 13/2010 issued by the CDS pertaining to the dematerialization of listed securities, shareholders who hold shares in scrip form (i.e. in the form of a share certificate) as per the Shareholders' Register maintained by the Company, will not be issued share certificates for the new shares allotted in their favour. Such shareholders are requested to open an account with the CDS and to deposit the share certificates in their possession in the CDS prior to the date of the AGM, to enable the Company to directly deposit the new shares into such CDS account of the shareholder.

As regards the new Ordinary Voting share and/or Ordinary Non-voting share entitlements of those shareholders who fail or were unable to open an account with the CDS prior to the date of the AGM, the Company will register in the respective shareholder's account in the Share Register maintained by the Company, the share entitlements allotted. If such shareholders open CDS accounts after the AGM and inform the Company Secretary in writing of such CDS account number, the Company will take steps to directly upload the new share entitlements to the respective CDS accounts within five market days.

#### Statement of Compliance

The Board of Directors hereby confirms that the allotment and issue of the new Ordinary Voting shares and Ordinary Non-voting shares is in compliance with the Articles of Association of the Company, the Listing Rules of the Colombo Stock Exchange and the provisions of the Companies Act No. 7 of 2007.

Further, the new Ordinary Voting Shares and Ordinary Non-voting Shares will be allotted and issued in satisfaction of the first and final dividend for the year ended 31st December 2020, only upon the shareholders passing the resolution declaring the said dividend at the AGM.

#### Annual General Meeting (AGM)

The Notice of the AGM scheduled to be held on Tuesday, 30th March 2021 as a virtual meeting (on-line/audio-visual means) setting out in item 2 thereof, the relevant resolution to be passed by the shareholders in relation to the declaration of the stated dividend is circulated with this Circular to Shareholders. Mention articles provision and due to the pandemic. (point 4 of letter)

Shareholders who are unable to participate at the meeting are entitled to appoint a proxy to participate and speak and also vote on their behalf, depending on their voting rights. A shareholder who wishes to appoint a proxy, should complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) not less than forty eight (48) hours before the time scheduled for the holding of the AGM.

Yours faithfully

BY ORDER OF THE BOARD OF DIRECTORS  
OF SEYLAN BANK PLC



Ms N N Najumudeen  
Company Secretary

Colombo,  
2 March 2021

Note: Please contact the Company Secretariat on  
011 2456582;

011 2456589, or; 011 2456594 for any  
clarification/information.

# NOTICE OF MEETING

**NOTICE IS HEREBY GIVEN THAT the Thirty Fourth Annual General Meeting of Seylan Bank PLC ("the Bank" or "the Company") will be held on Tuesday, 30th day of March, 2021 at 11.00 a.m. as an on-line audio-visual meeting with arrangements for the on-line meeting platform made at the registered office of the Company at "Seylan Towers", 90, Galle Road, Colombo 03, for the following purposes:**

1. To receive and consider the Annual Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31 December 2020 together with the Report of the Auditors thereon.
2. Resolution No. 1 - To declare a first and final Dividend for the financial year ended 31 December 2020 as recommended by the Board of Directors which said declaration is further explained in the Circular to Shareholders dated 2 March 2021 accompanying this Notice, and for this purpose to consider and if thought fit to pass the following resolution as an Ordinary Resolution:

"THAT a first and final Dividend of a total sum of Rupees Seven Hundred and Seventy Five Million Five Hundred and Thirty Four Thousand Four Hundred and Fifty Three and Cents Fifty only (LKR 775,534,453.50) which constitutes a Dividend of Rupees One and Cents Fifty (LKR 1.50) per share be distributed to the holders of Ordinary Voting and Ordinary Non-voting shares by way of allotment and issue of new Ordinary Voting shares in the ratio of one new fully paid Ordinary Voting share for every 34.0000037083 existing Ordinary Voting shares held and one new fully paid Ordinary Non-voting share for every 27.0666689888 existing Ordinary Non-voting shares;

THAT such dividend be paid out of the profit of the Company for the year ended 31 December 2020 which said profit has been recorded under "retained earnings" of the Company's

Statement of Financial Position as at 31 December 2020;

THAT the shareholders entitled shall be those who are duly registered in the Company's Register of Shareholders including those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd as at the end of trading on the date of the Annual General Meeting;

THAT the total number of new Ordinary Voting shares to be issued would be a maximum of seven million five hundred and fifty thousand four hundred and ninety nine (7,550,499) and the total number of Ordinary Non-voting shares to be issued would be a maximum of nine million six hundred and seventeen thousand two hundred and fifteen (9,617,215);

THAT the shares issued consequent to the allotment referred to above be listed on the Colombo Stock Exchange (CSE);

THAT the residual share fractions arising from the aforementioned issue and allotment of new Ordinary Voting shares and Ordinary Non-voting shares be aggregated and allotted to a trustee who will dispose such shares on the trading floor of the CSE and the sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors."

The residual share fractions referred to in the above resolution shall mean the fractions after applying the respective formula for the issue and allotment of the new shares as indicated in the Circular dated 2 March 2021.

3. Resolution No. 2 - To re-elect as a Director, Ms M C Pietersz, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company.

Ms M C Pietersz is an Independent Non-Executive Director and Senior Director of the Bank appointed to the Board on 23 September 2013. Her profile and other

directorships held are published on pages 67 and 115 respectively in the Annual Report.

4. Resolution No. 3 - To re-elect as a Director, Mr P L S K Perera who retires at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company.

Mr P L S K Perera is an Independent Non-Executive Director of the Bank and was appointed to the Board on 23 September 2013. His profile is published on page 68 of the Annual Report.

5. Resolution No. 4 - To re-elect as a Director, Mr D M D K Thilakarathne, who retires at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company.

Mr D M D K Thilakarathne is a Non-Independent, Non-Executive Director of the Bank appointed to the Board on 1 October 2018. His profile and other directorships held are published on pages 69 and 116 respectively in the Annual Report.

6. Resolution No. 5 - To re-appoint M/s KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorize the Board of Directors to determine their remuneration.
7. Resolution No. 6 - To authorize the Board of Directors to determine donations to be made by the Bank during the year, 2021.
8. To consider any other business of which due notice may have been given.

BY ORDER OF THE BOARD OF DIRECTORS OF

SEYLAN BANK PLC



**Ms N N Najumudeen**  
Company Secretary

Colombo,  
2 March 2021

**Notes and instructions regarding attendance at the Annual General Meeting (AGM).**

Article 45 of the Articles of Association of the Company provides that a general meeting may determine its own procedure (to the extent it is not governed by the provisions in the Articles). Therefore, taking into consideration the current regulations/restrictions prevailing in the country due to the COVID-19 pandemic, the Board of Directors of the Company decided that the AGM scheduled to be held on Tuesday, 30 March 2021 at 11.00 a.m. shall be held as a virtual meeting (on-line/via audio-visual means).

- (a) Shareholders who wish to participate in the AGM virtually (on-line) are requested to email the information in the form that follows, to email address: agm2021@seylan.lk with the email subject titled "SEYLAN AGM 2021". PLEASE ALSO READ THE DETAILED NOTES AND INSTRUCTIONS TO SHAREHOLDERS, ENCLOSED.
- (b) An Ordinary Voting shareholder who is entitled to participate, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and vote on his/her behalf.
- (c) An Ordinary Non-voting shareholder who is entitled to participate and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his/her behalf.
- (d) A proxy holder need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose.
- (e) The completed Form of Proxy should either be:
- (i) Addressed to the 'Company Secretary' and posted or hand delivered to the registered office of the Company at Seylan Towers, No. 90, Galle Road, Colombo 03;
- or
- (ii) Scanned and emailed to the email address: agm2021@seylan.lk with the email subject titled "SEYLAN AGM PROXY"
- not less than 48 hours before the time appointed for the holding of the AGM.
- Please also refer notes and instructions in the Form of Proxy for further details.

**PARTICIPATION AT THE ANNUAL GENERAL MEETING (AGM)**

Shareholders who wish to participate in the AGM virtually (on-line) are requested to email the following information to agm2021@seylan.lk with the email subject titled "SEYLAN AGM 2021".

Details of shareholder		
<b>Full name</b>		
<b>Address</b>		
<b>National Identity Card number/ Company Registration number</b>		
<b>CDS Account number</b>		
<b>Contact number</b>	Land line (residence/work):	Mobile:
<b>Email address of shareholder (to which the on-line meeting link should be forwarded by the Company)</b>		

# FORM OF PROXY

I/We\* (full name of shareholder and names of joint holder/s, if any) .....  
 .....of (address of  
 main shareholder) .....  
 ..... being a shareholder/s of Seylan Bank PLC hereby appoint (full name  
 of proxy holder) .....  
 ..... or failing him/her;

Mr Wadugamudalige Marius Ravindra Srilal Dias of Colombo 05, whom failing  
 Mr Waduthanthri Darshan Kapila Jayawardena of Battaramulla, whom failing,  
 Ms Miriam Coralie Pietersz of Battaramulla, whom failing,  
 Mr Kapila Prasanna Ariyaratne of Colombo 03, whom failing,  
 Mr Paththayame Lekamalage Sisira Kumar Perera of Seeduwa, whom failing,  
 Mr Srikumaradas Viran Corea of Dehiwela, whom failing,  
 Mr Anushka Sheran Wijesinha of Colombo 05, whom failing,  
 Ms Sandya Kumari Salgado of Panadura, whom failing,  
 Mr Don Manuwelge Don Krishan Thilakarathne of Battaramulla, whom failing,  
 Mr Darshan Ravindra Abeyesuriya of Rajagiriya,

all of whom are members of the Board of Directors of Seylan Bank PLC;  
 as my/our\* Proxy to represent me/us\* on my /our\* behalf at the Annual General Meeting of the Company which will be held as an on-line audio-visual meeting on Tuesday, 30 March 2021 at 11.00 a.m; and at any adjournment thereof.

The preferences in the following table to be marked by Ordinary Voting Shareholder/s only.

I/We\* the undersigned hereby authorize my/our\* Proxy to vote for me/us\* and on my/our\* behalf in accordance with the preferences as indicated below (please mark your preference with an "X"):

Resolution No.	FOR	AGAINST
1. To declare a first and final ordinary dividend for the financial year ended 31st December 2020 as recommended by the Board of Directors and to consider and if thought fit to pass the resolution set out in the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect as a Director, Ms M C Pietersz, who retires by rotation in terms of Article 82 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director, Mr P L S K Perera, who retires by rotation in terms of Article 82 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as a Director, Mr D M D K Thilakarathne, who retires by rotation in terms of Article 82 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint M/s KPMG, Chartered Accountants as the Auditors of the Company for the financial year 2021 and to authorize the Directors to determine their remuneration for the said financial year.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize the Board of Directors to determine donations that may be made by the Bank during the year, 2021.	<input type="checkbox"/>	<input type="checkbox"/>

(\*Please strike off inappropriate words)

Signed this ..... day of ....., 2021

.....  
**Signature/s of Shareholder/s**

.....  
**Shareholder/s' N.I.C/Co. Reg. No.**

**IMPORTANT** : Please read the notes and instructions on the following page, with regard to appointment of a proxy, and on the requirements relevant to the participation of the proxy holder in the AGM which will be held virtually via an on-line platform.

**NOTES AND INSTRUCTIONS FOR THE COMPLETION OF FORM OF PROXY**

1. In terms of Article 63 of the Articles of Association of Seylan Bank PLC (the Company) the instrument appointing a proxy shall be in writing and;

- a) in the case of an individual be under the hand of the shareholder or his attorney or
- b) if such shareholder is a company or corporation either under its common seal or under the hand of an officer or attorney authorized in that behalf in accordance with its Articles of Association or constitution.

In terms of Article 69, a company or corporation being a member of the Company may appoint any of its officers or any other person to be its representative or proxy at any meeting or meetings of the company and any person so appointed shall be entitled to be present and vote and exercise all other powers in regard to any such meeting on behalf of the company or corporation which he represents as if he were a member holding the shares of such company or corporation.

(The Company may, but shall not be bound to require evidence of the authority of any such attorney or representative officer).

2. The full name and address of the shareholder should be filled in legibly on the Form of Proxy together with the National Identity Card Number/Passport/Company Registration Number/CDS Account Number (as applicable).

3. Ordinary Voting shareholders shall indicate with an 'X' in the space provided as to how the proxy is to vote on each of the resolutions. If no indication is given, the proxy of an Ordinary Voting shareholder shall exercise his/her discretion and vote as he/she thinks fit.

4. The completed Form of Proxy together with the requested information in the following table should either be:

- (i) addressed to the Company Secretary of Seylan Bank PLC and posted or hand delivered to the registered office of the Company, at Seylan Towers, No. 90, Galle Road, Colombo 03 OR,
- (ii) Scanned and emailed to the email address: agm2021@seylan.lk with the email subject titled "SEYLAN AGM PROXY" or faxed to fax number 011-2452584;

not later than forty eight (48) hours before the time appointed for the holding of the Meeting.

5. If the Form of Proxy has been signed by an attorney, a certified copy of the Power of Attorney certified by a Notary Public should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the company.

6. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

7. **In addition to the completion of the Form of Proxy, the shareholder appointing a proxy shall complete the following details of shareholder and proxy holder and dispatch same together with the Form of Proxy (on the previous page), forty eight (48) hours prior to the time fixed for the AGM.**

CDS Account Number of the Shareholder(s)	
National Identity Card Number (NIC) of the Shareholder	
Shareholder's contact number/s	Land line (residence/work): Mobile:
Email address of the proxy holder (to which the on-line link should be forwarded to):	
Proxy holder's NIC number:	

Please also read the enclosed detailed Notes and Instructions to Shareholders on the virtual AGM/on-line registration procedure, logging-in process, etc.









This Annual Report is  
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**SEYLAN BANK PLC**

Seylan Towers, No. 90, Galle Road, Colombo 03, Sri Lanka.

Tel: (94)-(11)-2456000

Fax: (94)-(11)-2456456

Swift: SEYBLKLX

Email: [info@seylan.lk](mailto:info@seylan.lk)

Website: [www.seylan.lk](http://www.seylan.lk)