

# ROAD FO

Seylan Bank PLC Annual Report 2023

#### CONTENTS

| 2   | About this Report                                                                       |
|-----|-----------------------------------------------------------------------------------------|
|     | OVERVIEW                                                                                |
| 4   | About Us                                                                                |
| 5   | Financial Highlights                                                                    |
| 6   | Key Historical Milestones                                                               |
| 8   | How We Create Value                                                                     |
| 10  | Chairman's Message                                                                      |
| 12  | Chief Executive Officer's Review                                                        |
|     | STRATEGIC AND OPERATIONAL REVIEW                                                        |
| 15  | Our Operating Environment                                                               |
| 20  | Listening And Responding to Our Stakeholders                                            |
| 24  | Materiality                                                                             |
| 26  | Our Strategy                                                                            |
| 29  | Our Focus On Sustainability                                                             |
| 32  | Business Unit Overview                                                                  |
|     | VALUE CREATION                                                                          |
| 37  | Financial Capital                                                                       |
| 44  | Manufactured Capital                                                                    |
| 46  | Human Capital                                                                           |
| 54  | Social and Relationship Capital                                                         |
| 65  | Intellectual Capital                                                                    |
| 69  | Natural Capital                                                                         |
| 74  | Sustainability Performance Indicators                                                   |
| 76  | Independent Assurance Report - Sustainability                                           |
|     | GOVERNANCE                                                                              |
| 78  | Board of Directors                                                                      |
| 84  | Senior Management Team                                                                  |
| 90  | Corporate Governance                                                                    |
| 115 | Report of the Senior Independent Director                                               |
| 116 | Report of the Board Audit Committee                                                     |
| 118 | Report of the Board Human Resources and Remuneration Committee                          |
| 120 | Report of the Board Nominations Committee                                               |
| 122 | Report of the Board Related Party Transactions<br>Review Committee                      |
| 123 | Report of the Board Integrated Risk Management<br>Committee                             |
| 125 | Risks and Opportunities                                                                 |
| 147 | Report Of the Board of Directors on the State of Affairs of the Company                 |
| 154 | Annexure to the Report of the Board of Directors on the State of Affairs of the Company |
| 157 | Directors' Statement on Internal Controls                                               |
| 159 | Independent Assurance Report - Internal Control                                         |

|     | SUSTAINABLE RESULTS                                                                 |
|-----|-------------------------------------------------------------------------------------|
| 161 | Financial Calendar                                                                  |
| 162 | Statement of Directors' Responsibility for Financial Reporting                      |
| 163 | Chief Executive Officer's and Chief Financial<br>Officer's Responsibility Statement |
| 164 | Independent Auditor's Report                                                        |
| 169 | Income Statement                                                                    |
| 170 | Statement of Profit or Loss and Other<br>Comprehensive Income                       |
| 171 | Statement of Financial Position                                                     |
| 172 | Statement of Changes in Equity                                                      |
| 176 | Statement of Cash Flows                                                             |
| 178 | Notes to the Financial Statements                                                   |
|     | ANNEXURES                                                                           |
| 274 | Statement of Comprehensive Income in US Dollars                                     |
| 275 | Statement of Financial Position in US Dollars                                       |
| 276 | Investor Information                                                                |
| 281 | Branch and ATM Network                                                              |
| 282 | Ten Years at a Glance                                                               |
| 283 | Summary of Performance Indicators                                                   |
| 284 | Geographical Analysis                                                               |
| 285 | Global Reporting Initiative (GRI) Content Index                                     |
| 291 | Alphabetical Index                                                                  |
| 292 | Glossary                                                                            |
| 297 | Sinhala Translation of Chairman's Message<br>(සභාපතිතුමාගේ පණිවිඩය)                 |
| 298 | Tamil Translation of Chairman's Message<br>(தலைவரின் செய்தி)                        |
| 299 | Corporate Information                                                               |

# ROAD TO THE NEXT PHASE

As we mark a significant milestone in our corporate journey, we look back on the significant achievements and strides of resilience. Over the years, we have been successful in transforming the banking landscape with our distinctive services by supporting entrepreneurial success whilst partnering economic progress. Our odyssey into the future is strongly powered by individuals and businesses who have been empowered through our financial solutions.

#### ABOUT THIS REPORT

# Who we are **SEYLAN BANK PLC**

Seylan Bank PLC is pleased to present its eleventh Integrated Annual Report for the year ending 31 December 2023. This 2023 Integrated Annual Report details how Seylan Bank PLC ('We' or 'Seylan Bank') created value for its providers of financial capital and other stakeholder groups during the year. The Bank's Annual Report as always maintains transparency with regard to its financial and non-financial reporting to the stakeholders making them more comfortable in their way forward investor, business and other decisions.

# 

#### **Reporting scope and boundary**

This Integrated Annual Report provides a comprehensive view of Seylan Bank's financial and non-financial performance from 1 January 2023 to 31 December 2023 (FY2023). It also includes all material events up to the date of Board approval of financials. There are no significant changes from previous reporting periods in the scope and aspect boundaries and the most recent annual report covered the 12-month period ended 31 December 2022. Comparative financial information, if re-classified or re-stated, has been disclosed and explained in the relevant sections. The content of this Report does not cover the activities of its subsidiary, Seylan Developments PLC, which produces its own Annual Report.

**Digital Version** 

the Bank's website at

This integrated report can be accessed through

https://www.seylan.lk/about-us/investor-relation

#### Our integrated annual reporting boundary covers opportunities, risks and outcomes arising from:



Our financial reporting boundary Covers the core business operations of the Bank

#### **REPORTING FRAMEWORKS**

| Financial Statements                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Narrative Report                                                                                                                                     | Sustainability Reporting                                                                                                                                                                                                                                                                | Corporate Governance Report                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul> <li>Companies Act No. 07 of 2007</li> <li>Sri Lanka Accounting Standards<br/>and Other Guidelines issued<br/>by the CA Sri Lanka (SLFRSs &amp;<br/>LKASs)</li> <li>Banking Act No. 30 of 1988 and<br/>amendments thereto</li> <li>Relevant directions/circulars<br/>issued on reporting formats by<br/>the Central Bank of Sri Lanka</li> <li>Listing Rules of the Colombo<br/>Stock Exchange / Securities<br/>Exchange Commission (SEC)<br/>Regulations</li> </ul> | <ul> <li>Integrated Reporting<br/>Framework</li> <li>Guidelines for the<br/>presentation of Annual<br/>Reports issued by CA Sri<br/>Lanka</li> </ul> | <ul> <li>GRI Standards (2021) of the<br/>Global Reporting Initiative</li> <li>Sustainable Development Goals<br/>(SDG's)</li> <li>Non-Financial Reporting<br/>Guidelines issued by<br/>CA Sri Lanka</li> <li>Gender Parity Reporting<br/>Framework issued by<br/>CA Sri Lanka</li> </ul> | <ul> <li>Code of Best Practice on Corporate<br/>Governance issued by CA Sri Lanka<br/>(2023)</li> <li>Banking Act Direction No. 11 of<br/>2007 on Corporate Governance for<br/>Licensed Commercial Banks in Sri<br/>Lanka, issued by the Central Bank<br/>of Sri Lanka and any amendments<br/>thereto</li> <li>Listing Rules of the Colombo Stock<br/>Exchange / SEC Regulations</li> <li>Companies Act No. 07 of 2007</li> <li>Banking Act No. 30 of 1988 and<br/>amendments thereto</li> </ul> |
| CA 👰                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Consection of the Land                                                                                                                               | EGRATED REPORTING (III)                                                                                                                                                                                                                                                                 | SUISTAINABLE<br>DEVELOPHENT                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

Pile P

2

#### Materiality

Our material matters guide the content of this report, and we consider a disclosure to be material if it has the potential to significantly impact our ability to create or preserve value in the short, medium and long term, or if it could potentially result in value erosion.

We aim to transparently communicate how these material matters are addressed within our business operations and strategic decision-making processes. By identifying and addressing these significant issues, we strive to enhance stakeholder confidence, translate into decision making, and ultimately, the long-term success of the Bank.

#### **Combined assurance**

We ensure that high quality of information is disclosed in this report by undergoing a robust assurance process, leveraging our strengthened capabilities as well as external assurance. We engaged Messrs. KPMG to obtain external assurance on our consolidated financial statements and limited assurance on our sustainability reporting.

## Forward looking statements

Bank's Financial and Non-Financial forecasts disclosed in this report are prepared based on assumptions and estimations expected under current and future economic and market conditions and those could be changed with the change in conditions.



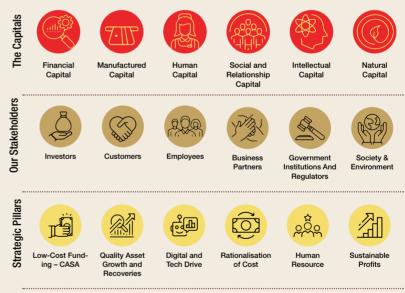
#### Integrated approach

Integrated thinking is embedded in our vision to be Sri Lanka's leading financial services provider as recognised by all our stakeholders. We apply integrated thinking as we recognize, measure and execute our strategic decisions to create sustainable value for our stakeholders while managing the impact if any.

#### Statement of responsibility

The Board of Seylan Bank holds the ultimate responsibility for this Integrated Report. The Board recognises that the Integrated Report of Seylan Bank PLC for the year ending on 31 December 2023 is presented in accordance with the <IR> Framework 2021. Accordingly, the Board approved this report for publication and release.

#### NAVIGATING THIS REPORT





Ms Champika Dodanwela Chief Financial Officer Seylan Bank PLC Tel: (94) - (11)-2456358 Email: champikad@seylan.lk

3

## ABOUT US Corporate portrait

As a financial institution in the lives of many people and businesses we have an important role to play in supporting to build a better future and a more resilient and sustainable economy. As a bank that prides itself on producing many "industry firsts",



our product portfolio is designed to deliver real value to our customers. We place customer aspirations as key priority and we continue to successfully navigate evolving market dynamics, and consistently adapt offerings to meet the needs of a dynamic clientele.

#### Driving responsible growth

Seylan Bank is a licensed commercial bank and a public limited liability company incorporated in Sri Lanka and listed on the Colombo Stock Exchange. Having commenced operations in 1988, Seylan Bank, celebrated a milestone of 35 years of proudly serving all stakeholders with an unwavering dedication to excellence.

The Bank offers a comprehensive suite of products and services to its corporate, medium and small enterprises (SME) and retail customers. Seylan Bank is focused on delivering a positive societal and environmental impact underpinned by a unique customer-centric and people-driven culture.

Our "Strategic Sustainability Roadmap" sets ambitious goals that support our commitment to shaping a more sustainable and inclusive business and society. We take greater care in building sustainable supply chains; in protecting the environment and the natural resources and in our commitment to skills development, empowerment, inclusion and diversity.

#### Shaping the way we work

#### 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.

#### Achieving our ambitions

Our high level inter-related and mutually reinforcing strategic priorities that deliver and measure our performance are as follows:

| Low-Cost Funding -<br>CASA | Quality Asset Growth<br>and Recoveries | Digital and Tech | n Drive | Rationa | lisation of Cost | Human Resource                                                                          | Sustainable Profits                       |
|----------------------------|----------------------------------------|------------------|---------|---------|------------------|-----------------------------------------------------------------------------------------|-------------------------------------------|
| ===                        | Centres 171<br>Ms 215<br>Ms 70         |                  | CD      |         | 100<br>3         | Group structu<br>Seylan Bank PL<br>of its subsidiary<br>Developments I<br>December 2023 | C held 70.51%<br>/ Seylan<br>PLC as at 31 |

#### FINANCIAL HIGHLIGHTS

# Setting new benchmarks of performance

|                                                                          | Bank             |                  |             | Group            |                  |             |  |
|--------------------------------------------------------------------------|------------------|------------------|-------------|------------------|------------------|-------------|--|
|                                                                          | 2023<br>LKR '000 | 2022<br>LKR '000 | Change<br>% | 2023<br>LKR '000 | 2022<br>LKR '000 | Change<br>% |  |
| For the year                                                             |                  |                  | 70          |                  |                  | 70          |  |
| Gross Income                                                             | 116,773,303      | 96,817,975       | 20.61       | 116,835,833      | 96,834,024       | 20.66       |  |
| Profit before Income Tax                                                 | 10,080,086       | 6,628,860        | 52.06       | 10,269,451       | 6,796,658        | 51.10       |  |
| Income Tax Expense                                                       | 3,823,872        | 1,916,597        | 99.51       | 3,868,829        | 2,218,888        | 74.36       |  |
| Profit Attributable to Equity Holders of the Bank                        | 6,256,214        | 4,712,263        | 32.76       | 6,321,116        | 4,574,359        | 38.19       |  |
| Other Comprehensive Income for the Year, Net of Tax                      | (26,598)         | (2,724,398)      | 99.02       | 56,454           | (2,746,463)      | 102.06      |  |
| Total Comprehensive Income Attributable to Equity<br>Holders of the Bank | 6,229,616        | 1,987,865        | 213.38      | 6,353,078        | 1,834,403        | 246.33      |  |
| Revenue to Government*                                                   | 7,759,191        | 4,690,632        | 65.42       | 7,804,148        | 4,992,923        | 56.30       |  |
| Gross Dividend**                                                         | 1,538,623        | 1,155,553        | 33.15       | 1,538,623        | 1,155,553        | 33.15       |  |
| At the Year End                                                          |                  |                  |             |                  |                  |             |  |
| Total Equity Attributable to Equity Holders of the Bank                  | 60,506,581       | 54,450,298       | 11.12       | 62,381,806       | 56,202,061       | 11.00       |  |
| Retained Earnings                                                        | 34,846,140       | 31,063,994       | 12.18       | 35,540,973       | 31,697,936       | 12.12       |  |
| Customer Deposits                                                        | 590,698,330      | 547,315,755      | 7.93        | 590,698,330      | 547,315,755      | 7.93        |  |
| Customer Loans and Advances                                              | 437,532,470      | 444,219,508      | (1.51)      | 437,532,470      | 444,219,508      | (1.51)      |  |
| Total Assets                                                             | 717,985,435      | 672,805,644      | 6.72        | 717,993,290      | 672,835,176      | 6.71        |  |
|                                                                          |                  |                  |             |                  |                  |             |  |
| Information per Ordinary Share                                           |                  |                  |             |                  |                  |             |  |
| Basic/Diluted Earnings per Share (LKR)***                                | 10.17            | 7.66             | 32.77       | 10.27            | 7.43             | 38.22       |  |
| Dividend per share (LKR)**                                               | 2.50             | 2.00             | 25.00       | 2.50             | 2.00             | 25.00       |  |
| Net Assets Value per Share (LKR)                                         | 98.31            | 94.24            | 4.32        | 101.36           | 97.27            | 4.20        |  |
| Market Value (LKR) - As at End of the Year                               |                  |                  |             |                  |                  |             |  |
| Voting Shares                                                            | 43.90            | 31.60            | 38.92       |                  |                  |             |  |
| Non-Voting Shares                                                        | 35.50            | 16.20            | 119.14      |                  |                  |             |  |
| Statutory Ratios (%)                                                     |                  |                  |             |                  |                  |             |  |
| Capital Adequacy                                                         |                  |                  |             |                  |                  |             |  |
| Common Equity Tier 1 Capital Ratio (%)                                   | 12.52            | 10.69            | 17.12       | 12.86            | 10.97            | 17.23       |  |
| (Minimum Requirement - 7.00 %)                                           |                  |                  |             |                  |                  |             |  |
| Total Tier 1 Capital Ratio (%)                                           | 12.52            | 10.69            | 17.12       | 12.86            | 10.97            | 17.23       |  |
| (Minimum Requirement - 8.50 % )                                          |                  |                  |             |                  |                  |             |  |
| Total Capital Ratio (%)                                                  | 15.84            | 13.59            | 16.56       | 16.18            | 13.87            | 16.65       |  |
| (Minimum Requirement - 12.50 %)                                          |                  |                  |             |                  |                  |             |  |
| Liquidity                                                                |                  |                  |             |                  |                  |             |  |
| Statutory Liquid Assets Ratio (%)                                        |                  |                  |             |                  |                  |             |  |
| (Minimum Requirement - 20 %)                                             |                  |                  |             |                  |                  |             |  |
| - Overall                                                                | 38.04            | 25.51            | 49.12       |                  |                  |             |  |
| - Domestic Banking Unit Operations                                       | 38.51            | 25.16            | 53.06       |                  |                  |             |  |
| - Foreign Currency Banking Unit Operations                               | 23.28            | 25.02            | (6.95)      |                  |                  |             |  |
| Liquidity Coverage Ratio (%)                                             |                  |                  |             |                  |                  |             |  |
| (Minimum Requirement - (2023 - 100 %, 2022 - 90 %)                       |                  |                  |             |                  |                  |             |  |
| - Rupee                                                                  | 355.16           | 280.14           | 26.78       |                  |                  |             |  |
| - All Currency                                                           | 338.42           | 175.10           | 93.27       |                  |                  |             |  |
| Other Ratios                                                             |                  |                  |             |                  |                  |             |  |
| Price Earnings Ratio - Voting (Times)                                    | 4.32             | 4.13             | 4.60        |                  |                  |             |  |
| - Non-Voting (Times)                                                     | 3.49             | 2.11             | 65.40       |                  |                  |             |  |
| Dividend Cover (Times) **                                                | 4.07             | 3.83             | 6.27        |                  |                  |             |  |

\* Excluding Surcharge Tax paid LKR 1,168,335,036.00 in 2022.

\*\* 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.

**KEY HISTORICAL MILESTONES** 

## Our 35 year legacy of dedication and excellence

#### 2013

- In our 25th Anniversary, we unveiled our multi – pronged corporate campaign "Beyond Just Banking" drawing strength from its four main tenets, Trust, Innovation, Service and Commitment which exemplified the spirit of our Bank
- Recorded a 17.15% growth in asset base to reach LKR 215 Bn
- Ranked among the "Business Today Top 25"
- Silver award (Banking Sector) and Bronze award for Overall Excellence in Financial Reporting - CA Sri Lanka Annual Report Awards
- Silver award Peoples Development Awards conducted by Sri Lanka Institute of Training & Development (SLITAD)

#### 2014

- Added 6 branches to the network reaching a total of 157
- Introduced the first ever "Visa Multi Currency Travel Card"
- Ranked among the top 25 corporate entities in Sri Lanka
- Silver award Turn Around Brand of the Year (Seylan Tikiri) - SLIM Brand excellence awards
- Marketing Campaign of the Year (Seylan Sure) (Gold Award), Best Loyalty Programme (Seylan Sure)(Gold Award), Revitalized Brand of the Year (Seylan Tikiri) (Gold Award), Best use of Social Media in Marketing (Seylan Bank Facebook page and Digital Efforts) (Gold Award) - World Marketing Congress – Global Marketing Excellence Awards

#### 2015

- The Bank's deposit base exceeded LKR 200 Bn
- Opened 25 Seylan "Pahasara Libraries" across the country to reach a total count of 80
- Achieved the 20th Position in the Best 25 Corporate Entities in Sri Lanka (Overall Bank)-Business Today Magazine
- The Global Banking and Finance Review 2015

   Awards of "Best SME Bank in Sri Lanka" and "Best Retail Bank in Sri Lanka"
- Bronze Award (Banking Sector) CA Sri Lanka Annual Report awards 2014
- Future of Digital Payment Forum 2015 -Award for Pioneering in Innovation for Seylan Pre-paid Multi-currency Travel Card

#### 2016

- Bank surpassed its LKR 4 Bn PAT milestone
- Bank's asset base reached LKR 356 Bn
- Added 8 new branches to the network across
  the island
- 7 branches were converted to 365-day banking centres
- Total number of ATMs surpassed 200
- Innovative Launch Campaign of the Year (Seylan Website Launch) (Gold Award) and Best Use of Social Media in Marketing (Seylan Social Media) (Gold Award) - Global Marketing Excellence Awards
- Upgraded ATMs in line with global standards (the first Bank to have a fully EMV compliant ATM network in Sri Lanka)
- Ranked 17th among 30 Best Performing Corporates - Business Today Magazine

#### 2017

- Opened 3 SME Hubs to expand SME lending
- Total assets surpassed the LKR 400 Bn milestone and total deposit base crossed LKR 300 Bn
- Successfully raised a long-term funding facility of USD 75 Mn from five globally recognised Development Finance Institutions (DFIs)
- "Pahasara Library" project surpassed the 150
  milestone
- Ranked 20th among 30 Best Performing Corporates - Business Today Magazine
- Bronze award (Banking Sector) CA Sri Lanka Annual Report Awards 2016
- Bank of the Year Excellence in Customer Convenience – Category B (Gold Award), Best Bank for Seamless Backend Operations (Gold Award), Bank of the Year for Financial Inclusivity Category B (Gold Award) and Overall Winner for Excellence in Interbank Transactions (Silver Award) - Lanka Clear Techno Vision Awards 2017



2018

- 30 years of service
- SME HUBs were increased to 12 covering different regions
- Implemented the Environmental and Social Management System (ESMS) policy and procedures
- Ranked as 11th among 30 Best Performing Corporates - Business Today Magazine
- Excellence in Branding and Marketing (The Winner), Best Campaign Innovation (The Winner), Campaign of the Year (The Winner), Excellence in Digital Marketing (The Winner) and Excellence in Cards and E-Payments (The Winner) - Golden Globe Tigers Awards

#### 2019

- Bank's asset base reached LKR 500 Bn
- Bank raised equity capital through a rights issue of LKR 4.3 Bn
- "Pahasara Libraries" reached 200 covering all districts
- 1st Place Customer service excellence by LMD
- 17th among the top 30 companies in Sri Lanka by "Business Today"
- Best digital campaign in the Banking (Gold Award), Finance and Insurance category (Gold Award) - SLIM Digis 2018

#### 2020

- Launch of Seylan RED Priority Banking Proposition
- The Bank's continuous focus on technology advancement and digitalisation strategy enabled us to overcome the many challenges posed by COVID-19
- Launch of Palmtop Banking across 50
  branches
- Ranked No. 01 in Customer Service by LMD for the second consecutive year in 2020
- Ranked 2nd among public listed companies for transparency, in corporate reporting by Transparency Global
- The Bank's Islamic Banking was able to secure the joint Gold Award for Deal of the Year 2019 at subsequently 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

#### 2021

- Bank's equity base surpassed LKR 50 Bn
- Considered as the No.1 in Customer Service Excellence in the Banking sector for the third consecutive year by LMD
- National Sales Congress (NASCO) 8 NASCO
   Awards
- Focus on digital solutions so that staff Work from Home (WFH) is smooth and also facilitates providing our valued customers with good service remotely
- Enabled online and mobile app utility bill payment options
- Introduced Seylan Pay mobile application to facilitate cardless, touch-less QR based payments

#### 2022

- The Bank's deposit base surpassed LKR
   500 Bn and the asset base reached LKR
   673 Bn
- Automation of the customer onboarding process using robotic process automation (RPA)
- Emerged as the only Sri Lankan bank to receive the Silver award at the Dragon Asia Awards under the category of social responsibility for its '#ResponsibleMe' campaign which was carried out during COVID-19 outbreak since March 2020
- Considered as the No.1 in Customer Service Excellence in the Banking sector for the fourth consecutive year by LMD
- Awarded Bronze at SLIM DIGIS 2.2 (2022) for National Day Initiative took place in 2021, awarded Silver at SLIM DIGIS 2.2 (2022) for '#ResponsibleMe' in the Best Digital Marketing Campaign in the CSR category and awarded Bronze at SLIM DIGIS 2.2 (2022) for '#ResponsibleMe' in the category of Best Use of Branded Content

#### **HOW WE CREATE VALUE**

# Creating, sustaining and sharing value

We believe in an integrated approach to value creation - one that goes beyond financial metrics to encompass social, environmental, and economic dimensions. Our business model, as illustrated below, serves as the foundation upon which we build and execute our strategies, enabling us to create value for all stakeholders while remaining agile and adaptable in a dynamic market landscape.



# WHAT

we deliver

Seylan Bank's core outputs are the products and services provided to its customers including, loans and advances, investments, deposits, forex products, remittance services, international trade related products and services, advisory services etc. We are committed to continuously improving our offerings to meet the changing needs of our customers and the world around us and ensuring a balanced approach to creating, preserving, and enhancing value, to drive sustainable growth.



10



#### CHAIRMAN'S MESSAGE

#### Dear stakeholders,

Despite the challenges of 2023, I am pleased that Seylan Bank managed to deliver a strong performance and end the year on a promising note. We continued to invest for stability and long-term growth, in our brand and portfolio while simultaneously ensuring that employee engagement remained strong. I am happy to share that in 2023 we crossed significant milestones in terms of financial and operational performance despite being tested by a difficult global macro-economic environment as well as a turbulent local economic landscape. Comprehensive risk management, process simplification, prudent credit provisioning and cost reduction enabled us to maintain momentum and strengthen our foundation for future growth.

#### **Creating value**

This year, as in the previous one, we added new capabilities to our systems and strengthened our talent to support future growth. Managing our human resources was tough which was the case across the entire industry, with the exodus of talent in the country and thus, a concerted effort was made to enhance the wellbeing of our team during these difficult times. We continued to embark on our digital transformation strategy with the aim of excelling customer centricity and operational efficiency. We invested in future-ready digital solutions to meet the increasing demands of our customers which included the launch of Open API Banking, upgraded version of Internet Banking and relaunching a feature-rich SeylanPay payments application. We are of the view that digital progress needs to happen continuously and are constantly exploring ways to expand, interconnect and perfect these tools to deliver a more seamless, personalized experience for our clients.

The Bank's capital position remained strong throughout the year with all capital ratios maintained well above the regulatory minimum requirements. Bank also maintained comfortable liquidity buffers throughout the period.

#### Our sustainability roadmap

Our achievements are not simply limited to numbers or financial metrics. They are reflected in the lives we have touched, the communities we have empowered, and the positive change we have fostered. This year we launched the 'Sustainability Strategy' which outlines our sustainability ambitions and the Bank's contribution to the United Nations Sustainability Development Goals. I am encouraged by the commitment, energy and progress displayed by the team in terms of achieving the targets set out against the selected goals.

The impact of our services, technologies, solutions and social initiatives resonate in the lives of our stakeholders and in the advancement of our society. We remain committed to the growth and success of our team at Seylan Bank and continue to make investments in upskilling and reskilling, so that they can deliver the value our clients expect, while building successful careers.

Throughout 2023, our customers expressed a greater need for comprehensive and personalized financial advice than at any time in the past. We were relentless in helping our clients and continued to be there for them as their steadfast and trusted partner.

Integration of environmental, social and governance (ESG) considerations is one of our top priorities and we continued to look for innovative solutions for investors to support social and environmental change. As a responsible corporate citizen, we remain committed to continuous improvement in our ESG initiatives to drive meaningful change and build a more sustainable future.



Integration of environmental, social and governance (ESG) considerations is one of our top priorities and we continued to look for innovative solutions for investors to support social and environmental change. As a responsible corporate citizen, we remain committed to continuous improvement in our ESG initiatives to drive meaningful change and build a more sustainable future.

On the governance front, we continued to strengthen our framework and update our policies and procedures to ensure they align with evolving regulatory requirements and global best practices. We invested in systems and processes to enhance our risk management capabilities and compliance requirements in order to safeguard our operations, protect sensitive information and maintain the trust of our stakeholders.

#### **Board changes**

I am thankful for the significant contribution and dedicated service made to the Bank over the past 12 years by Mr. Kapila Ariyaratne, former Director/Chief Executive Officer who retired from the Board on April 30, 2023. His outstanding leadership and commitment steered Seylan Bank through demanding and challenging years.

My appreciation is extended to Mr.Anushka Wijesinha, Senior Director who had to resign from our Board in September 2023, on being appointed to the Governing Board of the Central Bank of Sri Lanka. He was a source of strength to the Board bringing in invaluable contributions especially through sub committees he chaired.

We were deeply saddened by the demise of Mr. Ravi Abeysuriya, Independent, Non-executive director in October 2023. Mr.Abesuriya's contribution and vision were invaluable to the Bank over the past five years.

During the year, Mr.Ramesh Jayasekara assumed duties as Director/CEO of the Bank in line with the Bank's succession plan. Mr.Jayasekara's all-round banking experience locally as well as overseas, especially the positions he held within our Bank over the last twelve years heading important divisions had prepared him to take charge as the Chief Executive Officer. I am confident that he would lead the Bank to greater heights in the future.

#### **Appreciations**

In a year marked by many challenges, the resilience and dedication displayed by our corporate management led by the Director/Chief Executive Officer as well as the entire Seylan Bank team has been truly remarkable. It is with great pride that I acknowledge the collective efforts that have propelled us forward, to overcome obstacles and achieve significant milestones.

I am grateful for the guidance and strategic vision provided by our Board of Directors to steer the Bank in the right direction. I also take this opportunity to thank the shareholders, the customers and all other stakeholders for their cooperation and shared commitment during these challenging times. I would also like to express my appreciation to the officials of the Central Bank of Sri Lanka, for the support extended during the year.

#### **Closing thoughts**

In most aspects, we ended the year at a significantly improved position. We are stronger operationally and are taking a more futuristic approach to banking. We have a growth mindset, and the right organizational structure and talent, giving us the resilience for long-term success. While we take pride in our achievements, we also remain mindful of the challenges that lie ahead. I am confident that the spirit of collaboration and the commitment to excellence will continue to drive us forward, ensuring that Seylan Bank maintains stability and excellence in the years to come.

W M R S Dias Chairman

20 February 2024



12

#### CHIEF EXECUTIVE OFFICER'S REVIEW

This has been a year of significant milestones, with major achievements in all areas namely profitability, liquidity, capital and asset quality. 2023 marked our 35th anniversary, and coinciding with this historic milestone, we positioned ourselves as a stronger bank and consistently delivered on our promises to all our stakeholders. With a sound strategy we were able to navigate the external challenges with precision, demonstrating our true potential and ambition to drive positive change.

#### **Refreshing our strategy**

During the year major efforts went into reformulating our corporate strategy to deliver better performance for our stakeholders. We set ourselves ambitious performance targets and identified three key areas for development in 2023 - digitalisation, recoveries and staff engagement.

With the proliferation of digital technologies, digital banking trends are reshaping the industry. We prioritized the opportunities to harness the power of emerging technologies and aimed to significantly increase our digital penetration. From streamlined internal processes to enhanced customer experiences, our digital journey has touched every aspect of our operations. During the year, our online banking channels were revamped, allowing us to provide a better service, facilitate a higher volume of customer on-boarding, and handle of a greater number of transactions. The launch of Open API banking has also strengthened the Bank's ability to integrate with third parties thereby leading to increased adoption of digital banking services.

Strengthening our recovery process and capacity continued to be a critical concern and greater emphasis was placed on establishing efficient recovery strategies to support the bottom line. Recovery Officers (ROs) were extended to branch level, where we placed ROs across 50 branches during the year with plans to further expand the coverage in 2024. This facilitated better communication between the Bank and customers and we were able to resolve customer concerns with greater efficiency.

Open and transparent communication is fundamental to building trust within our organisation and we initiated several mechanisms to strengthen our communication channels. Staff town-hall meetings were held across the network to encourage and facilitate two-way communication. This commitment to transparency has fostered a sense of shared purpose and alignment with organisational goals. We also believe in acknowledging the hard work and dedication of our employees and introduced thanking days which has been instrumental in creating a culture of appreciation and mutual respect.

Acknowledging the importance of identifying talent and making sure we retained our staff, we introduced the fast-track programme for staff promotions to reward top performers. Furthermore, we invested in leadership development programmes to equip our managers with the skills needed to lead with empathy, inspire their teams, and drive positive change.

It is commendable to note that we were able to record visible progress across key pillars achieving all KPIs we had set ourselves at the start of 2023. This goes without saying that by working together, we have been able to overcome obstacles, capitalize on diverse skills and create positive, impactful change.

## Delivering strong financial performance

Our net interest income remained constant at LKR 40.1 Bn compared to LKR 40.5 Bn in 2022, in spite of NIM's contracting during the year. Our net fee and commission income grew by 15.76%. Net profit after tax reached LKR 6.26 Bn, the highest in our 35-year history.

The Bank has been recognized by World Economic Magazine as the best customer care bank in Sri Lanka for 2023 which stands as a testament to the consistent efforts directed towards customer excellence.

#### LKR **10.08** Bn Profit before tax

(2022: LKR 6.63 Bn)

Profit after tax (2022: LKR 4.71 Bn)

LKR 717.98 Bn

Total assets (2022: LKR 672.8 Bn)

LKR 98.31 Net asset value per share (2022: LKR 94.24)

LKR 590.70 Bn Total deposits (2022: LKR 547.31 Bn)

While the banking sector loans and advances portfolio shrank during 2023, Seylan Bank managed to record a growth of 1.38%, with the gross portfolio amounting to LKR 497.2 Bn at the close of the year. Corporate lending contributed primarily towards this growth. We remained mindful of the importance of supporting the SME sector as they were the most vulnerable and renewed our efforts to manage their business. We focused mainly on supporting SMEs in stressed conditions without burdening them with costly debt and more intensive work went into reviewing portfolios and rescheduling their facilities.

On the funding side, current and savings accounts (CASA) growth remained our top priority in 2023. Deposits increased by LKR 43.4 Bn, reflecting the trust and confidence placed in the Bank by customers.

Liquid assets comprising of cash and bank balances increased by 57.78% reflecting our commitment to strengthen and optimise liquidity while the statutory liquid asset ratio stood at 38.04%, well above the regulatory requirement of 20%. Shareholders' equity increased by 11.12% while capitalisation levels remained healthy with Tier 1 and Total Capital Adequacy ratios reaching 12.52% and 15.84% respectively by 31 December 2023.

The Bank's profit of LKR 6.26 Bn, Statutory Liquid Asset Ratio of 38.04% and Total Capital Adequacy of 15.84% are some of the best achieved in the 35 year history of the Bank. These developments reflect the commitment of our team to persevere amidst challenges and we are truly proud of these achievements.

#### Driving customer excellence

Realising our mission and vision demands a dedication to excellence in the way we work and interact with our customers. As part of our customer experience augmentation strategy, we continued to expand customer digital interfaces to enable customers to handle their transactions more independently and conveniently. The Bank has been recognized by World Economic Magazine as the best customer care bank in Sri Lanka for 2023 which stands as a testament to the consistent efforts directed towards customer excellence.

Work is also underway to launch a touch screen customer feedback system, that allows us to instantly capture customer satisfaction or dissatisfaction levels. This will enable us to achieve faster issue resolution and proactively improve customer experience.

We also continued our efforts to strengthen customer engagement through social media and emerged as the first bank in Sri Lanka to reach one million followers on Facebook.

#### Advancing sustainability

During 2023, we made strong progress on our sustainability front. Our strategic sustainability roadmap which came into

## CHIEF EXECUTIVE OFFICER'S REVIEW

force during the year takes a 360° view on sustainability and is an ambitious plan that focuses on the areas that the Bank can make the most meaningful contribution. Education continues to be one of the primary elements in our corporate social responsibility agenda and this year we opened the 225th library under the "Seylan Pahasara" initiative. This initiative which began a decade ago has provided equitable access to reading materials to over 100,000 students across 24 districts in Sri Lanka.

We also recognise that climate change is a defining issue of our generation that requires swift, collective action and are committed to meeting our own goals while enabling others to do the same. That means taking responsibility for our operational footprint and accelerating progress through technology. We have adopted several measures to reduce our carbon footprint and make sure our processes support paperless customer-friendly banking. Most of the bank internal workflows are now paperless. We also have expanded our green lending portfolio to LKR 8.8 Bn in 2023. Underpinning it all, we're continuously pushing ourselves to do more to create a workplace and society that is better for everyone.

> No. of "Seylan Pahasara" Libraries

LKR **8.8** Bn Green Lending Portfolio

81 No. of Internal Paperless Workflows

#### Way forward

We see the economy moving towards a more positive trajectory and we now need to start looking at consistent and sustainable growth. With the expected rise in demand for private sector credit, we will be looking at supporting existing customers to achieve greater heights, while simultaneously attracting new to bank customers. The recent removal of import restrictions is also likely to add positive signals to create demand and supply while reactivating manufacturing and trading sectors.

We will build on the progress we made over the last few years and continue to invest in more digital customer experiences, our technology, our people and culture. Among other areas, CASA growth, fee income as well as automation and Artificial Intelligence (AI) will be our top priorities for 2024, as we reinforce our commitment to creating longterm value for our stakeholders.

#### **Appreciations**

I am proud of the strong all round performance Seylan Bank has delivered during 2023 and the value we have created for our stakeholders. I would like to recognise the hard work and commitment of the leadership team and all our staff who delivered these results and were the driving force behind our success. My appreciation goes out to the Chairman and the Board of Directors who guided our strategy and provided objective oversight during a challenging year.

I extend my appreciation to our former Director/CEO Mr. Kapila Ariyaratne who lead the bank for over a decade with commitment and dedication. I am also grateful to Mr. Anushka Wijesinha, Senior Independent Director, whose expertise has been instrumental in steering us through both challenges and triumphs. As I mourn the loss of Independent Director Mr. Ravi Abeysuriya, I acknowledge the legacy he leaves behind with his valuable leadership, wisdom, and unwavering dedication to our Bank.

I also extend my thanks to the Governor and officials of the Central Bank of Sri Lanka for their continued support.

Finally, I take this opportunity to thank our valued customers, shareholders, business partners and other stakeholders for their continued loyalty and look forward to their support and partnership in the coming year.

Thank you for being a part of our 35-year story.

Ramesh Jayasekara Director/ Chief Executive Officer

20 February 2024

#### OUR OPERATING ENVIRONMENT

## The context to our performance

**Global context** 

The global economy has shown remarkable resilience as it continues to recover from the blows of the pandemic, Russia's invasion of Ukraine and inflation induced cost-of-living crisis. Global growth has slowed down due to geopolitical tensions leading to the disruption in energy and food markets, and the unprecedented tightening of global monetary conditions to combat decades - high inflation.

Despite growth remaining slow and uneven, global activity has bottomed out at the end of last year while inflation is gradually being brought under control. However, a full recovery towards pre-pandemic trends appears increasingly difficult, especially in emerging markets and developing economies.

Inflation continues to recede as Central Banks maintain a tight stance, on its Monetary policy. However, inflation could fall faster than expected, reducing the need for tight monetary policy, and domestic demand could again prove more resilient.

Core inflation with regard to more volatile energy and food prices still persists, but inflation has showed improvement with overall measures decreasing in most countries. A fall in energy prices and - to a lesser extent - in food prices has driven the decline in headline inflation. Crude oil prices also declined during 2023, on the back of lower global demand partly driven by tighter global monetary policy.

In China, the pandemic-related slowdown and the property sector crisis, contributed to larger output losses compared with prepandemic predictions. Emerging markets and developing economies, especially low-income countries have seen even weaker recoveries. Higher interest rates and depreciated currencies have worsened the difficulties of low-income countries, placing more than half at either high risk of distress and already in distress.

On a positive note, as the World Health Organization announced that Covid-19 is no longer considered a global health emergency, supply chains which the pandemic disrupted have largely normalized.

According to the World Economic Outlook, global economic growth is projected at 3.1 percent in 2024 which is same as 2023 estimate. The projection is below historical standards, as the fight against inflation, Russia's war on Ukraine, and the Israel Palestine conflict weighs heavily on activity. Despite these headwinds, the outlook looks less gloomy for the coming year, and could represent a turning point, with growth bottoming out, and inflation declining.

For advanced economies a modest slowdown is anticipated with a decline from 1.6 percent in 2023 to 1.5 percent in 2024. For emerging markets and developing economies although there was a modest decline, growth is expected to rise modestly during this year and next.

The third quarter of last year signified economic growth that was surprisingly resilient, with strong labour markets, robust household consumption and business investment, and better-than expected adaption to the energy crisis in Europe.

Despite signs of economic resilience seen earlier this year, overall economic activity is still falling short of pre-pandemic projections, particularly in the emerging markets and developing economies. The US has seen the strongest recovery, among major economies. The Euro area has recovered less robustly with output still below pre-pandemic projections, influenced by greater exposure to war in Ukraine and rising energy prices.

Emerging markets and developing economies face profound implications - a much slower convergence towards the living standards of advanced economies, reduced fiscal space, increased debt vulnerability, and exposure to shocks, and diminished opportunities to overcome the scaring from the pandemic and war. Furthermore, the persistent strengthening of the US dollar, amidst the rising interest rates in the US poses debt repayment challenges to dollar borrowers whose reserve positions are weak.

The global economic outlook remains optimistic, with stronger growth and lower inflation than expected suggesting the global economy is headed in the right direction. 16

#### **OUR OPERATING ENVIRONMENT**

#### Local context

#### Economic and market overview

The Sri Lankan economy, after an extremely challenging period of turbulence in 2022, has shown resilience and stability on many economic fronts, due to the timely implementation of proper macroeconomic policies including measures to implement long-overdue structural reforms.

The Sri Lankan rupee appreciated against the US dollar, while it also saw an appreciation against the Euro, the Pound Sterling, the Japanese Yen, the Indian Rupee, and the Australian Dollar during the year 2023.

Colombo Consumer Price Index (CCPI) based headline inflation (year-on-year) was 51.7 in January 2023 and which was moderated to 4.0 percent in December 2023 (CCPI, 2021=100). Although the pace of deceleration was slower in the first quarter of 2023, headline inflation declined sharply from April 2023 onwards.

The Headline inflation, as measured by the year-on-year change in the National Consumer Price Index (NCPI) followed a decreasing trend from a peak level of 53.6 percent since February 2023 (NCPI, 2021=100) to 0.8 percent by September (NCPI, 2021=100), and a modest increase to 4.2 percent in December 2023 (NCPI, 2021=100). According to the baseline forecast, headline inflation is projected to dip in the near term, and then stabilize over the medium term. Core inflation is also following a disinflationary trend although at a relatively slow pace. This decline of inflation was due to the impact of stringent monetary policy and fiscal conditions, the gradual easing of supply-side disruptions, and the easing of global price pressures, along with the favorable base effect.

Potential downside risk that could affect growth projection in the near to medium term include the weaker demand for the export sector, labour shortages and low productivity resulting from significant professional and skilled migration, and possible weather anomalies.

Sri Lanka's 2024 budget aim to sustain an IMF-led bailout by increasing revenue through tax raises, with a projected total tax revenue at 4.1 trillion rupees, mostly from the indirect tax receipts. The budget success depends on navigating the demands for financial stability and economic recovery. Its proposed measures seek to steer the slowed down economy towards growth and catalyze an economic revival.

The Sri Lankan economy is anticipated to stabilize with improving external sector conditions, increase in earnings from tourism, and improvement in domestic economic activity which will generate more credit to productive sectors of the economy. The external sector, which suffered a significant setback in the previous year, has seen signs of stability, resulting from improved foreign exchange inflows, and balance of payment position which has strengthened the Sri Lankan Rupee. Domestic economic activity is expected to rebound, in the near term, as a result of the easing of monetary conditions and growth supportive policies implemented by the government. Although economic growth is expected to remain moderated over the short term, it is expected to recover gradually towards its potential.

#### Opportunities

- Lending opportunities across business lines in local manufacturing, exports and import substitution
- Engage with regulatory authorities proactively to give input for policymaking and regulation development

#### Risks

- Rising inflationary pressures and adverse impacts on operating costs
- Greater pressure on credit quality
- · Lack of credit demand due to weakened economic conditions

#### How we are responding

- We continue to focus on revenue growth, with more emphasis on worker remittances and the 'export book', the primary source of foreign exchange. We launched an "Export Expert" campaign to onboard new export clients and increased our focus on worker remittances as a crucial source of foreign currency
- Complying with the contingency plans and policies which are crucial and strive to remain agile and adjust to evolving circumstances
- Contribution towards the Government and Central Bank efforts to achieve financial system stability

#### Social challenges

The country faces ongoing issues of poverty, exacerbated by factors such as food inflation, loss of employment and a decline in remittances. Sri Lanka's brain drain, has led to high staff-turnover, resulting in a lack of specialized skills.

#### **Opportunities**

- Expand and strengthen our social impact
- Embracing more flexible ways of working
- Partnerships and collaborations with agencies to build social resilience

#### Risks

Operate in a volatile socio-economic environment

Increasing risks of cyber-attacks and financial crime

Shortage in skilled labour with increasing levels of migrants

#### How we are responding

- In the face of digital transformation, socioeconomic dynamics, and new working models, we are compelled as a financial organization to rethink our people, practices, and processes. To enhance our operational efficiency, we have introduced an operational excellence program which involves training, certifying our employees in Lean 6 Sigma, aiming to improve workplace efficiencies and minimize wastage
- Implementing internships, fixed-term contracts, and outsourcing to meet our skill requirements
- Supporting our employees by offering them relief benefits and flexible working options amid economic difficulties

#### Technological advancement

Technological disruption in banking is reshaping the industry, challenging traditional business models, and driving innovation at an unprecedented pace. Banks are increasingly embracing digital transformation, adopting agile methodologies, and collaborating with fintech partners to stay competitive, meet evolving customer needs, and seize opportunities for growth and differentiation. Furthermore, there is a rise, evidently in major social networking platforms, such as WhatsApp, Facebook, Instagram, Messenger and Linkedln, contributing to an expanding online presence. However, the rapid shift to digital banking has heightened cybersecurity risks, prompting banks to strengthen their cybersecurity and invest in advanced threat detection and prevention technologies.

Risks

#### **Opportunities**

- · Leverage and manage technology and innovation
- Enhancing client experience
- Increasing digital penetration
- Strengthen the security features

#### How we are responding

- We prioritized on automation to improve operational efficiency, implementing automated processes and workflow solutions, particularly in
  areas such as account opening. This strategy aims to deliver faster and more efficient services to customers
- We have implemented digitization both internally, by automating back-end operations, and externally by digital channels like internet banking and mobile apps - for an improved customer experience
- We are continuously focusing on boosting the adoption of digital channels, converting clients from manual counter banking to digital platforms, enhancing the speed of processes, increasing efficiency, and reducing associated costs as part of our digitization initiative



#### **OUR OPERATING ENVIRONMENT**

#### **Environmental concerns**

The rapid pace of human development is taking a toll on the environment. Sri Lanka's warm temperature, unique hydrological regime, and exposure to extreme climate events, make it vulnerable to climate change. There is increasing pressure to address critical environmental issues facing the country today. For banks, this includes emphasis on sustainable lending, emissions reduction strategies and climate adaptation and mitigation.

Risks

#### Opportunities

- Strengthen our environmental stewardship
- Implement green financing schemes and sustainable investments

 Increasing risks of climate change on key sectors including agriculture, power and energy and tourism

· Operational disruptions due to climate risks

Innovations in financial products

#### How we are responding

- To ensure that sustainability principles are deeply embedded into our strategy, Seylan Bank Sustainability Plan has been developed and is now in action
- Our business continuity plan addresses emergency preparedness in the face of a disaster. Our operations have multiple disaster recovery sites and our IT recovery site is equipped with standby servers

#### Legal developments

The Bank operates in a highly regulated environment where new bills, legal precedents and regulatory requirements are introduced frequently to safeguard the stability and sustainability of the financial sector.

#### Opportunities

 Increasing regulatory emphasis on ESG considerations creates opportunities to develop and promote sustainable financial products

#### Risks

Rising cost of compliance with new regulatory requirements

#### How we are responding

- We are committed to preventing financial crime and fulfill regulatory requirements to address anti-money laundering concerns, hence we
  have introduced the 'Compass' compliance management software in our internal banking systems
- We are committed to adopting the new financial consumer protection regulations mandated by the Central Bank of Sri Lanka and plan to implement the new protection framework
- As a Licensed Bank in Sri Lanka, we will comply with the Banking (Special Provisions) Act No. 17 of 2023 to ensure the interests of the depositors and creditors, and to ensure overall financial system stability



#### Banking sector in Sri Lanka

In the face of recent multifaceted challenges and unprecedented level of stress on the banking sector due to the pandemic and adverse macroeconomic developments, the Sri Lankan banking sector remained resilient. The Banking sector was able to maintain its stability, even amid challenges arising from continuously declining credit quality, interest rates and Forex volatility and deteriorating capital buffers to absorb losses.

Despite the money market and the equity market recording a dismal performance in 2022, a modest improvement was observed during early 2023, with the gradual easing of liquidity pressures in the foreign exchange and money markets and gradual stability of rates, supported by market confidence with the approval of the Extended Fund Facility from the International Monetary Fund (IMF) in March 2023.

In compliance with prudential requirements of the Central Bank, the banking sector managed to maintain its stability with adequate capital and liquidity buffers amid challenges emerging from contraction of credit growth and non-performing loans. Despite liquidity stresses observed in certain domestic banks, the banking sector was able to operate with liquid assets above the minimum regulatory requirement.

The banking sector expansion was largely funded by deposits. However, the growth in borrowings continued to decrease as a result of the decline of foreign currency borrowings.

Although the banking sector in Sri Lanka continued to dominate the financial sector, the credit growth of the banking sector slowed down, in line with the stringent monetary policy and challenging macroeconomic conditions. However, while the tightening monetary policy led to a decline in year-on-year growth of loan and advances, an increase in the growth of investments were observed during the period. Despite the challenges arising from macro-economic developments and challenges in the operating environment the banking sector continued to operate with acceptable levels of capital and impairment coverage ratios and remain resilient.

The government along with the Central Bank have taken efforts to ensure financial system stability. A new law was brought forth as the Banking (Special Provision) Act No. 17 of 2023, to provide the Central Bank with the authority to implement resolution measures in an instance where a Licensed Bank is subject to capital, liquidity, insolvency or any other risk in a timely manner, to ensure the interests of the depositors and creditors, and to ensure overall financial system stability.

Several measures were taken to promote digital payments and to develop the national payment infrastructure in Sri Lanka. In 2022, the Central Bank launched the National Remittance Mobile Application, 'Lanka Remit', as a way to encourage contact-less digital payments. The retail payment system and instruments have recorded growth in volumes and value depicting the adoption of digital payment methods. Credit and debit card transactions continued to increase as the public adopted non-cash methods for purchases of goods and services.

As the economy embarks on banking sector credit is expected to expand in 2024 and the Central Bank remains committed to monitor macro prudential developments and implement necessary policies to mitigate systemic risks and ensure stability.

#### LISTENING AND RESPONDING TO OUR STAKEHOLDERS

# Aligning aspirations with our stakeholders

Stakeholder engagement is a catalyst tool in understanding the dynamics of related stakeholders and exploring opportunities locally, regionally and globally. We strive to maintain open and constructive relationships with a wide range of stakeholders including investors, customers, employees, suppliers and the community through numerous deliberations and communique. We leverage our experiences of the past and present to shape a resilient future for everyone, leaving no one behind, and aim to understand the diverse needs of stakeholders to facilitate more rational decision making. Our engagement during the year took many forms, including one-on-one engagement sessions using online channels and telephone calls, written responses and targeted surveys. These engagements, and the issues that underpin them, help to build a future ready business model with a sustainable trajectory in every mean.

#### Investors

#### Matters relevant to the stakeholder

- Developing a Basel III compliant capital structure with additional cyclical buffers and surcharges as possible
- Establishing an ESG compliant and climate resilient transformative business model
- Implementation of the Sustainability Strategy across the Bank
- Triple bottom line growth momentum with better stakeholder engagements
- Future readiness across the value chain through various risk management measures

#### **Our response**

- Explore potential business calls in growth management of core books and recovery drives with integrated risk mitigation, while also paying attention to off balance sheet items
- Digital penetration towards making transformative banking solutions
- Close link and sync with Business in operationalizing effective Environmental and Social (E & S) management system together with customer dialogue for closing gaps in E & S risk management
- Screening of supplier relations for leveraging industry best standards and best procurement practices locally and globally including environmental and social due diligence

#### Engagement channels

| Mechanism                                                       | Frequency |
|-----------------------------------------------------------------|-----------|
| Annual Reports and AGMs                                         | A         |
| Interim Financial Statements                                    | Q         |
| Extraordinary General Meetings                                  | WR        |
| Investor forums, CSE notices, Press articles, surveys and other | WR        |
| One-to-one meetings                                             | WR        |
| Corporate website and feedback                                  | R         |

- Financial capitalpage<br/>37-43Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Image<br/>Im
  - ROA and ROE stood firm recording a net profit of LKR 6.26 Bn
  - The Sustainability Strategy was developed in alignment with the Corporate Strategy overarching 11 Sustainable Development Goals addressing investor perspectives of transforming the Bank with digital penetration

Customers

#### Matters relevant to the stakeholder

- A business model that embraces inclusive finance
- Financial literacy as a key for unveiling mutually potential business opportunities across the island
- Ethical financing with better customer engagement and feedback
- Heightening of data and cyber security with a view to seize sophisticated cyber attacks
- Catering to rapidly changing customer behaviour with the use of digital tools together with Al
- Robust grievance handling mechanisms
- Enable well-informed and independent financial decision making at all times

#### Our response

- Continuous dialogue to explain and simplify financial products and services eliminating complexities if any
- Amicably educate customers on Environmental and Social (E&S) risks through the Environmental and Social Management System (ESMS) as a soft-sell approach
- Make digital offerings more user-friendly, while enhancing proximity to formal financial channels through education
- Use of science and evidence-based research for better dealing with changed customer behaviour
- Town storming sessions to take appropriate remedial measures
- Review of policies, procedures and code of conduct with remedies to factor volatile customer behaviour
- Staff training as a catalyst for ensuring delivery of high level of service quality standards together with exceptional traits
- Adherence to customer due diligence protocols and customer charter while strengthening internal control measures, code of conduct and other controls backed by policies, procedures, industry best standards and practices

#### **Engagement channels**

| Mechanism                                                               | Frequency |
|-------------------------------------------------------------------------|-----------|
| Enhanced virtual media and safe day-<br>to-day dialogue at the branches | R         |
| Email                                                                   | R         |
| Customer surveys and other interactions                                 | R         |
| Customer gatherings across branch network                               | R         |
| Feedback via Annual reports                                             | R         |
| Media advertisements and other forms of communiqué                      | WR        |



#### Quality of relationship - Strong

- The Bank won Digis and Dragons awards during the year demonstrating supreme customer service.
- Score of 80.66% at annual mystery shopper survey.
- Growth in our social media footprint as shown in Intellectual Capital section.

#### LISTENING AND RESPONDING TO OUR STAKEHOLDERS

#### Employees

#### Matters relevant to the stakeholder

- Promote work-life balance for better productivity
- Inculcate a learning culture and better coordination for sustainable growth in human capital
- Promote health and safety standards, industry best local and global practices
- Diversity and gender equality including fair pay
- Freedom of association and collective bargaining power
- Sense of ownership and belongingness
- Boost happiness index as a measure of supreme customer service frontier

#### Our response

- Determine training needs and grey areas in learning through audit trails, performance evaluations and various other staff engagement platforms
- Town storming sessions to determine remedial measures to be taken while revisiting policies and procedures also appreciating feedback from staff
- Manage gender equality together with recruitments channelled from regional areas with zero discrimination
- Encourage employees to share views and ideas with the management and develop a close interaction
- Grievance handing mechanism strengthened with better engagement

#### **Engagement channels**

| Mechanism                                                                                                             | Frequency |
|-----------------------------------------------------------------------------------------------------------------------|-----------|
| Internal and external training<br>programmes and e-learning<br>opportunities                                          | R         |
| Performance and appraisal review discussions                                                                          | R<br>BA   |
| Treatment of all employees impartially and equally                                                                    | R         |
| Trade union discussions                                                                                               | WR        |
| Communication of values                                                                                               |           |
| through leading by example                                                                                            | WR        |
| Communication with employees<br>including satisfaction surveys,<br>newsletter, and the intranet<br>Town Hall meetings | R         |



#### Quality of relationship - Strong

- Successful deliberations took place on collective agreements on staff compensation and fringe benefits. 72% overall staff satisfaction survey result.
- Town hall meetings were held where staff members voiced their concerns and the engagements created a sense of ownership for the Bank.

#### Suppliers and business partners

#### Matters relevant to the stakeholder

- Commitment, capacity and track records in E&S risk management with mitigation and adaptation
- Green and local and global industry best procurement practices
- ESG compliance and guality assurance by verified third parties
- Foster steadfast and long-term business relationship
- Promote local materials curbing heavy dependence on imports

#### Our response

- Improve the tender and procurement process with more preference given to local suppliers together with the service quality assurance
- Educate on the importance of mitigating E&S risks as a future potential attribute to access foreign funding lines availed from the developed countries
- Promote affiliations for synergy and ripple effect
- Maintenance of supply with Economic Order Quantity (EOQ) and buffer stocks

#### Engagement channels

| Mechanism                                                                        | Frequency |
|----------------------------------------------------------------------------------|-----------|
| Onsite visits and meetings, advertisements, and press releases                   | R         |
| Tender invitations                                                               | WR        |
| Registration of suitable suppliers and delivery of quality products and services | WR        |
| Bank product development and approval process                                    | WR        |



#### Quality of relationship - Strong

capital

#### More local suppliers were contracted with better long-term deals.

Social and relationship

page

54-64

- Maintained ties with 100 suppliers who have been engaging with us for over 10 years.
- 22 foreign bank relationships lasting more than 15 years.

😓 Community

#### Matters relevant to the stakeholder

- Voiceless community's proximity to formal channels and empower them to be effective and contributory financial participants popping up from microeconomic cross layers
- Addressing the needs and wants of the social circles through various philanthropic and sustainability initiatives
- Promote technological savviness as means of influencing future employability
- Purpose driven CSR initiatives and sustainability to conquer needs of the hour

#### Our response

- Implementation of the Sustainability Strategy overarching Sustainable
   Development Goals and nationally determined contributions shedding light
   to communal benefits
- Intensify "education" and "community" centric CSR initiatives to unlock potential future for the needy
- Business connected sponsorships, philanthropy and various other community engagements in support of collective efforts
- Remain focused for seizing opportunities on sustainable collaborations and partnerships
- Ensure readiness by way of building up the infrastructure requirements and prerequisites to attract foreign funding lines that are aimed at marginal communities via green and sustainable avenues

| Fn | nac | nem | ent | ch | anne | Is |
|----|-----|-----|-----|----|------|----|
|    |     |     |     |    |      |    |

| Mechanism                                                                         | Frequency |
|-----------------------------------------------------------------------------------|-----------|
| One-on-one discussions                                                            | WR        |
| Internet Banking, e-wallet, and various other virtual service delivery interfaces | R         |
| Environmental and Social Management<br>System across the Bank                     | R         |
| Promoting SLBA SBI principles                                                     | R         |
| Targeted investments in projects and community sponsorships                       | WR        |
|                                                                                   |           |



#### Quality of relationship - Strong

- 10 women and youth focused SME capacity and financial literacy building programmes were conducted across 8 districts.
- MOU documented to support the education frontier of the Blind School in Ratmalana.
- Completed 06 Seylan Pahasara libraries to strike the 225 mark.

💶 – Annually 📴 – Bi-annually 💷 – Quarterly 🐨 – As and when required 🔳 - Regularly

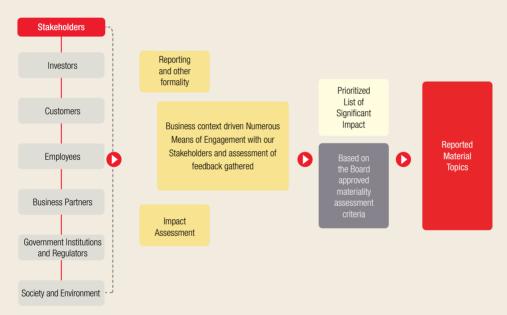
#### MATERIALITY

# Prioritising issues key to value creation

The Bank's material topics refer to those which represent the most significant impacts on the social circles within which we operate our business of banking and the natural environment and how these would result in creating potential value over the short, medium and long term for our stakeholders. We adopt the principle of materiality to categorise topics for disclosure as it is also integrated into our ESG strategy.

#### How we assess materiality

Our continuous engagements with stakeholders through numerous means of communication allow us to gather factual information around their expectations and concerns. Identifying each impact occurring within and outside the Bank, our materiality assessment process is conducted with the aim of making suitable business calls and thereby negating or mitigating detrimental impacts if any. In a backdrop of transformative sustainability, we map out information compiled across the impact to both the Bank and the respective stakeholder, and the probability of occurrence accordingly. This aids us to determine material matters and disclosures, while staying abreast with our approved materiality statement.



#### Material issues impacting stakeholders in 2023

| Material issue                  | Impact      |      |          |                                      |              | Relevant    |
|---------------------------------|-------------|------|----------|--------------------------------------|--------------|-------------|
|                                 | Stakeholder | Bank | SDG No.* | Section                              | Our response | GRI         |
| Economic                        |             |      |          |                                      |              |             |
| Economic performance            | H           | H    | 1,6      | Financial capital                    | page 37-43   | 201 - 1,3,4 |
| Market presence                 | H           | H    | 2        | Our branch footprint                 | page 45      | 202 - 1,2   |
| Indirect economic impact        | H           | М    | 6        | Value added statement                | page 42      | 203 - 1,2   |
| Social                          |             |      |          |                                      |              |             |
| Employment                      | H           | H    | 5        | Human capital                        | page 46-53   | 401 - 1,2,3 |
| Labour/management relations     | H           | H    | 5        | Human capital                        | page 52      | 402 - 1     |
| Occupational health and safety  | H           | H    | 5        | Health and well-being                | page 50      | 403 - 1     |
| Training and education          | H           | H    | 5        | Employee development                 | page 48      | 404 - 1,2   |
| Diversity and equal opportunity | H           | H    | 5        | Diversity & inclusion                | page 50-51   | 405 - 1,2   |
| Non-discrimination              | H           | H    | 5        | Grievance handling & whistle blowing | page 52      | 406 - 1     |

| Material issue                                         | Impact           |   |          |                                                       |              | Relevant<br>GRI |
|--------------------------------------------------------|------------------|---|----------|-------------------------------------------------------|--------------|-----------------|
|                                                        | Stakeholder Bank |   | SDG No.* | Section                                               | Our response |                 |
| Freedom of association and collective bargaining power | H                | H | 5        | Freedom of association and collective bargaining      | page 52      | 407 - 1         |
| Child labour                                           | H                | H | 5        | Banks human right policy                              | page 52      | 408 - 1         |
| Customer health and safety                             | H                | H | 5        | Helping when it matters most                          | page 55      | 416 - 1         |
| Marketing and labelling                                | H                | H | 2        | Product labelling and marketing communications        | page 56      | 417 - 3         |
| Customer privacy                                       | H                | H | 2        | Customer privacy                                      | page 56      | 418 - 1         |
| Anti-corruption                                        | H                | H | 5        | Anti-corruption                                       | page 52      | 205 - 1,2       |
| Compliance with Laws and<br>Regulations                | H                | H | 6        | Table on compliance of level/<br>status of compliance | page 64      | 2-27            |
| Local communities                                      | H                | М | 2        | Building community resilience                         | page 60      | 413 - 1         |
| Procurement practices                                  | H                | М | 4        | Supplier evaluation & procurement process             | page 58      | 204 - 1         |
| Anti-competitive behaviour                             | H                | М | 1,2      | Table on compliance of level/<br>status of compliance | page 64      | 206 - 1         |
| Forced or compulsory labour                            | М                | М | 5        | Grievance handling & whistle blowing                  | page 52      | 409 - 1         |
| Security practices                                     | М                | М | 5        | Paragraph above "performance management"              | page 49      | 410 - 1         |
| Rights of indigenous people                            | L                | L | 5        | Not reported                                          | -            | 411             |
| Human rights assessments                               | L                |   | 5        | The bank's human right policy                         | page 52      | 2 - 23          |
| Supplier social assessment                             | L                | L | 6        | Supplier evaluation & procurement process             | page 58      | 414             |
| Public policy                                          |                  |   | 6        | Table on compliance of level/<br>status of compliance | page 64      | 415             |
| Environmental                                          |                  |   |          |                                                       |              |                 |
| Energy                                                 | H                | М | 6        | Energy consumption                                    | page 70      | 302 - 1,4       |
| Water                                                  | Μ                | М | 6        | Water management                                      | page 70      | 303 - 1         |
| Environmental compliance                               | М                | М | 6        | Environmental & social governance                     | page 70      | G2 - 27         |
| Effluent and waste                                     | Μ                |   | 4, 6     | Waste management                                      | page 71      | 306 - 2         |
| Materials                                              | Μ                |   | 3, 6     | Environment section                                   | page 75      | 301             |
| Bio-diversity                                          | М                |   | 6        | Protecting biodiversity                               | page 73      | 304             |
| Emissions                                              | Μ                | L | 6        | Emissions management                                  | page 70      | 305             |
| Supplier environment<br>assessment                     | М                | L | 6        | Supplier evaluation & procurement process             | page 58      | 308             |

\*Linked to Bank's sustainability strategy

#### The following changes in materiality were identified during 2023

| Triple bottom- | Substance | Gravity of impa | impact 2023 Gravity of impact 2022 |             | Reason |                                     |
|----------------|-----------|-----------------|------------------------------------|-------------|--------|-------------------------------------|
| line           |           | Stakeholder     | Bank                               | Stakeholder | Bank   | -                                   |
| Environment    | Energy    | H               | H                                  | H           | М      | Price hikes in fuel and electricity |
|                | Materials | М               | М                                  | M           |        | Price hike in paper                 |

Assessing business impact together with the environmental footprint, following due diligence is exercised as a management response to strike the balance.

- Curtail business travel and streamline the process of transporting goods as well as staff commuting as means of conserving fuel as much as possible
- Creating awareness among drivers and servicing vehicles periodically to manage fuel efficiency
- Reduce the use of paper through digital developments and various other best practices highlighted throughout this report

## OUR STRATEGY Defining our blueprint for the future

The Strategic Plan for 2023-2024 has been internally developed by the Bank as a continuation to Seylan Bank Strategic Plan 2021-2023. The Bank Strategy for 2023-2024 mainly covers the following six strategic pillars.

6. Sustainable Profits

Aim to lower the Bank's funding costs

and provide stable funding

- Low-Cost Funding CASA 1.
- 2. Quality Asset Growth and Recoveries
- 3. Digital and Tech Drive
- Rationalisation of Cost 4
- Human Resource 5.

We follow a stringent review process to ensure the initiatives of the Strategic Plan have been implemented as planned. The Director/CEO conducts monthly review meetings with the Corporate and Executive Management and reviews the achievements against the Strategic Plan, emphasizes the

necessary actions for the remainder of the year and provides the required directions. The results and achievements of the highlevel strategic imperatives are reported to the Board of Directors on monthly basis. Board Strategic Plan Committee meets at least three times per annum to review and

Way forward

evaluate the overall progress of the Bank's Strategic Plan, recommends corrective measures where necessary and ensure that the Bank achieves the objectives within the set timelines.

#### Strategic objective and focus

Low-Cost Funding - CASA

Quality Asset Crowth and

The Bank continues to strive for sustainable performances through future readiness, improved customer centricity and skilful staff. The Bank will focus on the below areas as strategic

| Quality Asset Growth and Recoveries | <ul> <li>Accomplish asset and portfolio quality<br/>through effective lending decisions,<br/>credit analysis and further development<br/>of sound credit culture</li> </ul> | Fee Income                                       |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
|                                     | <ul> <li>Further accelerate recoveries and<br/>augment direct P&amp;L contribution</li> </ul>                                                                               | CASA                                             |
| Digital and Tech Drive              | <ul> <li>Ensure enhanced digital penetration<br/>to increase revenue through alternate<br/>channels</li> </ul>                                                              | Loan & STRATEGIC Digital Channels                |
| Rationalisation of Cost             | <ul> <li>Improve the bottom line through<br/>innovation, automation and lean<br/>management</li> </ul>                                                                      | Focus Citalineis                                 |
| Human Resource Management           | <ul> <li>Optimise efficiency and secure talent<br/>to develop a high performing working<br/>culture</li> </ul>                                                              | Human<br>Resources<br>Rationalisation<br>of Cost |
| Sustainable Profits                 | Secure a sound profit for the Bank                                                                                                                                          |                                                  |

#### Low-cost funding: CASA

#### Actions during 2023

| • | Drive CASA and transactions through digital |          |   |
|---|---------------------------------------------|----------|---|
|   | touchpoints                                 | December | A |
| • | Increase CASA through focused products      | 2023     |   |
|   | Making CASA acquisition a key KDI for key   | CASA     |   |

- Making CASA acquisition a key KPI for key internal stakeholders
- Promotional Campaigns CASA cum Digital **On-boarding**

Actual % 29.9

Performance

- Future focus
- Higher growth considering anticipated low interest rate regime and economic activities
- Deployment of CRMs/CDMs covering all branches and several key off-site locations
- Paperless account opening
- Change account acquisition model from a single product customer to multiple product customer
- Strengthen digital drive focusing CASA



Capitals

impacted

#### Quality asset growth and recoveries

| Actions during 2023 <ul> <li>Canvassing new to bank business with a specific focus</li> <li>can trade outcomercial</li> </ul>                                                                                                                                    | Performanc                         | e<br>Actual   | Future focus     Corporate Banking –     FCBU business                                                                                                                                      | Capitals<br>impacted |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <ul> <li>on trade customers</li> <li>Knowledge sharing, talent development with special emphasis on business growth and recoveries</li> </ul>                                                                                                                    | December<br>2023<br>Gross<br>Loans | LKR Bn<br>497 | High-end clients for the retail banking segment                                                                                                                                             | Financial<br>Capital |
| <ul> <li>Retail segment – New client on-boarding and<br/>mandatory cross selling of multiple products</li> <li>Strengthening impairment management process,<br/>monitoring of early warning signals and coordination<br/>with Central Recoveries Unit</li> </ul> |                                    |               | <ul> <li>Sectorial scan to<br/>identify profitable client<br/>segments</li> <li>Advisory and customer<br/>consultation to<br/>rehabilitate financial<br/>positions of identified</li> </ul> | Human<br>Capital     |
| Digital and tech drive<br>Actions during 2023                                                                                                                                                                                                                    | Performanc                         | :e            | SMEs Future focus                                                                                                                                                                           | Capitals             |

December

Penetration

2023

Digital

Actual

%

22

•

- Setup a digital platform that enables a better/efficient customer experience
- Focus on introducing more locally developed solutions
- Internal process efficiency enhancements through automation
- Identify collaborations and partnerships that support stakeholders to work with the Bank and grow the business
- Increased staff engagement, knowledge sharing and skill building to drive digital progress

 Upgrade existing systems by investing in new technology for process automation

#### impacted



Customisation via digital channels allowing for better personalisation

when providing services

- On-board younger base to digital channels, creating opportunities to cross-sell products and services
- Increasing online channel
   penetration
- Looking at collaboration based services that will allow the faster growth

#### **OUR STRATEGY**

Rationalisation of cost

#### Actions during 2023

- Accelerate the Bank's digital drive for customer • on-boarding
- Operational efficiency improvements
- Expanded the Robotic Process Automation (RPA) for account opening to more branches and expand for other services
- Automated identified processes at Credit Administration, Operational Support, International Financial Services and Trade Finance Operation Units via a workflow system and other system automation
- Staff were trained and certified in Lean Six Sigma at Yellow Belt and Green Belt levels. The training and certification was done in-house by an experienced and certified Lean Six Sigma Master Black Belt resource person attached to the Business Process Re-engineering unit
- The Bank reduced A4 paper purchse by 13% in 2023 compared to 2022
- Mail room and main inventory store operations were outsourced during 2023

incorporating performance appraisal ratings, competency indices, qualifications earned, etc., for new assignments, job enlargements, and upgrades/

Culture Assessment/ Transformation & Engagement

promotions

| Performanc                   | e           | Future focus                                          |  |  |  |
|------------------------------|-------------|-------------------------------------------------------|--|--|--|
| December<br>2023             | Actual<br>% | Centralization of     processes                       |  |  |  |
| Cost to<br>Income<br>Ratio   | 37.3        | Implement sustainable     practices and awareness     |  |  |  |
| (excluding<br>VAT &<br>SSCL) |             | Automation and use of<br>Artificial Intelligence (AI) |  |  |  |

#### Capitals impacted



#### Human resource

| ctions during 2023<br>Talent retention                                                                                                     | Performanc                     | ce                       | Future focus     Retention of high                                                         | Capitals<br>impacted    |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------|--------------------------------------------------------------------------------------------|-------------------------|
| Recognition of high-flyers and continued with the programmes to improve them                                                               | December<br>2023<br>Profit per | Actual<br>LKR Mn<br>2.03 | Performing staff     Strengthening of     Performance based                                | Human Financial         |
| Talent pools have been created for the jobs/areas where necessary                                                                          | Employee                       | 2.00                     | working culture                                                                            | Capital Capital         |
| Succession planning<br>Duly approved succession plan                                                                                       | Cost per<br>Employee           | 6.00                     | <ul> <li>Enhanced employee<br/>engagement</li> </ul>                                       | Intellectual<br>Capital |
| Identified personnel to be groomed and developed fo<br>leadership roles                                                                    | r                              |                          | <ul> <li>Flexible and agile<br/>working environment</li> <li>Customize benefits</li> </ul> |                         |
| Created opportunities for staff through job enrichmer<br>and empowerment with cost-effective staff<br>compensation and manpower strategies | nt                             |                          | to cater to diverse<br>employee needs                                                      |                         |
| Strengthen the Performance Driven Culture                                                                                                  |                                |                          | Al-empowered workforce     evaluations                                                     | е                       |
| An integrated approach has been implemented                                                                                                |                                |                          |                                                                                            |                         |

#### OUR FOCUS ON SUSTAINABILITY

# Strides towards sustainability

#### Our approach

Since launching our 'Sustainability Strategy' depicted below, we've set out procedures to develop a more inclusive and sustainable business environment, creating a positive impact for all our stakeholders.

We understand the importance of building strong partnerships with stakeholders that directly or indirectly impact the operations and sustainability of the Bank. Seylan Bank's sustainability strategy sheds light on how to merge the corporate strategy as a means of operationalizing an objective driven path with better traction. We have assigned responsibilities to each and every business unit and support services where KPIs are linked to monitor and evaluate growth momentum.

Our aim is to make a responsible effect to the society and environment interconnected with our business engagements, while adhering to relevant legislative frameworks, standards, rules and regulations and industry best practice.

#### Sustainability governance

Ultimate oversight of our sustainability policy and the implementation thereof lies with the Seylan Bank Board and Sustainability Subcommittee. Also assessed how sustainability performance aligns with the overall resilience of the Bank.

A management committee represented by the senior management monitors and evaluates the overall performance of the sustainability initiatives and projects steered by the sustainability manager and wardens.

Staying abreast with the regulator's call to action together with local and global sustainability standards and industry best practices in an ESG enabled outfit, our Board approved Environmental and Social Risk Management (ESRM) system facilitates the business to assess its impact over society and the environment with due diligence exercised to negate or mitigate detrimental impacts if any.

We also engage in various philanthropic initiatives which act as bridges to better connect with social circles within which

#### Contributing to the UNSDGs

The UNSDGs coin a blueprint for a sustainable future, with an ambition to curb poverty, protect the planet and ensure prosperity for all.

Our sustainability strategy as depicted below revolves around 11 UNSDGs across a timeline of five years.

#### Our sustainability pillars

Our sustainability ambitions are structured along three key pillars - Unlocking the potential in People, Unlocking the potential to protect the Planet and Unlocking the potential for mutual Profit. These act as a guide to how we allocate resources for the greatest impact.

#### Key enablers

Our key enablers – brand key, capabilities, people, vision, values and governance – allow us to deliver on our sustainability ambitions. These enablers represent the ESG risks and opportunities that are factored into the sustainable business equation.

we manage our business and create a positive social and environmental impact overall. During the year we have been active in many webinars, conferences and workshops, providing our expertise to incorporate the finance element into the sustainable finance equation. Our continued patron membership with Biodiversity Sri Lanka, aiming to support its mandates in helping raise awareness on biodiversity and sustainability, endorses our intent to secure a better ecosystem in an environmental dimension.



#### **Capacity building**

We have in place an organisation wide ESG capacity building programme which aims to provide our employees with the required

understanding as to how the Environmental and Social Management System (ESMS) must be put into a ground level operational reality. Our e-learning platform which is linked to the 11 principles of the Sri Lanka Sustainable Banking Initiative, is specially designed to drive environmental and social learning among staff in an interactive manner. Five modules in the E-learning platform has been already completed by 1,764 employees as at 31 December 2023.

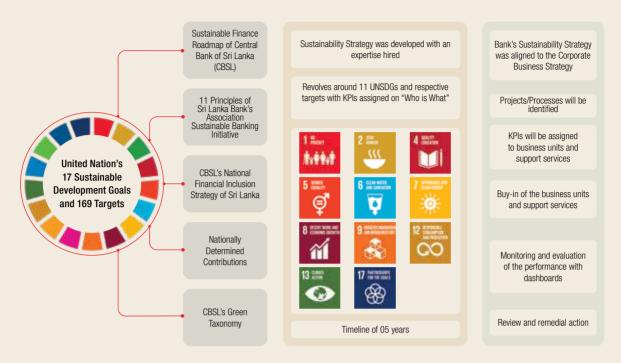
#### Sustainability disclosures

Our sustainability disclosures are prepared based on global sustainability frameworks, standards and initiatives such as the Global Reporting Initiative (GRI). Furthermore, we are also a signatory to 11 principles of Sri Lanka Sustainable Banking Initiative and follow the Direction of the Central Bank on Sustainable Finance Activities of Licensed Banks bolstering our commitment to sustainability. We have obtained independent assurance on the sustainability disclosures presented within this Annual Report.



30

#### OUR FOCUS ON SUSTAINABILITY



As shown in the model above, our Sustainability Strategy goes hand in hand with the Corporate Business Strategy. Responsibility together with the KPIs therein were assigned to respective Business Unit and Support Service. Accordingly, roll out will converge with the business to be a common mandate parallel to the timeline set. Project lines also will be identified to stay abreast with the scope and momentum. While overarching 11 UNSDGs the sustainability strategy also embedded CBSL's Sustainable Finance Roadmap, 11 principles of SLBA – SBI, CBSL's National Financial Inclusion Strategy, nationally determined contributions and Green Taxonomy into its thought process to have accomplished a ripple effect therein.

#### Sustainability in action



Our financial support for people, businesses and the industry generates a broad range of benefits such as increased employment, poverty alleviation, GDP growth and better living standards. Additionally, Seylan Bank recognises its duty to promote sustainable human and economic development within the society through direct action and considers 'Education' as a focal theme to unlock the future potential through school children. By educating them on financial transactions and providing the required financial literacy the Bank aims to reduce poverty and social injustice, providing the necessary resources and opportunities for better social standards and inclusion.

#### Features and KPI (s) achieved

| Programme                                                      | Accomplishment                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Seylan staff grants                                            | LKR 0.4 Mn on 32 children of late former staff members as a mark of respect for their families as part of the business equation                                                                                                                                       |
| Enabling technology based literacy                             | Donated 6 new computers to 6 schools through Seylan Pahasara Library Project<br>Donated 8 refurbished computers to 2 schools                                                                                                                                          |
| Growing the number of women in the leadership roles - 22%      | Gender equality and better corporate governance structure                                                                                                                                                                                                             |
| Career development opportunities to staff                      | Competency index of 71%                                                                                                                                                                                                                                               |
| Affordable home loans to external customers                    | Inclusive finance leveraged as means of fulfilling a basic social need                                                                                                                                                                                                |
| Providing educational aid to students at needy schools         | More than 1000 Books and 06 computers donated for Seylan Pahasara Libraries to unveil the future potential of development                                                                                                                                             |
| Providing ICT aid to Bank's staff                              | Special training program for Credit staff on risk associated in Information and communication technologies (ICT) sector and credit evaluation as organized by USAID Catalyst team with the aim of building infrastructure requirements to aid digital transformations |
| Infrastructure development assistance to disadvantaged schools | Equipped 06 library buildings in schools under the Seylan Pahasara project to avail needy students with<br>knowledge and capacity to face the future with confidence and courage                                                                                      |



Seylan Bank has had a clear and unequivocal commitment to environmental sustainability. Funding climate-related projects, implementing energy management practices, promoting sustainable tourism, providing digital and more inclusive banking and implementing a bank-wide carbon management programme are some of the key avenues through which Seylan Bank aims to help address environmental challenges and contribute to the sustainable development of the country.

#### Features and KPI (s) achieved

| Programme                                                                                                                                                         | Accomplishment                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Implementation of energy management practices                                                                                                                     | Conserving energy and support transitioning to low carbon trajectory                                                                                             |
| Investment in renewable energy projects<br>Finance on energy efficiency<br>0% interest loans on household solar facilities for<br>Seylan Bank Credit Card holders | Contributed 190.67 GWh to national grid during the year<br>LKR 2,541 Mn hybrid vehicle loans granted<br>LKR 74 Mn advances for 83 customers across 09 districts  |
| Digital banking services                                                                                                                                          | Cost effective and efficient service attributes together with transitioning into paperless banking and low carbon trajectory Workflows implemented in many areas |
| Transitioning to paperless banking through digital interface                                                                                                      | Environmental conservation and positive impact on eco-systems                                                                                                    |
| Reuse/recycle and reduce                                                                                                                                          | Reduction of paper usage and fresh production as means of environmental benefits                                                                                 |
| Conducting environmental education programmes                                                                                                                     | Capacity building as a tool to improve behavioural attributes towards environmental considerations                                                               |



SMEs and start-ups contribute significantly towards economic growth as a source of entrepreneur skills, innovation and employment. Thus, Seylan Bank focuses on providing loans to SMEs and start-ups which may not have access to traditional banking services thereby promoting financial inclusion and empowering individuals to become self-sufficient. We also aim to build a more resilient economy by providing funding to domestic farming such as paddy cultivation, grains, vegetables and fruits as well as cottage industries such as dairy farming, fisheries, home gardening and sewing.

#### Features and KPI (s) achieved

| Programme                                                   | Accomplishment                                                                                                                                                                                                                       |
|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Supporting SMEs, start-ups and women-led<br>enterprises     | 05 Training Sessions targeting Staff and SME clients in association of IFC, USAID and 3,896 loans under NCRCS scheme to promote women and youth entrepreneurship                                                                     |
| Network expansion                                           | Enhanced accessibility through 6 Cheque Deposit Kiosks (CDK) and 3 Cash Re-cycler Machine (CRM)                                                                                                                                      |
| Providing affordable and accessible vehicle leasing options | Improvement in living standards<br>Enhancing convenience in transportation and fostering livelihoods                                                                                                                                 |
| Providing loans to manufacturers                            | Tie-up partnership with National Chamber of Exporters (NCE)<br>20 large scale exporters were financed providing more opportunities for local producers and stabilizing<br>the general price levels of goods in the macroeconomic eye |
| Funding/loaning to domestic farming and cottage industries  | Fostering agricultural sector as means of promoting households to contribute more to country's development momentum                                                                                                                  |

#### Way forward

- Explore the opportunity to engage with green finance projects while strengthening the ESG framework and meeting prerequisites including the ESMS implementation across the business units
- Enhance renewable energy sector projects
- Transition branches from conventional power into solar power
- Digital penetration as means of reducing paper, streamlining processes saving electricity and printing

#### BUSINESS UNIT OVERVIEW

# **Delivering sustainable value**

```
AND IN
```

#### Branch Banking

Includes Branch banking, mid-sized corporates, and SMEs

#### Focus for 2023

- Focus marketing activities to promote selected products to ensure branches record a substantial growth. Identify support segments
  with growth potential and need further funding
- Improve market share and credit growth, notwithstanding the multitude of challenges encountered
- Branches focused on growing the book while enhancing credit quality and the earnings
- Strengthen recovery efforts through strong coordination with the Recoveries Unit, while monitoring the stage movement of customers
- Strengthen staff cadre with the expectation of managing enhanced transaction volumes
- Knowledge transfer mechanisms and individual practical training sessions set up for staff handling SME clients
- Regular branch visits and meetings to ensure business acquisitions. Right focus on recoveries and proper customer evaluation strategies by branches and credit hubs
- Improve foreign currency inflows to mitigate the adverse impact of the foreign currency shortage. On-board new-to-bank export clients under the "Export Expert" marketing campaign through which the Bank can enhance the visibility of its trade products among export-led businesses

#### Key highlights of 2023

- Recorded the highest-ever Profits after Tax (PAT) by branch banking
- Launch of the special 'Export Expert' trade campaign. Consequently, the Bank attracted new-to-bank export clients and balanced the growth of the Bank's loan portfolio with a view to maintaining a healthy nexus between import-export facilities
- Granted highest number of refinance/NCRCS Loans, mainly covering agriculture and related sectors
- Entered into a strategic partnership with the National Chamber of Exporters (NCE) as one of their preferred financial partners
- Actively participated in the National Industrial Exhibition organized by Ministry of Industries as silver sponsorship provider
- Conducted a series of seminars/workshops targeting SME customers

#### KPI achievement

| KPI        | Net Interest Income | Other Income | Profits | Deposits | Loans & Advances |
|------------|---------------------|--------------|---------|----------|------------------|
| YoY Growth | 17.35%              | 25.13%       | 172.55% | 5.58%    | 1.84%            |

#### 🖱 Way forward

- Market scanning to identify potential businesses and on-boarding new-to-bank clients
- CASA mobilisation through acquisition of high-end SMEs and individuals to bring down cost of funds and be competitive in lending
- Optimise fees income through additional business/cross-selling to existing clients and on-boarding new SME clients to increase earnings to the Bank
- Close monitoring and recovery support to be provided by Head Office Units such as Branch Banking Unit/Recoveries Unit/Credit Monitoring Unit and Credit Hubs
- · Lend to positive industry growth sectors while ensuring asset quality
- Regularly monitor early warning signals, and monitor covenants to increase quality in asset book
- Introduce a bundled package targeting mid- market SMEs with attractive interest and commissions
- Special drive for refinance loans supported by the Expected National Credit Guarantee scheme
- On-board new-to-bank exporters under Export Expert campaign
- Conduct seminars and capacity building workshops for credit staff and SME clients in partnership with Apex Bodies- IFC/USAID Catalyze/NCE

#### **Retail Banking**

Includes housing, pawning, cards, leasing, bancassurance, personal loans and loans against property

#### Focus for 2023

1.8

- · Focus on new to bank business through aggressive canvassing
- · Strengthening Credit Quality of Retail Business considering the prevailing market and economic conditions
- Centrally handle the follow up on the stage movements of customers, recoveries, restructuring and litigation processes at the Retail • Credit Department
- · Promote fee based income from all retail products particularly from cards

#### Key highlights of 2023

- Introduced Seylan Cards Rewards platform, increasing loyalty towards Seylan Cards
- Cards demonstrated a decent growth and a higher contribution to the Bank's earnings
- · Seven wins at the SLIM national sales awards
- Personal loans and bancassurance achieved targets in spite of market setbacks •
- The leasing segment experienced degrowth during the first half of the year. However, with the interest rates reduction, our leasing • book gathered momentum during the latter part of the year

| KPI achievem | ient         |                |               |         |         |               |
|--------------|--------------|----------------|---------------|---------|---------|---------------|
| КРІ          | Credit Cards | Personal Loans | Housing Loans | Pawning | Leasing | Bancassurance |
| YoY Growth   | 8.90%        | 4.09%          | 7.55%         | 3.47%   | 5.15%   | 16.50%        |

#### Way forward

- · Promotion of housing loans, personal loans and solar loans while maintaining credit quality
- Expanding the Retail Business including Cards among new segments who have business potential
- With the expected improvement in interest rates and market conditions, planning to grow the retail book while ensuring credit • quality

34

#### **BUSINESS UNIT OVERVIEW**

#### Corporate Banking

Includes Corporate Banking, Project Financing, and Foreign Currency Banking Unit

#### Focus for 2023

- Identifying growth areas such as exports, IT, medical, etc., and on-board new clients across these industries
- · Improving client interactions and relationships which were restricted during the COVID-19 pandemic and its immediate aftermath
- Adopting total client profitability analysis based on a total wallet / ROA approach to ensure better use of available market liquidity and ensure highest returns
- · Increase the use of digital banking platforms by corporate clients
- · Diverting the focus towards overseas lending through healthy margins and calculated risks
- Growing the export book, revise trade tariffs and negotiate frequently with correspondent banks for competitive rebates on trade transactions to enhance trade business
- · Conducting international trade-related seminars, awareness sessions and external trainings

#### Key highlights of 2023

- · Substantial lending growth across many sectors and expanding off shore lending across rapidly growing business segments
- Trade and remittances jointly recorded the highest-ever income during the year despite tough market conditions where imports
  were heavily restricted and economic conditions were turbulent
- Substantial on-boarding of corporate clients and related stakeholders onto digital banking platforms

#### KPI achievement

| KPI        | Net Interest Income | Other Income | Profits | Deposits | Loans & Advances |
|------------|---------------------|--------------|---------|----------|------------------|
| YoY Growth | 14.78%              | 15.10%       | 42.23%  | 12.91%   | 6.22%            |

#### 🕮 Way forward

- Look at more offshore lending options to enhance the Bank's profitability
- Focus on ancillary businesses to grow our top line, since the outlook for 2024 will be positive and we look forward to a year of
  growth
- · Roll out corporate internet banking to enhance customer convenience
- · Process improvements through system automation and implementation of Cash Management Solution
- With the objective of further diversifying the trade portfolio, steps will be taken to canvass trade clients from diversified fields enabling us to have a diversified portfolio thereby minimising reliance on a few sectors
- More focus will be given to the remittance business as a part of trade operations, since market dynamics have changed and import clients now prefer advance payment terms as a natural hedge against exchange rate volatility
- Establish remittance tie-ups with new partners in emerging markets and approach Fintech service providers to collaborate with Seylan Bank to process remittances

#### Treasury Operations

#### Focus for 2023

- · Maintain adequate liquidity to meet maturing liabilities and enable efficient management of the Bank's asset and liability portfolio
- · Maintain liquidity ratios of both domestic and foreign currency banking units ensuring the related regulatory requirements are met
- · Effective management of all cash flows and prudent resource allocation to maximize profitability of the Bank
- · Diversify the asset portfolio to overcome the inherent over dependency on investments in government securities
- · Continuous training and development of staff for smooth functioning of treasury functions

#### Key highlights of 2023

- · Maintained all statutory ratios above the regulatory requirements at all times
- Successfully managed the government security portfolios amidst the economic challenges mainly due to volatile interest rates scenario
- Maximized exchange income by managing volatilities in exchange rate
- · All interest rate mismatches were efficiently managed mitigating threats posed by interest rate volatilities
- · Bank's Treasury emerged champions at the first ever "Financial Market Quiz" organized by Sri Lanka Forex Association

#### 🟦 KPI achievement

| KPI        | Net Interest Income | Forex Income | Capital Gain | Profits |
|------------|---------------------|--------------|--------------|---------|
| YoY Growth | 17.97%              | 65.40%       | 588.49%      | 4.64%   |

#### 🖱 Way forward

- Plans are underway to exponentially increase the Bank's trade and remittance flows. This will increase the overall profitability by way
  of increased exchange income and commission income and reduce concentration risk through diversification. The increase in trade
  bills will also help to diversify the liquid asset portfolio
- Scarce financial resources of the Bank will continue to be allocated to products yielding highest revenue and margins
- Profitability will be maximised through prudent and efficient management of scarce financial resources
- Negotiate with counterparties to re-commence forex trading limits to facilitate trading in majors and position covering. This will
  create more trading opportunities where the Bank can obtain competitive rates to increase its profit margins which will also
  contribute to the efficient management of the treasury function
- Plans are underway to revamp the treasury management system facilitating current regulatory and market requirements to take the Bank to the next growth phase

# Our engines of value creation

**INTRODUCING OUR CAPITALS** 

Our multi-capital integrated approach defines our decision-making and disclosure practices. Communicating our business objectives using this approach helps our stakeholders to identify the most significant levers for value creation and preservation.

#### FINANCIAL CAPITAL

# Building financial strength and stability

## Value created and preserved in 2023

- Increase in profit after tax by 33% to LKR 6.26 Bn
- Greater efforts to preserve portfolio quality lending to a reduction in impairment charges and as a result improved the Impaired Loan (Stage 3) Ratio (3.85%) and Impairment (Stage 3) to Stage 3 Loans Ratio (68.29%)
- Increase in total assets by 7% and to LKR 718 Bn milestone
- Increase in total equity by 11% to LKR 61 Bn
- Maintained sufficient liquidity buffers to manage day to day cashflows
- Capital Adequacy Ratios are well above the statutory limits



#### Bank's approach towards maintaining financial viability while meeting investors' security

The Bank focuses on best possible performance and maintains transparency with regard to its financial and non-financial reporting to the stakeholders making them more comfortable in their way forward investment and business decisions.

Adequacy of Capital, Liquidity, Profitability, Book Growth and Asset Quality while managing series of risks are the main focus of the Bank in ensuring enhanced performance of the Bank and constructing value to its stakeholders.

The Bank always ensures to comply with the statutory and regulatory requirements, and to

Despite challenging market and economic conditions that prevailed during the year 2023, the Bank adopted its strategies that aimed at enhanced financial and non-financial performance while creating and preserving value to all the stakeholders.

The Annual Report 2023 by its financial and non-financial disclosures well informs our investors how the Bank performed during the year 2023, and the future strategies that are forward-focused and contributing to Sustainable Development Goals (SDGs) directly and indirectly. Such information would support the investors for better decision making.

review and revise the policies, procedures, guidelines and codes of conduct to be in line with local and global standards and industry best practices while creating a sustaining value to all stakeholders.

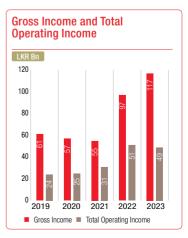
The Bank focuses on best possible performance and maintains transparency with regard to its financial and non-financial reporting to the stakeholders making them more comfortable in their way forward investment and business decisions.

#### Income statement analysis

#### Gross income

The Bank's Gross Income for the year recorded a 21% growth to LKR 117 Bn during the year 2023 compared to LKR 97 Bn reported in the previous year. Interest Income, Fee and Commission Income and Other Operating Income are the sources of gross income. The main contributor for the Bank's Gross Income is the Interest Income, which recorded a 24% increase over the previous year.

11



## Net interest income and net interest margin

The Net Interest Income of the Bank reported as LKR 40 Bn in 2023 compared to LKR 41 Bn reported in 2022 with a slight YoY decline of 1%, which is common in the industry, due to the behavior in interest rates throughout the year 2023.

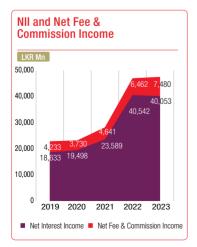
There was an increasing trend in market rates in 2022 and a declining trend in market rates in 2023, and as a result, there was a notable movement in both interest income and interest expenses in 2023 compared to that of 2022. Interest Income and Interest Expenses reflected a growth of 24% and 47% respectively in year 2023, compared to the notable growth of 84% and 96% reported in 2022 for Interest Income and Interest Expenses respectively.

However, the overall interest income for the year recorded an increase of LKR 21 Bn to reach LKR 107 Bn compared to LKR 86 Bn recorded in 2022 and overall interest expenses for the year recorded an increase of LKR 21 Bn to reach LKR 67 Bn compared to LKR 46 Bn recorded in 2022.

The Net Interest Margin (on average total assets) stood at 5.76% in 2023 compared to 6.33% recorded in 2022 and was mainly driven by the policy rate changes and repricing of assets and liabilities accordingly. The Net Interest Margin on average interest earning assets stood at 6.42% in 2023 (7.08% in 2022).

#### Net fee and commission income

Net fee and commission income of the Bank has shown a notable growth of 16% to LKR 7 Bn from LKR 6 Bn reported in previous year. The growth in 2023 is mainly attributable to fee income from cards, loans and other financial services.





## Other income and total operating income

#### Net gains /(loss) from trading

The Bank's net gains /(loss) from trading reported a gain of LKR 0.82 Bn, an increase of 283% over the loss reported in previous year. Net gains/losses on derivative financial instruments from Banks, and net mark to market gains/losses on government securities have reported a gain in 2023 over the losses reported in previous year due to interest rate volatility. Net capital gains on government securities have also increased during the year under review compared to the previous year.

## Net gains from de-recognition of financial assets

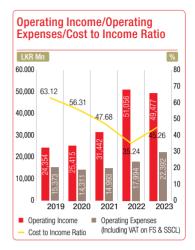
Net gains from de-recognition of financial assets reported an increase of 340% to LKR 0.15 Bn compared to LKR 0.03 Bn reported in the previous year primarily due to increase in capital gains realized during the year under review, since the fair value of the financial assets increased under the declining interest rates scenario.

#### Other operating income

Net Other Operating Income of the Bank amounting to LKR 1.6 Bn for 2023 reported a drop over the previous year by 78%. This drop is mainly from net foreign exchange revaluation gains and is primarily attributed to the loss in foreign exchange income derived from revaluation gain/(loss).

#### Total operating income

The Bank's Total Operating Income decreased by 3% to LKR 49.48 Bn in 2023 compared to LKR 51 Bn in the previous year mainly due to decrease in foreign exchange income. If not considered the foreign exchange income, the total operating income would have increased by 2%.



#### Impairment charges

The Bank recorded an impairment charge of LKR 17 Bn during 2023 against LKR 26 Bn reported in corresponding period of 2022 with a reduction of 36%.

The Bank made impairment provision to capture the changes in the macro economy, credit risk profile of customers and the credit quality of the Bank's loan portfolio in order to ensure adequacy of provisions recognized in the financial statements.

During the year 2023, the impairment charge on Loans and Advances amounts to LKR 15 Bn (2022 - LKR 21 Bn) and impairment charge on Foreign Currency Denominated Bonds amounts to LKR 1.5 Bn (2022 – LKR 4.7 Bn).

In the year under review, the credit quality of the Individually Significant Loans was critically evaluated and appropriate provisions were made. Moreover, adequate provisions were also made under the Collective Impairment category to capture the impact of the prevailed economic conditions in 2023. The Bank's estimated Expected Credit Loss (ECL) was based on the Probability of Default (PD), Loss Given Default (LGD) as at December 31, 2023 and Economic Factor Adjustment (EFA) applying the recent forecasts and projections. The Bank maintains provisions made as management overlay based on the assessment of significant increases in credit risk, and by stress testing the exposures to risk elevated sectors.

Further, the Bank has accounted for an additional Expected Credit Loss (ECL) on Foreign Currency Denominated Bonds in the financial statements considering the impact on Interim policy regarding the servicing of Sri Lanka's external public debts issued by Ministry of Finance of Government of Sri Lanka. The Bank has also accounted for day one loss arising on initial recognition, from the swap of Sri Lanka Development Bonds to Rupee bonds under the Domestic Debt Optimization program. The said impact has been recognized in the Income Statement.

Impairment charge on Loans and Advances recorded LKR 15 Bn with a reduction of 28% over the previous year mainly due to factors described above.

Out of the total impairment charge of LKR 17 Bn, 90% (LKR 15 Bn) reflects the impairment charge on Loans and Advances. Stage wise impairment charge on loans and advances reflects LKR 3 Bn (reversal), LKR 1.4 Bn and LKR 16.9 Bn for Stage 1, Stage 2 and Stage 3 respectively. Impairment on Individually Significant Loans, Collective Portfolios and Management Overlay were separately assessed during the year under review.

Impairment charge on Financial Assets Measured at Amortized Cost – Debt and Other Instruments have been recorded as LKR 1.5 Bn a significant reduction of 68% over the previous year, since a considerable amount of ECL (Expected Credit Loss) on International Sovereign Bonds and Sri Lanka Development Bonds have been recorded in previous year.

#### Personnel expenses, establishment and other expenses, total operating expenses and cost to income ratio

#### Personnel expenses

The Bank's Personnel Expenses increased from LKR 8 Bn in 2022 to LKR 9.1 Bn in 2023 with 15% growth mainly due to increase in the staff benefits and adjustments made as relief allowances to absorb high cost of living and taxes.

#### Establishment and other expenses

Other Operating expenses and depreciation and amortization expenses too increased by 28% to LKR 9.3 Bn during 2023 compared to LKR 7.3 Bn reported in 2022 mainly due to increase in prices of consumables and services over the period. The Bank will continue to take relevant measures to curtail costs through various cost initiatives.

## Total operating expenses and cost to income ratio

The Bank's total operating expenses increased by 21% to LKR 18.5 Bn during the period under review compared to LKR 15.2 Bn recorded in the previous year.

Further, both the Bank's cost to income ratio including taxes and cost to income ratio excluding taxes recorded an increase and stood at 45.26% and 37.30% respectively in 2023 compared to 35.24% and 29.81% respectively in the previous financial year. This increase is mainly due to increase in expenses with prevailing inflationary condition, and the total income has not increased at the same rate to compensate the increased expenses.

#### Taxation

The Bank's Value Added Tax on Financial Services increased by 31% amounting to LKR 3.45Bn compared to LKR 2.65 Bn recorded in the previous year due to increase in liable income.

Further, Social Security Contribution Levy (SSCL) imposed with effect from 01 October 2022 at the rate of 2.5% on the value addition liable for Value Added Tax on Financial Services. The charge for the year increased from LKR 0.13 Bn in 2022 (only for 3 months) to LKR 0.48 Bn, the full year charge for 2023.

The Bank's Income Tax Expense reported a growth of 99.5% to LKR 3.82 Bn in 2023 compared to LKR 1.92 Bn reported in 2022, mainly due to impact form rate change and increase in liable income. The Corporate Tax Rate was revised with effect from 01 July 2022 from 24% to 30 % and the provisions were recorded accordingly. The Bank's effective tax rate (excluding deferred tax) was 38% in 2023 where as in 2022 it was 29%.

The Bank recorded a Deferred Tax accordingly at 30% marking an increase on impact from rate change happened from July 2022. The impairment reversal/ reduction of stage 1 and 2 loans have impacted on the deferred tax charge during the year.

#### Profitability

The Bank recorded a Profit before Tax (PBT) of LKR 10.08 Bn for the period under review with a 52% growth over the previous year while recording a Profit after Tax (PAT) of LKR 6.26 Bn for the year with a 33% growth over the previous year, despite challenging

market and economic conditions that prevailed during the period.

The Bank's Net Interest Income (LKR 40 Bn), Net Fee and Commission Income (LKR 7 Bn) and Other Income (LKR 2 Bn) contributed to maintain its total operating income at LKR 49.48 Bn with a little decline of 3% compared to previous year. The Bank recorded LKR 17 Bn as impairment charges for the year. The impairment charge for the year reflected a reduction of 36% over the previous year charge and that contributed to the growth in operating profit. The requirement of lesser provision for impairment in 2023 was partly due to improvement in macro economic condition, in addition to focused recovery startegies. The Personnel Expenses (LKR 9 Bn) and the Other Expenses (LKR 9 Bn) as a total recorded a LKR 3 Bn increase over the previous year and accordingly affected the profitability. Total tax expenses (LKR 7.76 Bn) has increased by LKR 3.07 Bn compared to previous year tax expenses (LKR 4.69 Bn) due to higher profitability and the rate impact.



#### Other comprehensive income (OCI)

The Bank's OCI loss reduced to LKR 0.027 Bn by 99% over the previous year OCI loss recorded as LKR 2.724 Bn.

Due to the reducing interest rate scenario the Bank gained from Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income (after tax LKR 0.691 Bn). Net Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income (after tax LKR 0.288 Bn) also recorded a gain due to increase in market value of Equity Investments. The Actuarial Losses on Defined Benefit Obligations (LKR 1 Bn) has increased by 353% over the previous year mainly due to the assumptions

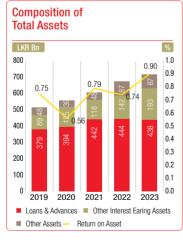
## **FINANCIAL CAPITAL**

used, such as discount factor to be in line with the market interest rates and the average salary increment rates.

#### Statement of financial position Total Assets

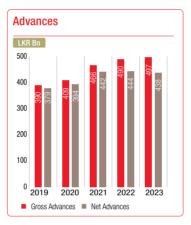
The Bank's total assets grew by 6.7% during the year under review to reach the total assets to LKR 718 Bn as at 31 December 2023 compared to LKR 673 Bn recorded in the previous year demonstrating the sustained growth of the Bank over the years. Cash and Cash Equivalents, Placements with Banks and Finance Companies, Financial Assets recognised through Profit or Loss (Measured at Fair Value), Financial Assets measured at Fair Value through Other Comprehensive Income etc. mainly contributed to the growth in total assets.





#### Loans and Advances

It was a challenge to grow Loans and Advances in the prevailed economic and market condition, where there were rate volatilities and lesser demand for Lending. The Bank recorded net Loans and Advances at LKR 438 Bn as at 31 December 2023 compared to LKR 444 Bn recorded in 2022 and the contraction was mainly due to the impact from local currency appreciation. The Bank's gross Loans and Advances increased by LKR 7 Bn to LKR 497 Bn as at 31 December 2023 from LKR 490 Bn recorded as at 31 December 2022. Rupee Loans and Advances increased by LKR 19 Bn and LKR equivalent of Foreign Currency Loans and Advances recorded a contraction of LKR 12 Bn mainly due to local currency appreciation and settlement of Loans. The impairment allowance on Loans and Advances increased from LKR 46 Bn in 2022 to LKR 60 Bn in 2023.



#### Asset quality and provision cover

The Banks's Asset Quality Ratios-Impaired Loan (Stage 3) Ratio and the Impairment (Stage 3) to Stage 3 Loans Ratio stood at 3.85% (2022 – 4.98) and 68.29% ( 2022 - 54.36) respectively, which reflects an improvement in both ratios from the previous year. This is mainly due to the appropriate provisions made by the Bank, close monitoring of impaired loans and strengthening of recovery actions during the year.

#### **Deposits and casa**

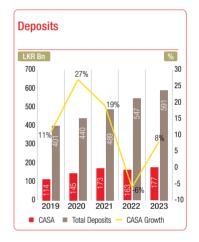
The Bank focused on growing its core Business and made necessary arrangements to canvass new to Bank Deposits while retaining the existing customer base.

|                                        | CBSL Requirement | 2023    | 2022    |
|----------------------------------------|------------------|---------|---------|
| Total Risk Weighted Assets (LKR Mn)    | N/A              | 442,786 | 467,105 |
| Common Equity Tier I Capital Ratio (%) | 7.00             | 12.52   | 10.69   |
| Total Tier I Capital Ratio (%)         | 8.50             | 12.52   | 10.69   |
| Total Capital Ratio (%)                | 12.50            | 15.84   | 13.59   |

The Bank's total Deposit Base grew by LKR 44 Bn during the year 2023 to LKR 591 Bn compared to total Deposits of LKR 547 reported in the previous year as of 31 December.

The Bank's LKR Deposits reported a growth of LKR 37.65 Bn and LKR equivalent of FCY Deposits reported a growth of LKR 5.7 Bn.

The Bank's CASA base grew from LKR 163 Bn in 2022 to LKR 177 Bn in 2023 as of 31 December, which is a 8% growth from the previous year. CASA ratio stood at 29.90% in 2023 compared to 29.80% of the previous year.



#### Financial indicators and ratios Capital Adequacy Ratio

The capital adequacy ratios were well above the regulatory minimum requirements and recorded 12.52% as Common Equity Tier 1 Capital Ratio & Total Tier 1 Capital Ratio while Total Capital Ratio as at 31 December 2023 recorded as 15.84%.

The Capital Adequacy Ratios have increased compared to previous year mainly due to Debenture issue of LKR 5 Bn in 2023, growth in profits & reserves for the year ended 31 December 2023 and reduction in Risk Weighted Assets (Please refer section " Risks and Opportunities" of this Annual Report for details.)

#### Statutory liquid asset ratio (SLAR) and liquidity coverage ratio (LCR)

The Bank maintained the SLAR well above the statutory requirement, during year under review. The Statutory Liquid Asset Ratio (SLAR) for the Overall Bank, Domestic Banking Unit and the Foreign Currency Banking Unit were maintained at 38.04%, 38.51% and 23.28 % respectively as at December 2023.

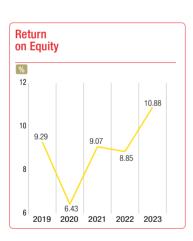
The Bank also maintained the LCR above the statutory requirement and the All Currency LCR and the Rupee LCR were maintained at 338.42 % and 355.16% respectively.

|                                                  | CBSL<br>Requirement | 2023   | 2022   |
|--------------------------------------------------|---------------------|--------|--------|
| Statutory Liquid Asset Ratio (SLAR)              |                     |        |        |
| Overall Bank (%)                                 | 20%                 | 38.04  | 25.51  |
| Domestic Banking Unit Operations (%)             | 20%                 | 38.51  | 25.16  |
| Foreign Currency Banking Unit<br>Operations ( %) | 20%                 | 23.28  | 25.02  |
| Liquidity Coverage Ratio (LCR)                   |                     |        |        |
| All Currency (%)                                 | 100%*               | 338.42 | 175.10 |
| Rupee (%)                                        | 100%*               | 355.16 | 280.14 |

\* 2022 - 90%

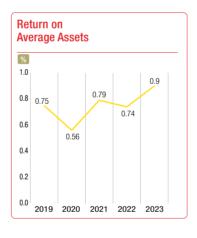
# Return on equity (ROE) and return on average assets (ROAA)

The Return on Equity (ROE) stood at 10.88% for the year under review compared to 8.85% recorded in 2022.





The Return on Average Assets (net of tax) recorded as 0.90% for the year under review compared to 0.74% recorded in 2022.



# Earnings per share (EPS) and net assets value per share

The Bank's Earnings per Share stood at LKR 10.17 as at end of 2023 compared to LKR 7.66 reported as at the end of the previous year.



The Bank's Net Assets Value per Share stood at LKR 98.31 as at the end of 2023 (Group LKR 101.36) compared to LKR 94.24 reported as at the previous year end (Group 97.27).



# Returns to shareholders and investors

The Bank is always committed to delivering economic value to all its stakeholders and as such the core activities of the Bank are structured and managed to reward our shareholders and other investors to the best of its ability while maintaining consistency in creating long-term value.

41

## **FINANCIAL CAPITAL**

Value added statement



Distribution of shareholding

| /ear | Classification | Description   | No of Shares | %     |
|------|----------------|---------------|--------------|-------|
|      | Tuno           | Voting        | 296,716,366  | 48.21 |
|      | Туре           | Non-voting    | 318,732,692  | 51.79 |
| 222  | Coorrenhia     | Resident      | 596,375,635  | 96.90 |
| 2023 | Geographic     | Non-resident  | 19,073,423   | 3.10  |
|      | Demographic    | Institutional | 495,375,511  | 80.49 |
|      |                | Individual    | 120,073,547  | 19.51 |
|      | Turne          | Voting        | 282,704,760  | 48.93 |
|      | Туре           | Non-voting    | 295,071,313  | 51.07 |
| 000  | Coorrenhia     | Resident      | 559,630,829  | 96.86 |
| 022  | Geographic     | Non-resident  | 18,145,244   | 3.14  |
|      | Domographie    | Institutional | 465,638,283  | 80.59 |
|      | Demographic    | Individual    | 112,137,790  | 19.41 |

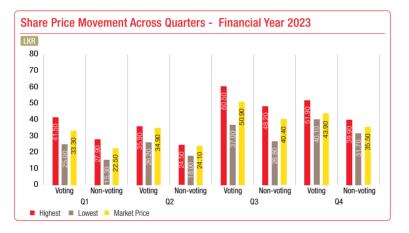
#### Value Creation for Our Shareholders

|                      |               | Deviation     | In Donistion  |                |                                                  |        |
|----------------------|---------------|---------------|---------------|----------------|--------------------------------------------------|--------|
| 2020 20 <sup>-</sup> | 2020          | 2021          | 2022          | 2023           | Depiction                                        | In     |
| 57,224 61,3          | 57,224        | 54,767        | 96,818        | 116,773        | Turnover                                         |        |
| 4,111 5,09           | 4,111         | 6,028         | 6,629         | 10,080         | Profit before income tax                         | LKR Mn |
| 3,011 3,68           | 3,011         | 4,581         | 4,712         | 6,256          | Profit after income tax                          |        |
| 557,707 516,29       | 557,707       | 607,577       | 672,806       | 717,985        | Total assets                                     |        |
| 94.71 88.0           | 94.71         | 97.44         | 94.24         | 98.31          | Net Assets Value per Share                       |        |
| 4.89 5.9             | 4.89          | 7.44          | 7.66          | 10.17          | Earnings per share                               | LKR    |
| 1.5                  | 1.5           | 3             | 2             | 2.5            | Dividend per share                               |        |
| 94.71<br>4.89        | 94.71<br>4.89 | 97.44<br>7.44 | 94.24<br>7.66 | 98.31<br>10.17 | Net Assets Value per Share<br>Earnings per share | LKR    |

#### **Dividend Payout**

The Bank through its Dividend Policy ensures to create maximum value for its shareholders. Consequently, to improve market capitalization while taking into consideration the requirement of profit retention the Bank also aims to build the Organic Capital, which in return safeguards shareholders' interests in the long run.





#### Way forward



- The Bank remains focused on Profitability, Book Growth, Asset Quality, Adequacy of Capital and Liquidity while managing series of risks the Bank faces in the current context
- The Bank ensures to comply with the statutory and regulatory requirements and to review and revise the policies, procedures, guidelines and codes of conduct to be in line with local and global standards and industry best practices
- The Bank will adopt more prudent strategies aiming the business growth and profitability while sustaining value to all the stakeholders
- More focus on strategic initiatives under Low Cost Funding, Asset Quality and Recoveries, Digital Drive, Cost rationalization and Human Resources
- More information on the Bank's Strategies, Key Initiatives etc. are discussed under "Our Strategy" and "Business Unit Overview" of this Annual Report

#### Financial reporting and compliance

The Bank keeps its stakeholders and the general public informed its financial position and performance primarily through the Annual Report and Interim Financial Reports. Publishing of our Annual Report and Interim reports before the stipulated dates respectively as required by the Colombo Stock Exchange (CSE) is complied with and same would assist the investment decisions of stakeholders.

The Interim Financial Statements for 2023 were published in timely manner.

Refer Capital sections for the respective Awards and Recognitions.

44

#### MANUFACTURED CAPITAL

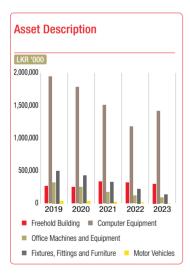
# Strengthening our capacity

## Value created and preserved in 2023

- Expansion of delivery channels
- Improved operational efficiency
- Reduced cost/prevented income and revenue leakage

#### Capitals Impacted





The Bank's manufactured capital consists of the physical infrastructure including its islandwide network of branches, ATMs, CRMs, plant and equipment and other built assets which facilitate its value creation. The Bank prioritizes infrastructure readiness for future uncertainties such as changing buyers' behavior and unforeseen future banking demands and ensures its manufactured capital functions optimally to communicate our brand ethos.

| Additions during the year        | LKR    |
|----------------------------------|--------|
| Computer equipment               | 704 Mn |
| Office machines and equipment    | 22 Mn  |
| Fixtures, fittings and furniture | 29 Mn  |

#### Our branch footprint

The branch network serves as an effective platform to deliver the Bank's products and services. Seylan Bank has an island wide network of 171 banking centres, 215 ATMs, 70 cash deposit machines and 100 cheque deposit KIOSKs, 03 cash recycler machine, to serve a growing client base.

C

Eastern

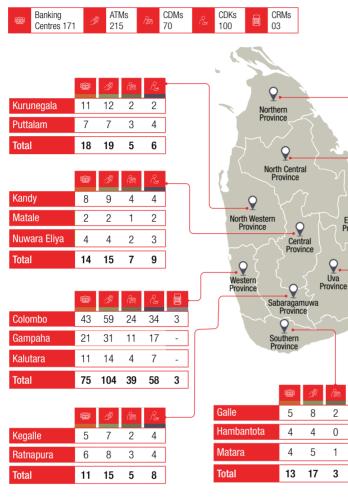
Province

3

1

1

5

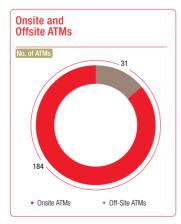


# Strategies to enhance head office and branch efficiencies

- Transformation of 10 branches into single-floor operations
- Automation, outsourcing, and process changes leading to a considerable reduction in cost. The Credit Administration Unit completed the automation of five processes, while the Operational Support Unit automated seven processes, through a workflow system. An additional nine processes are currently in the development pipeline, and these ongoing automations will contribute to significant time savings
- 20 branches across the island adopted Robotic Process Automation (RPA) account opening systems, which resulted in time efficiencies for the respective staff at these branches
- Repaired and refurbished equipment to increase productivity

| ATM | Network |
|-----|---------|
|     | nothon  |

The Bank's ATM network serves as a key driver in Overall value proposition. Given that it remains one of the most heavily patronised customer touch point. Bank's ATM currently comprises of 184 on-site ATMs and 31 off-site ATMs.



|              | <b>@</b> | Þ  | rên. | R. |
|--------------|----------|----|------|----|
| Jaffna       | 6        | 6  | 1    | 2  |
| Killinochchi | 1        | 1  | 0    | 1  |
| Mannar       | 1        | 1  | 0    | 0  |
| Mullativu    | 1        | 1  | 0    | 0  |
| Vavuniya     | 1        | 1  | 1    | 1  |
| Total        | 10       | 10 | 2    | 4  |

|              | ŵ  | Þ  | িল্ল | R. |
|--------------|----|----|------|----|
| Anuradhapura | 7  | 7  | 1    | 2  |
| Polonnaruwa  | 4  | 4  | 0    | 0  |
| Total        | 11 | 11 | 1    | 2  |

|             | <b>m</b> | Þ  | rên | R. |
|-------------|----------|----|-----|----|
| Ampara      | 6        | 7  | 1   | 2  |
| Batticaloa  | 4        | 5  | 3   | 2  |
| Trincomalee | 2        | 3  | 1   | 1  |
| Total       | 12       | 15 | 5   | 5  |

|            | <b>\$</b> | Þ | শ্বি | R |
|------------|-----------|---|------|---|
| Badulla    | 4         | 6 | 3    | 3 |
| Monaragala | 3         | 3 | 0    | 0 |
| Total      | 7         | 9 | 3    | 3 |

### Way forward

Our aim is to enhance our manufactured capital through sustainable practices and strategies that ensure long-term economic viability while minimizing negative impacts on the environment and society. Accordingly, we will focus on;

- Further strengthening branch performance and operational efficiency
- Increasing concentration on potential markets and 'New to Bank Accounts'
- Digital penetration targeting the youth demographic

### HUMAN CAPITAL

# Nurturing a people-first culture

## Value created and preserved in 2023

- Total value added to employees – LKR 9.1 Bn
- Total investment in learning and development – LKR 82.8 Mn accounting for 132,313 training hours
- 312 promotions
- 442 new recruits

#### **Capitals Impacted**







#### Sustainable Development Goals (SDGs)



Our people management strategy focuses on delivering an unparalleled employee experience through diverse learning opportunities with rewarding and engaging careers. We believe in creating an inclusive environment that exudes a sense of belonging where everyone feels welcome and appreciated.

| Key focus                                                 | Impact                                                                                                                                                                                                                                 |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Culture assessment, transformation and engagement         | Staff engagement and recognition schemes<br>fostering attachment towards the Bank and<br>appreciation for going that extra mile                                                                                                        |
| Talent development                                        | Successfully executed the Board approved<br>succession plan. Improved the Competency<br>Index of the Bank by 5 units (2023-71%<br>2022-66%). Introduced new e-certifications<br>to enhance the skills and competencies of<br>the staff |
| Cost-effective staff composition                          | More career growth opportunities given for<br>the existing staff and cost effective resourcing<br>solutions                                                                                                                            |
| Managing the salary and<br>benefits expectations of staff | Employee centered salary and benefit structures                                                                                                                                                                                        |
| Strengthening performance driven rewards schemes          | Performance driven reward schemes were introduced to many business units                                                                                                                                                               |
| Retention and Replacement                                 | Controlled staff turnover levels at 13% (average)                                                                                                                                                                                      |

#### **Team Profile**

We have established a human resource strategy with a focus on building a diverse and inclusive culture. The total employee count of the Bank stood at 3,077 as at year end out of which 86% are full-time permanent employees.

Considering the high levels of employee turnover in the market and its impact, the Bank took proactive steps to create a competent multi-tasking workforce to manage critical functions. We also introduced a programme to fast-track employee career progression to motivate and retain the talented employees

#### Workforce by Province

| Province      | Staff count |          |         |       |     |  |  |  |
|---------------|-------------|----------|---------|-------|-----|--|--|--|
| FIOVINCE      | Permanent   | Contract | Trainee | Total |     |  |  |  |
| Central       | 175         | 2        | 13      | 190   |     |  |  |  |
| ochildi       | 179         | -        | 6       | 185   |     |  |  |  |
| Eastern       | 98          | 11       | 13      | 122   |     |  |  |  |
| EdStelli      | 108         | 2        | 9       | 119   |     |  |  |  |
| Northern      | 76          | 2        | 6       | 84    |     |  |  |  |
| NOTUTETT      | 78          | -        | 10      | 88    |     |  |  |  |
| North Central | 89          | 4        | 2       | 95    |     |  |  |  |
| North Central | 90          | 1        | 1       | 92    |     |  |  |  |
| North Western | 140         | 11       | 16      | 167   |     |  |  |  |
| North Western | 148         | -        | 14      | 162   |     |  |  |  |
| 0-1           | 114         | 3        | 10      | 127   |     |  |  |  |
| Sabaragamuwa  | 121         | -        | 6       | 127   |     |  |  |  |
| 0 11          | 143         | 1        | 14      | 158   |     |  |  |  |
| Southern      | 149         | -        | 8       | 157   |     |  |  |  |
|               | 46          | 4        | 5       | 55    |     |  |  |  |
| Uva           | 44          | -        | 4       | 48    |     |  |  |  |
| M/            | 1757        | 212      | 110     | 2079  | = 2 |  |  |  |
| Western       | 1,917       | 195      | 66      | 2,178 | 2   |  |  |  |
|               |             |          |         |       |     |  |  |  |



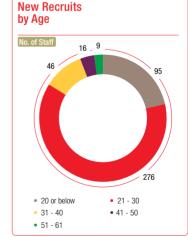
|             |                      |       | 2023   |       |
|-------------|----------------------|-------|--------|-------|
|             |                      | Male  | Female | Total |
| Permanent   |                      | 1,476 | 1,162  | 2,638 |
| Orighter et | Sales Force          | 55    | 24     | 79    |
| Contract    | Other Contract Staff | 64    | 107    | 171   |
| Trainees    |                      | 53    | 136    | 189   |
| Total       |                      | 1,648 | 1,429  | 3,077 |

Employees as of 31 December 2023



**3,077** Staff strength 442 Recruits



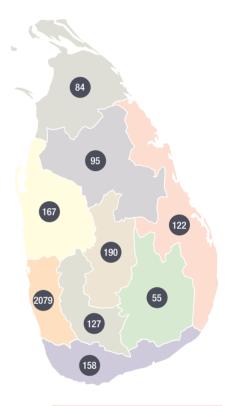


#### Movements in our talent pool

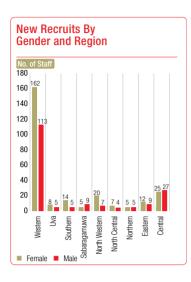
In the ever-evolving landscape of the Bank, the infusion of fresh talent is a testament to our commitment to growth and innovation. The latest additions to our team bring a wealth of diverse skills, perspectives, and enthusiasm that promise to shape the future of the Bank. Our strategy emphasises on building younger, diverse and future-fit talent. In 2023, Bank has recruited 442 new employees to the pool and approximately 84% of new recruits are below the age of 30 years.

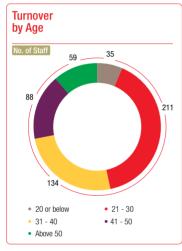
#### New recruitments by hierarchy

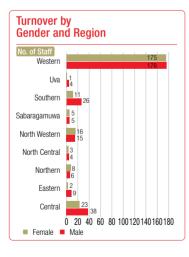
| Male | Female               | Total                                                     |
|------|----------------------|-----------------------------------------------------------|
| 1    | 1                    | 2                                                         |
| 12   | 11                   | 23                                                        |
| 25   | 16                   | 41                                                        |
| 146  | 230                  | 376                                                       |
| 184  | 258                  | 442                                                       |
|      | 1<br>12<br>25<br>146 | 1     1       12     11       25     16       146     230 |



## **HUMAN CAPITAL**







#### **Employee development**

Our unwavering commitment and investment in the development of our employees' skills and capabilities resulted in an average of 43 training hours delivered and an average of LKR 26,916 invested per employee in 2023. We believe it is vital that our teams remain competent and up to date in the knowledge and skills of their respective disciplines to provide a superior service to customers and other stakeholders.

We invest in growing our employees' capabilities using a combined approach of on-the-job training, coaching and mentoring as well as external trainings, which allows them to excel in their work and contribute meaningfully to the business. Continuing the practice of virtual trainings, which was implemented during the pandemic, we offered a significant portion of our trainings online. Our e-learning platform provides an extensive list of trainings ranging from technical trainings to soft skills development programmes.

Our senior leaders in essential roles have been enrolled in globally recognised executive leadership programs at premier business schools. These staff members received leadership training during the year which focused on helping our leaders better support their teams and be true culture and value champions.

#### Seylan competency index

- Our Competency Index covers permanent employees from Training Banking Assistant to Senior Manager
- Development of employees carried out in line with competency gaps identified in the 'competency profiles' for each job role
- Acquisition of competencies by the employees are measured, and a competency index is derived for each staff member which reflects the competencies they possess against the ideal competencies appearing in the competency profiles
- On an overall level, Seylan Bank's average Competency Index stood at 71.35% as at 31 December 2023

#### Details of training programmes conducted in 2023

|                      | No. of programmes | Total hours | No. of participants |
|----------------------|-------------------|-------------|---------------------|
| Internal - Classroom | 85                | 50,402      | 3,498               |
| Internal - Online    | 15                | 10,740      | 1,288               |
| External - Local     | 68                | 2,607       | 247                 |
| Foreign              | 13                | 400         | 15                  |
| E - Learning         | 34                | 68,164      | 14,525              |
| Total                | 215               | 132,313     | 19,573              |

#### **Details of certifications**

|                  | No. of exams | No. of certifications completed in 2023 | No. of staff who<br>completed all required<br>job certifications |  |  |
|------------------|--------------|-----------------------------------------|------------------------------------------------------------------|--|--|
|                  |              |                                         |                                                                  |  |  |
| E-Certifications | 16           | 2,875                                   | 2,484                                                            |  |  |

#### Training programmes by type

|                                               | 2023              |                |                     |  |  |  |  |
|-----------------------------------------------|-------------------|----------------|---------------------|--|--|--|--|
|                                               | No. of programmes | Total<br>hours | No. of participants |  |  |  |  |
| General banking practice                      | 88                | 43,950         | 3,323               |  |  |  |  |
| Professional development & service quality    | 17                | 9,478          | 383                 |  |  |  |  |
| Communication and Negotiation Skills          | 8                 | 1,900          | 238                 |  |  |  |  |
| Marketing and marketing communication         | 16                | 6,380          | 865                 |  |  |  |  |
| HR management, staff/personnel<br>Development | 9                 | 925            | 118                 |  |  |  |  |
| Compliance and specialized areas              | 43                | 1,516          | 121                 |  |  |  |  |
| E-learning                                    | 34                | 68,164         | 14,525              |  |  |  |  |
| Total                                         | 215               | 132,313        | 19,573              |  |  |  |  |

#### Total training and development cost

|                              | 2023<br>(LKR' 000) |
|------------------------------|--------------------|
| Direct cost                  | 42,801             |
| Indirect cost                | 40,020             |
| Total investment in training | 82,821             |

With the aim of transforming operations into the next level of efficiency our employees were trained and certified in Lean Six Sigma at Yellow Belt and Green Belt levels. The training and certification was carried out inhouse by an experienced and certified Lean Six Sigma Master Black Belt professional.

| Level of certification             | No. of staff |
|------------------------------------|--------------|
| Staff trained in Lean Six<br>Sigma | 58           |
| Yellow belt certified              | 07           |
| Green belt certified               | 06           |

Security officers based at our Head Office and across our branches are also provided with necessary training in terms of ethical requirements and other measures. All the security officers are outsourced from security firms. During the year, security personnel were given specific training on best security practices including weapons training, fire drill, duties and responsibilities, emergency and response procedures, customer care, discipline and standing orders and uniforms and appearance.

#### Performance management

Aligned with our strategic priorities, our talent management processes drive high performance across the organisation. Leaders play a key role in setting ambitious business plans and leading their teams to meet those goals, while demonstrating and encouraging accountability. Rewards are closely linked to performance outcomes, while career growth is linked to sustained high performance. All the permanent cadre staff are subject to performance-based appraisals at the end of the year.

Apart from the annual evaluations Seylan Bank conducts the Seylan Performance Awards and Sales Awards to acknowledge employees who have performed above and beyond the management's expectations. Employees who have gone the extra mile and made a value-adding contribution to their job roles or duties are given due recognition by their immediate supervisors. Employees with high performance levels are appreciated and the management informs teams of their achievements at the monthly staff meetings.

#### Developing digital skills

- Introduction of the digital champion concept at all branches to migrate certain standalone service to effective digital services
- Migrate a majority of knowledge-based training sessions onto online trainings
- Introduction of e-learning modules for areas which need repetitive access and broader employee coverage
- Introduction of e-based exams with online proctoring (invigilation) to certify
  possession of minimum competencies to carry-out key job roles
- Implementation of process improvement sessions on a monthly basis in order to embrace various digital platforms by the employees (such as QR codes, merchant pay solutions, internet banking, etc.)
- Introduction of the Artificial Intelligence (AI) concept and familiarization of AI tools

#### Promotions during the year

| Category               | Male | Female |
|------------------------|------|--------|
| Middle management      | 16   | 10     |
| Operational management | 81   | 41     |
| Other                  | 86   | 78     |
| Total                  | 183  | 129    |



#### Employee benefits

#### Guaranteed cash and other allowances

- Salary and other related benefits
- Half month's salary as holiday incentive
- Two months bonus (certain grades are subject to one month's fixed bonus and variable performance
- bonuses)
- Travelling allowances
  Special allowances for cashiers and employees located in difficult stations
- Holiday/weekend banking allowances
- Health incentive
- Lunch incentive (certain grades)

#### Variable pay

- Salary increments
- Performance based special bonus schemes for strategic business units

## Sales incentives Reimbursable expenses

#### Professional/club subscription

- Reimbursement of telephone bills
- Financial support for postgraduate studies
- Honorarium

#### Subsidised loan schemes

· Concessionary rates for housing, vehicle, computer, education and other loans

#### Retirement benefits

- EPF/ETF
- Gratuity

VALUE CREATION

## HUMAN CAPITAL

#### Medical benefits

- Comprehensive medical scheme
- Critical illness cover
- Life insurance cover
  Incentive for spectacles and dentures
- Incentive for speciacles and dem

#### Other benefits

- Holiday bungalows
- Death donation scheme
- Spousal support in the event of death

Several special benefits were also introduced as relief measures, in response to the challenges posed by the economic context and constraints faced by employees.

- Special relief incentive to compensate for the increase in taxes
- Flexible working hours for Head Office staff
- Arrangements to work from home/ nearest location

#### **Employee engagement**

During the year we implemented several strategic initiatives to enhance employee engagement and made a concentrated effort to build and strengthen bonds among our staff. Town hall meetings, skip level meetings, cross-functional meetings and the online idea scheme were some of the key initiatives carried out giving employees the opportunities to voice their ideas and suggestions. Thanking days were also held each month to appreciate the dedication and efforts of our employees. We also began publishing a newsletter covering areas of the Bank's performance against budget, branch/ area KPI achievements and new initiatives that are rolled out to keep our staff informed and up to date.

Directors 2022: 27%



Champions at Financial Market Quiz "SLFA Quest'23" organized by the Sri Lanka Forex Association

#### Health and well-being

We believe that our people are most productive when they are physically and mentally thriving, emotionally balanced, financially secure, and socially connected. Thus, at Seylan Bank, the health, safety, and well-being of our employees is of paramount importance. Occupational Health and Safety (OHS) processes and systems are built into the Bank's integrated sustainability framework ensuring the highest standards of occupational health and safety practices are adopted across our operations. We maintained our health and well-being efforts throughout the year to ensure our employees were safe and healthy and some of the key initiatives implemented and

continued are as follows:

- Mandatory fire safety measures have been implemented at all our business locations. The Bank's internal security department oversees the regular maintenance of fire safety equipment and undertakes the monitoring of the fire safety systems. Annual fire drills are conducted to educate and train employees to manage fire emergencies
- Facilitated the services of a nurse and a doctor at the head office premises to ensure employees have access to medical officers on request

There were zero fatalities or work-related injuries during the year under review.

#### **Diversity and inclusion**

Attracting and retaining the best talent from diverse backgrounds is key to building a high-performance culture and tackling the skills shortage. What makes Seylan Bank unique is its diversity of its people, and the range of skills that this diversity brings to the process of sustainable value creation. Inclusion is a way of life at Bank, and we collaborate with multiple stakeholders to build an equitable world for all where everyone feels welcomed and safe to bring their whole, authentic selves to work. As an equal opportunity employer, the Bank appreciate a gender inclusive recruitment policy and we do not engage in any form of gender-based discrimination when determining reward structures, providing opportunities for training or offering promotions.

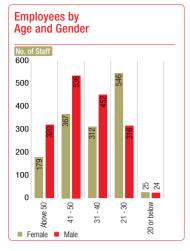
The following organisational practices and policies promote a diverse and inclusive culture for all employees.

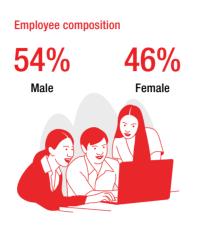
2022: 42%

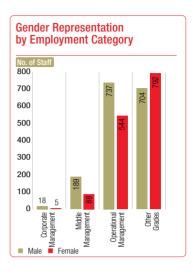
| Practices                                |                                           | Policies                                                                                                                                                         |                              |  |  |  |  |
|------------------------------------------|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|--|--|--|--|
| Performance appraisal                    |                                           | <ul> <li>Staff Promotion Policy</li> <li>Staff Recognition Policy</li> <li>Staff Retention Policy</li> <li>Policy on Performance Management</li> </ul>           |                              |  |  |  |  |
| <ul> <li>Equal pay</li> </ul>            |                                           | Remuneration Policy                                                                                                                                              |                              |  |  |  |  |
| <ul> <li>Employee development</li> </ul> |                                           | Training & Development policy                                                                                                                                    | 1                            |  |  |  |  |
| Recruitment                              |                                           | <ul> <li>Policy on Succession Planning</li> <li>Human Resources Planning, Selection &amp; Recruitment</li> <li>Management Trainee</li> <li>Internship</li> </ul> |                              |  |  |  |  |
| Best replacement                         |                                           | <ul><li>Staff Rotation Policy</li><li>Secondment Policy</li></ul>                                                                                                |                              |  |  |  |  |
| Employee grievance handling /hara        | ssment                                    | Grievance Handling Policy     Discrimination & Harassment Policy                                                                                                 |                              |  |  |  |  |
| Employee Code of Ethics                  | Code of Ethics                            |                                                                                                                                                                  |                              |  |  |  |  |
| Work life balance                        |                                           | <ul><li>Employee Transfer Policy</li><li>Attendance and Leave Policy</li><li>Work from Home Policy</li></ul>                                                     |                              |  |  |  |  |
| 33%<br>Female members of the Board of    | <b>22%</b><br>Females at leadership roles | <b>58%</b><br>Female hiring rate                                                                                                                                 | 41%<br>Female promotion rate |  |  |  |  |

2022: 54%

2022: 21%







#### Employee remuneration by gender and hierarchy

|              | 2023   |                          |      |        |      |                           |       |         | 2022   |                |      |        |      |                          |       |         |
|--------------|--------|--------------------------|------|--------|------|---------------------------|-------|---------|--------|----------------|------|--------|------|--------------------------|-------|---------|
|              | sa     | ly basic<br>lary<br>? Mn | No:  | Staff  | sa   | ge basic<br>Ilary<br>R Mn | Salar | y ratio |        | Salary<br>R Mn | No:  | Staff  | sa   | ge basic<br>lary<br>R Mn | Salar | y ratio |
|              | Male   | Female                   | Male | Female | Male | Female                    | Male  | Female  | Male   | Female         | Male | Female | Male | Female                   | Male  | Female  |
| Corporate    |        |                          |      |        |      |                           |       |         |        |                |      |        |      |                          |       |         |
| management   | 13.48  | 2.96                     | 18   | 5      | 0.75 | 0.59                      | 1.27  | 1       | 16.58  | 2.67           | 20   | 5      | 0.83 | 0.53                     | 1.55  | 1       |
| Middle       |        |                          |      |        |      |                           |       |         |        |                |      |        |      |                          |       |         |
| management   | 54.72  | 25.50                    | 189  | 88     | 0.29 | 0.29                      | 1.00  | 1       | 44.52  | 21.48          | 161  | 79     | 0.28 | 0.27                     | 1.02  | 1       |
| Operational  |        |                          |      |        |      |                           |       |         |        |                |      |        |      |                          |       |         |
| management   | 109.21 | 81.47                    | 737  | 544    | 0.15 | 0.15                      | 1.00  | 1       | 104.44 | 76.81          | 751  | 549    | 0.14 | 0.14                     | 0.99  | 1       |
| Other Grades | 53.99  | 52.31                    | 704  | 792    | 0.08 | 0.07                      | 1.16  | 1       | 59.66  | 51.89          | 814  | 777    | 0.07 | 0.07                     | 1.10  | 1       |

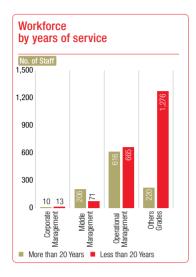
#### Employee representation by employment category, age and gender - 2023

|                        | 20 or | below  | 21 - 30 |        | 31 - 40 |        | 41 - 50 |        | Above 50 |        |       |  |
|------------------------|-------|--------|---------|--------|---------|--------|---------|--------|----------|--------|-------|--|
|                        | Male  | Female | Male    | Female | Male    | Female | Male    | Female | Male     | Female | Total |  |
| Corporate Management   | -     | -      | -       | -      | -       | -      | 6       | -      | 12       | 5      | 23    |  |
| Middle Management      | -     | -      | -       | -      | 12      | 8      | 87      | 35     | 90       | 45     | 277   |  |
| Operational Management | -     | -      | 18      | 6      | 319     | 161    | 295     | 262    | 105      | 115    | 1,281 |  |
| Other Grades           | 24    | 25     | 298     | 540    | 121     | 143    | 148     | 70     | 113      | 14     | 1,496 |  |

#### Employee composition by ethnicity and gender - 2023

| Ethnicity | Male  | Female | Total |
|-----------|-------|--------|-------|
| Sinhala   | 1,454 | 1,230  | 2,684 |
| Tamil     | 143   | 163    | 306   |
| Muslim    | 27    | 20     | 47    |
| Burger    | 12    | 9      | 21    |
| Others    | 12    | 7      | 19    |
| Total     | 1,648 | 1,429  | 3,077 |

## **HUMAN CAPITAL**



#### Parental leave

| Indicator                                           | 2023 |
|-----------------------------------------------------|------|
| Employees who went on<br>parental leave             | 38   |
| Employees who returned to work after parental leave | 38   |
| Return to work rate                                 | 100% |
|                                                     |      |

# Grievance handling and whistle blowing

The Bank has a strong and efficient mechanism for resolving grievances built on a well-defined escalation process. We have established a "Log Your Concern" secure online portal on the Bank's intranet for employees to report grievances to reach the person in charge of handling such matters. The Bank is committed to responding to logged complaints within 48 hours of them being reported.

Furthermore, we have a Whistleblower Policy in place to enable all our employees and other stakeholders to report any concerns anonymously. At the Bank, we do not engage in or tolerate retaliation of any kind against anyone for providing information in good faith about suspected unethical or illegal conduct, including fraud, regulatory violations, possible violations of policies, including the Code of Conduct and other inappropriate workplace behaviour.

#### The Bank's human rights policy

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

The Bank incorporates its human rights policy within the Employee Code of Conduct which is shared with every employee upon recruitment. Areas such as the treatment of people fairly, equally and as per his/her rights as human beings are comprehensively captured. The Code guides all employee actions while carrying out work on behalf of the Bank and when interacting with all stakeholders.

The Bank's governance framework and work practices include a zero-tolerance policy on discrimination, sexual harassment, child labour, and forced labour and strict policies to safeguard the human rights of employees. The Bank's human resource management team ensures compliance with all laws and regulations related to employment and labour practices of the country.

 There were zero incidents of discrimination or non-compliance with labour laws during 2023.

#### Anti-corruption

The Employee Code of Conduct articulates the standards of professional conduct and ethics we expect our employees to absorb and guides them to adopt practices that promote anti-bribery and corruption-free business, anti-money laundering, among other aspects linked to ethics. Furthermore, our Anti-Bribery and Corruption Policy clearly define the policy boundaries and the related procedures on gifts, hospitality related expenses and defines unacceptable behaviour and activity relating to bribery and corruption to ensure that risks deriving from those within Bank's business are properly identified, mitigated and managed.

• Zero incidents of corruption were identified during the year.

# Freedom of association and collective bargaining

83% of the Bank's employees belong to trade unions and are covered under collective agreements. Despite the external environmental constraints, the HR team maintained proactive engagement with all trade unions during the year, successfully obtaining their collaboration and support in implementing new work practices, ensuring the safety of employees and reaching mutually agreeable terms on other employee-related matters.

#### **Pending litigations**

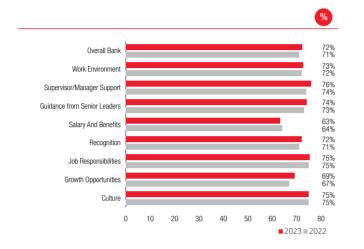
All pending litigations against the Bank are reported in Note 48 of the Financial Statements.

#### Minimum notice period

We have established a standard of three months' notice to be provided in respect of senior level employees and one month's notice in respect of all other employees when resigning from the Bank. This approach has supported us to minimise any adverse impacts in serving our customers and ensuring uninterrupted services without any disruptions to our operations.

#### Staff satisfaction survey

Listening to colleagues allows us to obtain insights into what we are doing well and areas where we need to improve. Our annual employee satisfaction survey measures employee considerations across a breadth of topics including engagement, organisational culture, including the mindset and values, wellbeing, inclusion and working practices and tools. Results from our surveys and other employee engagement mechanisms were shared with colleagues and discussed with the Board and management.



### Way forward

Our aim is to further strengthen the initiatives taken during 2023 and maintain the same momentum. Additionally, we will focus on the following during 2024;

- Competency-driven learning culture
- Implementing Agile HR practices with flexible processes and practices
- Implement digital tools that enhance employee collaboration and productivity
- Artificial Intelligence (AI) empowered workforce evaluations
- Shifting work-life balance to work-life fit with flexible working environment
- Creating a culture for employee engagement and retention in a highly volatile talent market
- Customize benefits to cater to diverse employee needs

#### SOCIAL AND RELATIONSHIP CAPITAL

# Making a difference

# Value created and preserved in 2023

#### Customers

- Positioned ourselves as the customer service leader through surveys and brand endorsements
- Created business through enhancing customer value while ensuring customer satisfaction
- Implemented simplified processes to gauge customer feedback
- Holistic internal customer engagement throughout the year

#### **Business partners**

- Onboard new to bank export customers and strengthen the relationships
- Implemented measures to reduce cost and prevent revenue leakages
- Strengthen sound governance process and adopt best practices

#### Community

- Supported our communities through impactful CSR initiatives. Total investment in Community related investment amounted to LKR 16.48 Mn
- Granting 3,896 number of NCRCS loans
- The SLIM national sales awards with 7 wins
- 05 regional workshops for SME clients on capacity building and financial literacy/discipline with the partnership of IFC

**Capitals Impacted** 



## Sustainable Development Goals (SDGs)





Our social and relationship capital represents the longstanding relationships we have fostered with our customers, suppliers, business partners and communities, which enable the continuity of our operations while strengthening our social license to operate.

#### Delivering value for our customers

We foster bonds with our customers, and we strive to grasp their expectations and needs. We design and deliver solutions that help our clients to make better financial decision.

By leveraging the technological advances made in the digital space, we constantly aim to provide a superior user experience to our customers. We're committed to provide the best customer experience and protection for our esteemed clients by implementing advance technology and industry leading processes.

| Key highligh   | its                |                    |                    |
|----------------|--------------------|--------------------|--------------------|
| 202 direct     | Branded as the     | Scored the 2nd     | Revolutionized     |
| customer       | best customer      | highest average    | Customer Feedback/ |
| touch-points   | care bank in       | (78%) among 3      | Complaint          |
| (Banking       | Sri Lanka - by the | competitors at the | Management through |
| Centres & Off- | 'World Economic    | annual mystery     | the paperless      |
| site ATMs)     | Magazine'          | shopper survey     | QR-based solution  |

#### Enhancing customer experience

During the year, we implemented various customer experience and engagement initiatives to proactively address the evolving needs of our customers. Customers increasingly look for more convenient, simpler ways to bank that fit their lifestyle, including banking digitally. We invested in digital solutions and upgraded our physical locations for greater accessibility and convenience.

#### Process

- Introduced a QR based customer Feedback Management System with a new complaint management process
- Implemented 'Voice of Customer' initiative to better understand customer requirements
- Introduced customer health check survey for new current & savings accounts over LKR 100,000

#### Performance

- Call centre recorded the highest consistent service levels
- 14,585 large credit card transactions converted to easy payment plan (EPP) through call centre

#### People

- Introduced service excellence awards for employees
- Continuous on-site and on-line customer service training sessions for front line staff by in-house and external facilitators
- Introduced several initiatives including an e-story book of customer commendations, on-line quizzes and games and thank you cards to celebrate wins

#### Helping when it matters most

We have a long history of helping customers through life's uncertainties, from major economic downturns and natural disasters and personal crises. 2023 has been no exception. Our team stood behind our customers through the uncertainty created by the volatile economic conditions as we navigated through surging inflation, rising interest rates and the overall rise in cost of living. We offered tailored solutions ranging from short term to long-term arrangements, term extensions and varying or deferred loan repayments while also offering specialist advice on better financial management. The Bank operates on the premise of responsibility towards the well-being of customers through informed financial decision-making that is never compromised by physical conditions. As such we,

- Train our employees to greet and speak with all customers in a friendly and helpful manner
- Pay attention to customers who require additional assistance and guide them through the banking process
- · Ensure that all branches are designed to offer wheelchair access and easy navigation

#### Providing round the clock support

In today's dynamic and fast-paced business environment, providing round-the-clock support to customers has become a crucial element for success. We recognize the significance of being available to address customer queries, concerns and issues promptly. This commitment to constant availability not only enhances customer satisfaction but also establishes a competitive edge in the market.

#### Support capabilities

24x7 customer care - voice, e-mail and chat hotline to attend to inquiries, complaints, essential operations and escalations.

Installed QR based Feedback

boards at all our banking

Management Systems (FMS)

centres, kiosks and offsite ATMs, so that our clients can

preferred language.

communicate with us in their



Maintained high standards in customer service excellence.

| Indicator      | Achievement |
|----------------|-------------|
| Service level  | 89.3%       |
| Abandoned rate | 1.8%        |

#### Customer grievance redressal procedure

Customers are our priority, and we always strive to respect their needs and ensure fair treatment. The grievance handling policy and processes are well defined and provide guidance on handling the process from the point of complaint to escalation, across different authority levels until settlements are amicably reached. Grievance handling contact details are published in the web, branches and our customers can register complaints through branch visits, phone calls or e-mail. Our website and mobile banking application also enable customers to submit complaints. Every customer is allowed to speak to the financial ombudsman if required and all necessary details are made available at our delivery points for easy customer reference.

#### Listening to our customers to improve experiences

Listening to customers is a fundamental aspect of our business strategy. We have established various channels through which customers can provide feedback, such as surveys, social media, customer support lines and email. Based on the feedback, preferences and concerns we prioritize and implement changes to continually improve our products or services. We also share the 'Voice of Customer' report prepared by the call center among relevant stakeholders with customer insights to identify the areas for improvement and change. Furthermore, random quality audits and customer satisfaction surveys are carried out by the management to ensure accuracy of information and provide a better experience for customers.

## SOCIAL AND RELATIONSHIP CAPITAL

Internal customer satisfaction survey for newly opened current accounts and savings accounts with opening balances over LKR 100,000

Net Promorter Score of 93.37%

- Scored the second highest average (78%) among 3 competitors in the 12th consecutive survey
- Average Customer Satisfaction Survey (CSAT) Ratio 95%

Complaint resolution satisfaction survey conducted monthly

Annual mystery shopper survey

# Product labelling and marketing communications

The Bank's Product Development Committee is responsible for governing all products and services including the review and approval of product designs and features before new products or rejuvenated products are launched. The Bank uses a trilingual mode of communication in spoken and written to ensure our communications are easily understandable by our diverse customer base. We are bound by business ethics and fair-trade policies and our advertisements do not carry information that is not true.

#### **Customer privacy**

As technology continues to advance, the collection and processing of customer data have become increasingly crucial. To safeguard privacy, we have implemented robust policies, protocols and a secure infrastructure. These measures ensure that customer information is handled with utmost care and confidentiality. We also provide ongoing awareness and training to both customers and employees covering various topics, such as anti-money laundering, data privacy protection and anti-bribery and corruption.

#### Sale of banned or disputed products

The Bank adheres to a stringent approach, ensuring that our products and services align with regulatory standards. We operate in compliance with the Central Bank of Sri Lanka Customer Charter, which outlines guidelines for fair and transparent practices.

Our offerings undergo rigorous scrutiny, adhering to regulations and avoiding any contentious or disputed elements. We prioritize accurate information, and our products are duly registered, devoid of misleading details.

By maintaining this commitment, we foster trust with our customers and uphold the integrity of our services.

#### **Product Portfolio**

| Deposit Products                              |                                    | Description                                                                                                                                        | Value Delivered                                                                                                      | Markets Served                                                              |
|-----------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Rewards for<br>precious moments<br>in life    | Seylan Mega<br>Rewards             | Offers definite benefits for<br>personal savings, current<br>accounts, personal foreign<br>currency savings and foreign<br>currency fixed deposits | Interest and reward benefits                                                                                         | Individuals aged above 18 years                                             |
|                                               | Seylan Tikiri                      | Accounts for little ones                                                                                                                           | Interest, rewards, gifts and bonus interest benefits                                                                 | Children below 15 years of age                                              |
| Haragara                                      | Seylan<br>Harasara                 | Financial solutions for senior citizens                                                                                                            | Interest, reward, benefits,<br>merchant discounts and<br>pension loans                                               | Senior citizens aged above<br>55 years                                      |
| RSC Seylan<br>Money Market<br>Savings Account | Money Market<br>Savings<br>Account | Short-term savings account with higher interest rate                                                                                               | Interest benefits                                                                                                    | Corporate, individual clients<br>and collection accounts of<br>institutions |
| Millennium 30                                 | Millennium 30                      | 30-day fixed deposit                                                                                                                               | Interest benefits                                                                                                    | Corporate, SME, retail and individual clients                               |
| FLEE FIXED                                    | Seylan Flexi<br>Deposit            | Allows depositor to select the time period of the fixed deposit                                                                                    | Interest benefits, flexibility                                                                                       | Corporate, SME, retail and individual clients                               |
| SEYLAN<br>SHAKTHI<br>4 YEAR FIXED DEPOSIT     | Seylan Shakthi                     | 4-year fixed deposit                                                                                                                               | Interest and reward benefits<br>(in addition to interest, eligible<br>for utility payment vouchers)                  | Retail clients                                                              |
| 55FXED DEPOSIT                                | Seylan 5 Star                      | 5-year fixed deposit                                                                                                                               | Interest and reward benefits<br>(in addition to interest,<br>customers are eligible for<br>utility payment vouchers) | Retail clients                                                              |

| Deposit Products                        |                      | Description                                          | Value Delivered                                                                                         | Markets Served                                |
|-----------------------------------------|----------------------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Seven                                   | Seylfie              | Youth account                                        | Rupee interest, digital interest and reward benefits                                                    | Youth aged between 18-26 years                |
| Seylan<br>myplan<br>Begin Kour Alecen > | Seylan myplan        | Savings account with monthly fixed saving commitment | Interest benefits                                                                                       | SMEs, business clients and individuals        |
| SEYLAN RED                              | Seylan RED           | Priority Banking Membership                          | A dedicated Relationship<br>Manager along with concierge<br>service and an array of<br>dynamic benefits | High net worth individuals                    |
|                                         | Seylan<br>Accelerate | 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                                                                                                            |
|--------------------------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| BOD BC- CONS                                                 | Seylan Home<br>Loans               | Home loans up to<br>LKR 100 Mn to purchase a<br>bare land, purchase, construct<br>or renovate a house or to<br>purchase a condominium<br>apartment | Fixed interest rates,<br>documentation support and<br>advisory with doorstep service         | Primarily salaried<br>individuals, professionals<br>and businessmen                                                       |
| SEYLAN<br>LOAN AGAINST<br>PROPERTY<br>The multi purpose loan | Seylan Loan<br>Against<br>Property | Loans made available against<br>your residential property<br>to upgrade your lifestyle,<br>grow your business or for<br>investments                | Fixed interest rates and doorstep service                                                    | Salaried Individuals drawing<br>a monthly fixed income<br>over<br>LKR 50,000 with residentia<br>property under their name |
| <b>SEYLAN</b><br>LEASING COUNT CARD                          | Seylan Leasing                     | Finance leases for vehicles,<br>motorcycles, machinery, plant<br>and equipment                                                                     | Fixed interest rates with a flexible repayment structure and approval within a day           | Corporate, SME, retail and individual clients                                                                             |
| SEYLAN<br>Personal<br>Loans                                  | Seylan Personal<br>Loans           | Personal loan for any related purpose                                                                                                              | Fixed interest rates, doorstep service                                                       | Salaried individuals<br>employed at reputed<br>companies, professionals,<br>government servants and<br>armed forces       |
|                                                              | Seylan SME                         | Specialised loan scheme for<br>SME sector                                                                                                          | Interest benefits                                                                            | SME clients                                                                                                               |
| SEVLAN                                                       | Scholar Loans                      | Unique higher education loan scheme                                                                                                                | Fixed interest with a longer repayment tenure                                                | Individual clients                                                                                                        |
| SWIPE FOR LIFE                                               | Seylan Credit<br>Cards             | Visa, Master credit cards                                                                                                                          | Interest benefits, rewards and merchant discounts                                            | Individual clients                                                                                                        |
|                                                              | Trade Finance                      | Imports and exports                                                                                                                                | Commission and interest benefits                                                             | Corporate, SME, retail and individual clients                                                                             |
| SEYLAN<br>Factoring<br>Realizing tomorrow's cash today @     | Seylan<br>Factoring                | Provides working capital<br>requirements against trade<br>receivables                                                                              | Generates working capital                                                                    | Corporate, SME, retail and individual clients                                                                             |
| Gold Ioan                                                    | Seylan Gold<br>Loans               | Instant short-term loan facility against gold articles                                                                                             | Interest benefits                                                                            | Proprietors of business concerns and individuals                                                                          |
|                                                              | Seylan Solar<br>Loans              | Loans to purchase a roof top<br>Solar                                                                                                              | 2 day approval<br>Fixed interest rates<br>Discounts and offers from<br>reputed solar vendors | Salaried individuals<br>employed at reputed<br>companies, professionals,<br>government servants and<br>armed forces       |

## SOCIAL AND RELATIONSHIP CAPITAL

| Other Offerings       |                                         | Description                                                                                                                                               | Value Delivered                                                                                     | Markets Served                                                             |
|-----------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| 24×7 SMART<br>BANKING | Seylan<br>Interenet &<br>Mobile Banking | Able to carry out a variety<br>of banking functions at their<br>convenience by the click of a<br>button                                                   | Low charges and<br>24x7x365<br>accessibility                                                        | Corporate, SME, retail and<br>individual clients and credit<br>cardholders |
| CASH                  | SEY Cash                                | Bank's remittances platform                                                                                                                               | Commission benefits                                                                                 | Individual clients                                                         |
| 24×7 SMART<br>BANKING | SMS Banking                             | Opportunity to carry out<br>selected banking functions<br>via SMS                                                                                         | Free up to a number of SMSs and convenience                                                         | Corporate, SME, retail and<br>individual clients and credit<br>cardholders |
|                       | Overdrafts                              | Overdraft facilities for personal<br>and corporate current account<br>holders                                                                             | Interest benefits                                                                                   | Corporate, SME, retail and individual clients                              |
| SEYLAN                | SeylanPay                               | SeylanPay is a mobile<br>application that offers<br>customers a seamless and<br>secure transactional experience                                           | All your Accounts and Cards<br>in one place, Instant and<br>Contactless                             | Customers, merchants                                                       |
| pay<br>direct         | Pay Direct                              | Seylan Pay Direct enables<br>organizations to complete their<br>financial transactions                                                                    | Ease and convenience through<br>an efficient, hassle-free<br>manner without stepping into<br>a Bank | Corporates                                                                 |
|                       | Loan Scheme<br>for Pensioners           | Specialised banking service for<br>pensioners up to a maximum<br>loan amount of LKR 2.5 Mn                                                                | Fixed interest rates                                                                                | Government pensioners                                                      |
|                       | Safety Lockers                          | Allows customers to keep their valuable assets safely                                                                                                     | Safety of assets                                                                                    | Corporate, SME, retail and individual clients                              |
|                       | Merchant portal                         | Seylan payment portal is an all<br>one and multipurpose payment<br>portal that brings you all your<br>online payment acceptance<br>needs to your doorstep | Facilitates on line transactions                                                                    | Merchants without a website or shopping cart                               |
|                       | Internet<br>Payment<br>Gateway (IPG)    | A payment gateway is a<br>technology merchants use to<br>accept card payments (debit<br>or credit) to collect funds from<br>customers online              | Dedicated On line payment<br>24x7x365                                                               | Merchants                                                                  |

#### STRENGTHENING BUSINESS PARTNERSHIPS

As an integral part of our business strategy, effective collaboration with partners plays a pivotal role and thus, we remain dedicated to fostering strong, mutually beneficial partnerships. Our long-term relations with our business partners including suppliers and global banks have played a pivotal role in enhancing product and service quality, improving reliability, cost savings, and increasing our overall efficiency.

Key actions taken to strengthen business partner relationships during 2023

- Onboarding new to bank export customers through the Export Expert campaign
- Conducted training sessions for branch staff covering areas such as foreign exchange transactions, international trade payment, export facilitation and structuring of exporting financing

• Strengthen sound governance process and adopt best practices

## Supplier evaluation and procurement process

Our procurement processes are designed to deliver high value to our partners over time. We aim to enhance our procurement processes year-on-year, while continually building on supplier relations. As part of our relationship-building efforts with partners, the Bank ensures clear communication

#### Engagement with suppliers of branch vicinity

protocols and plans regular meetings for collaboration and relationship management. This collaborative and transparent approach to supplier management contributes to a resilient and responsive supply chain, ultimately benefiting both parties.

As part of our commitment to sustainability, we plan to sign supplier declarations with major suppliers in the future and expect to strengthen our collaboration with them in terms of social and environmental responsibility.

| Depiction                                   | 2023<br>LKR Mn | 2022<br>LKR Mn |
|---------------------------------------------|----------------|----------------|
| Tea and Coffee                              | 58.7           | 39.5           |
| Subsidised lunch for staff                  | 32.3           | 23.5           |
| Supply of foliage/maintenance of fish tanks | 3.2            | 2.2            |
| Janitorial and courier services             | 121.5          | 119.5          |
| Repair and maintenance                      | 62.5           | 30.9           |
| Drinking water                              | 17.4           | 12.8           |
| Newspapers                                  | 1.9            | 2.5            |
| Security                                    | 391.8          | 315.4          |
| Total                                       | 689.3          | 546.3          |

## Global Banking Partnerships

Asian Continent

China

Shenzhen

Shanghai

India

Chennai Bank of Ceylon

Standard Chartered Bank

Mumbai

Agricultural Bank of China Limited (ABC)

Standard Chartered Bank

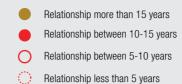
India

Bank

Mumbai

Indian Bank

Indian Overseas



#### Middle East Continent



# Australian Continent

North American

New York JP Morgan Chase N.A

USA

New York Habib American Bank

Continent



South Korea

KB Kookmin Bank – South Korea

South Korea

Korea Exchange Bank

Canada Toronto Royal Bank of Canada

USA

New York Deutsche Bank Trust Company – NY

Philadelphia

New York

Mashreq Bank

New York Standard Chartered Bank

Wells Fargo Bank

Seoul

Hongkong

Hongkong Standard Chartered Bank

Bangladesh

Standard Chartered Bank

Dhaka

Japan

Tokyo Standard

Chartered Bank

Pakistan

Karachi

Standard

Singapore

Chartered Bank

Standard Chartered Bank

Overseas Chinese Bank Corporation

Seoul

#### European Continent



59

## SOCIAL AND RELATIONSHIP CAPITAL

#### Membership in associations

The Bank holds membership in a wide number of industry associations to harness strength and partner for the mutual benefit of the industry as mentioned below.

| 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)                     |
|                                       | Chartered Institute of Taxation of Sri Lanka                       |
|                                       | Association of Banking Sector Risk Professionals                   |
| Regulators                            | Central Bank of Sri Lanka (CBSL)                                   |
|                                       | Securities and Exchange Commission of Sri Lanka                    |
|                                       | Colombo Stock Exchange                                             |
|                                       | Inland Revenue Department                                          |
| Business Collaborations and Other     | The Ceylon Chamber of Commerce                                     |
|                                       | The National Chamber of Commerce Sri Lanka                         |
|                                       | Lanka SWIFT User Group (LSUG)                                      |
|                                       | LankaPay (Pvt) Ltd                                                 |
|                                       | Association of Professional Banks Sri Lanka (APBSL)                |
| 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                                |
| Environmental conservation institutes | Biodiversity Sri Lanka                                             |
|                                       | Global Sustainable Finance Network                                 |
|                                       |                                                                    |

#### **Building community resilience**

Building resilience through community investment

Building resilience through community investment is a strategic approach that foster mutual benefits while strengthening the long-term sustainability and success of our Bank. Community investment involves allocating resources, financial or otherwise, to support initiatives that contribute to the well-being and development of the local community around our business domain.

We believe that education is an enabler of positive social change where our 'Seylan Pahasara' project continues to be the instrument and the cornerstone of our CSR initiatives;

| LKR 5 Mn investment on Hope for Life. | 06 new libraries established under the 'Seylan     | Sponsorships provided for education frontiers  |
|---------------------------------------|----------------------------------------------------|------------------------------------------------|
| An Ambulance Donated to "Suwaseriya"  | Pahasara' library project brings the total count   | embracing education / religious core existence |
| Foundation                            | to 225. Our aim is to increase this to 300 by 2026 |                                                |

LKR 16.48 Mn on Community Investments paying due attention to the need for social wellbeing and community.

Opening of 'Seylan Pahasara' 225th Library



Launched a decade ago, this CSR initiative aims to establish libraries in deserving schools across Sri Lanka, to improve the quality of education and foster reading habits among students. This year we marked the opening of the 225th library at Dharmashoka Primary College, Maharagama, coinciding with Seylan Bank's 35th Anniversary.

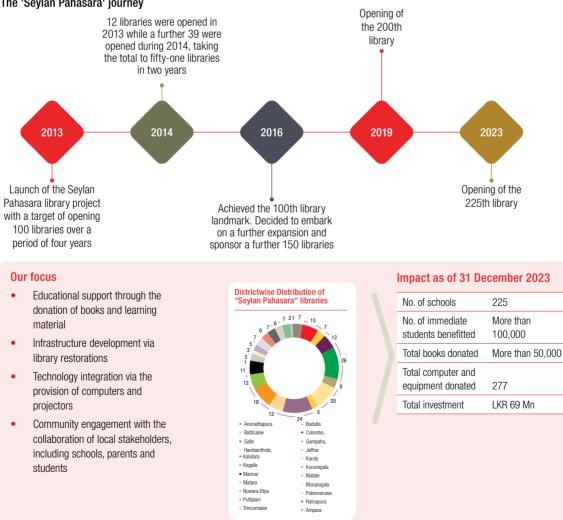
Seylan Pahasara is instrumental in building a conducive learning environment for students in

#### The 'Seylan Pahasara' journey

rural schools where infrastructure including computers and multimedia projectors, books and virtual resources are offered in line with the curriculum and embracing the concept of total quality education. This initiative has also vielded dividends as a unique meeting point to connect with school authorities, parents and students, where our interactions provide a channel to improve financial literacy and establish reach to formal financial channels.

Over the years we have received positive testimonials from the education office, principals, teachers, parents and students on the value delivered as mentioned above. This has motivated us even more to further strengthen this initiative and increase the number of libraries from 225 to 300 within a timeline of three years coupled with the piloting of an E-Library concept.

"Seylan Pahasara" commenced on the day we were celebrating our 25th anniversary with a formidable mandate of competing 100 libraries with a timeline of 4 years. However, resonating response received from the education office, principals, teachers, parents and students, the board sustainability subcommittee went to the board and extended the timeline and the number where 225 landmark was reached when we celebrated our 35th anniversary. We are proud to acclaim that the mission was more than a deed of unleashing potential to hundreds of thousands of needy students who learn today in schools island-wide as well as the ones who are yet to join the school tomorrow.



Way forward - Through this project we have made salient strides in improving access to quality education and fostering socio-economic development. As we reflect on our achievements and challenges, we reaffirm our commitment to driving positive change and creating a brighter future for generations to come.

## SOCIAL AND RELATIONSHIP CAPITAL

The Bank continues to engage with various community groups and small commercial enterprises by sponsoring events and projects to support the empowerment and growth of the community at large. During the year under review, the following contributions were made by the Bank.

#### Purpose centric sponsorships

| Description                                                         | Focus                                                                                            | Amount<br>LKR Mn | Major<br>Category | Pro-bono (P) /<br>Commercial (C) |
|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|------------------|-------------------|----------------------------------|
| Deeds on social welfare, recreation, and health                     | Communal CSR for potential relationships<br>and collective efforts                               | 9.50             | Community         | Р                                |
| Help grooming students in total quality education                   | Commitment to foster responsible citizens with positive attitudes                                | 0.58             | Education         | Р                                |
| Infrastructural assistance on religious and cultural observations   | Peace and prosperity                                                                             | 1.71             | Community         | Р                                |
| Programmes to promote exports and entrepreneurship                  | Nurturing common mandates of<br>entrepreneurship and exploring potential<br>export opportunities | 0.27             | Community         | P, C                             |
| Sports and outbound activities in schools and working professionals | Collaboration with professional, academia and other potential entities                           | 2.27             | Education         | P, C                             |
| Total                                                               |                                                                                                  | 14.33            |                   |                                  |

· Financial resilience: helping communities prepare financially during a cost-of-living challenges

Financial resilience is crucial for individuals and communities to navigate and withstand the challenges posed by the cost-of-living crisis. The ability of communities to prepare and manage their finances effectively is a critical aspect of overall resilience and we consider it as our overarching responsibility to guide and empower people with the knowledge and skills needed to navigate financial challenges. Carrying out financial literacy programmes, facilitating access to financial services, job training and employment support, debt management guidance and financial counselling have been key components of our financial resilience agenda during 2023, as we contribute towards building a foundation for long-term economic stability.

#### **External customers**

- Refinance and subsidised loan scheme
- Card discounts offered for daily needs, hospitalization, recreation and etc.
- 10 Capacity and financial literacy building programmes for SMEs across 8 districts island-wide

#### Internal customers

- Card discounts offered for daily needs, hospitalization, recreation and etc.
- Affiliation with education institutes on offers with slashed course fees, discounts and etc.
- Honourariums for educational excellence

Dinana Aya Women Entrepreneurs Forum



Seylan Bank is committed to building a better tomorrow for our nation. Women, who make up almost half of our community, are a major driving force of the households and country's potential socio-economic advancement. Women entrepreneurs embody the unwavering will and leadership of entire Sri Lankan women population. Our aim is to strengthen them with knowledge and financial empowerment as the propel to reach beyond horizons. Dinana Aya" programme provides the essential financial know-how to women entrepreneurs and implant the seeds towards a fruitful future where women-led enterprises usher our country's development trajectory.

There were 10 programs conducted and amongst the audience were number of matured women and youth who were educated with entrepreneurial knowledge and skills to unfold little by little business opportunities to reap mutual benefits while also creating space for employment generation.

Seylan Tikiri Pola



We organised the Seylan 'Tikiri Pola' event across Kandy, Aralaganwila and Matale to provide students with valuable hands-on experience in financial literacy, where they engaged in a wide range of activities covering money, market dynamics, exchange, goods and services in very little steps and ways. It was a day of learning, growth, and empowerment as these young minds took their first steps towards a financially literate future.

#### Refinance and subsidy schemes as a mode of blended finance for inclusivity

|                                                                                                         |                                                |                                                                | Loans Granted in 2023 |                  | Loans Granted in 2022 |                  |
|---------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------------------------|-----------------------|------------------|-----------------------|------------------|
| Refinance Scheme                                                                                        | Donor                                          | Eligible Sectors                                               | No.                   | Amount<br>LKR Mn | No.                   | Amount<br>LKR Mn |
| Asian Development Bank SME Line of Credit                                                               | Asian Development<br>Bank                      | Small and Medium<br>Entrepreneurs                              | 81                    | 1,508.64         | 62                    | 1,281.56         |
| Asian Development Bank Credit Line<br>for Covid 19 Emergency Response<br>Working Capital Scheme         | Asian Development<br>Bank                      | Businesses /<br>entrepreneurs affected<br>by Covid-19 pandemic | 65                    | 515.47           | 24                    | 125.50           |
| Environment Friend Solution (Revolving<br>Fund) II                                                      | Japan Bank for<br>International<br>Corporation | Any industry which<br>intends to reduce<br>pollutants / waste  | 1                     | 0.95             | 1                     | 21               |
| Kapruka Refinance Loans                                                                                 | Coconut Cultivation<br>Board                   | Coconut cultivation                                            | 14                    | 20.82            | 5                     | 5.11             |
| Asian Development Bank tea loan                                                                         | Asian Development<br>Bank                      | Tea small holders                                              | 149                   | 261.58           | 40                    | 106.79           |
| Asian Development Bank Rooftop<br>Solar Power Generation Project                                        | Asian Development<br>Bank                      | Solar power Generation                                         | 2                     | 1.16             | 0                     | 0                |
| Saubagya Loan Scheme                                                                                    | Government of Sri<br>Lanka                     | Small and Medium<br>Entreprenuers                              | 29                    | 129.67           | 35                    | 227.07           |
| Small & Micro Industries Leader &<br>Entrepreneur Promotion Project III -<br>(SMILE III Revolving Fund) | Japan Bank for<br>International<br>Corporation | Small and Medium<br>Entreprenuers                              | 76                    | 907.35           | 1                     | 13.95            |
| Interest subsidy loan scheme                                                                            |                                                |                                                                |                       |                  |                       |                  |
| New Comprehensive Rural Credit<br>Scheme (NCRCS)                                                        | Government of Sri<br>Lanka                     | Agriculture / Cultivation                                      | 3,896                 | 1,308.81         | 2,148                 | 504.53           |

#### Assistance provided to SME and micro sectors

|                                | Year   |        |        |
|--------------------------------|--------|--------|--------|
| Details of SME Loans           | 2023   | 2022   | 2021   |
| Total no. of clients           | 20,818 | 22,522 | 19,510 |
| Loan portfolio (LKR Mn)        | 98,349 | 82,996 | 92,628 |
| Details of Micro Finance Loans |        |        |        |
| Total no. of clients           | 8,514  | 5,226  | 8554   |
| Loan portfolio (LKR Mn)        | 1,992  | 587    | 770    |

Я

## SOCIAL AND RELATIONSHIP CAPITAL

#### Communal health and resilience

Boosting and strengthening our primary healthcare infrastructure was identified as an important need for their emergency health concerns. Seylan Bank stepped forward to finance the purchase of an ambulance worth LKR 5Mn in the form of a donation to the 'Suwaseriya' Foundation.

#### Our compliance and due diligence

| Compliance                                                                                                                                                                                              | Level/status of compliance and action taken                                                                                                                                                                                                                                                                                                                         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Percentage and the total number<br>of business units analysed for risk<br>concerning corruption and the<br>percentage of employees trained in<br>the Bank's anti-corruption policies and<br>procedures. | Prevailing gaps, if any, on training and development needs are identified through audit trails.<br>Provide training programmes which enforce and reinforce good Corporate Governance internally.<br>Code of conduct is signed by every employee and shoulders the responsibility herein.                                                                            |
| Action(s) taken in response to incidents of corruption                                                                                                                                                  | Stringent internal controls and protocols, audit procedures, and staff disciplinary codes enforced across every operation and stakeholder engagement activity.                                                                                                                                                                                                      |
| Participation in public policy development.                                                                                                                                                             | 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 Central Bank of Sri Lanka, and implementation of Accounting Standards                   |
| The total value of financial and in-kind contributions to political parties and politicians.                                                                                                            | No contributions were made to political parties or politicians.<br>All business of the Bank was conducted at arm's-length.<br>The Bank has a policy on politically exposed persons and maintains a strict adherence to the same.                                                                                                                                    |
| The number of legal actions taken for anti-competitive behaviours.                                                                                                                                      | The Bank consistently complies with the country's laws and regulations in conducting its marketing campaigns.<br>Truth and transparency in advertising are followed when displaying banners, conducting sales campaigns, roadshows, and using public address systems.<br>No legal action was taken against the Bank for anti-competitive behaviour during the year. |
| The monetary value of significant fines<br>and the total number of non-monetary<br>sanctions for non-compliance with laws<br>and regulations.                                                           | All laws and/or regulations applicable to the Bank were compiled with, except for fine paid for LKR 1 Mn on non-screening of a guardian who has opened an account for a minor. To strengthen effective monitoring, a monthly compliance report is tabled at Board meetings.                                                                                         |

#### Training related to governance and compliance\*

|                                                            | 2023             |                    |  |
|------------------------------------------------------------|------------------|--------------------|--|
|                                                            | No of Programmes | No of Participants |  |
| Internal/External/Foreign total                            | 215              | 19,573             |  |
| General banking practices                                  | 88               | 3,323              |  |
| Anti-money laundering/KYC                                  | 3                | 1,043              |  |
| System Security                                            | 1                | 1,010              |  |
| Accounting/Auditing/Compliance and Other specialized areas | 43               | 121                |  |

\* Aligned with the contents of "Our compliance and due diligence"

### **Way Forward**

- Steps to be taken to canvass trade clients from diversified fields enabling us to have a diversified portfolio of clients
- Automated balance check Interactive Voice Response (IVR) & SMS push to be implemented
- Digital signage platform to promote customer awareness through videos
- Carry out negotiations with Asian Development Bank to partner the "Trade Finance Program (TFP)" where ADB will extend funded and non-funded credit lines at relatively low pricing so that partner banks could reach out to more trade clients world over
- Establish remittance tie-ups with new partners in emerging markets
- Approaching Fintech service providers to collaborate with Bank to process remittances
- D Tie-up with Lanka remit to receive remittances via their mobile app originated using visa/master cards
- Centralize the procurement function in the Bank and handle procurement through central Services Department to further improve the visibility of procurement activities

#### INTELLECTUAL CAPITAL

# Driving innovation and growth

# Value created and preserved in 2023

- Strengthened our current digital services focusing on three main pillars: Online, Digital transaction and E-commerce revenue to enhance our value proposition
- Introduced more locally developed solutions
- Revamped products and services by implementing automated processes for investment banking, merchant banking rentals and by introducing robust charging models for digital channels

#### Capitals Impacted



#### **Our brand legacy**

Our brand legacy encompasses the cumulative impact, reputation, and enduring influence that we have built over our 35 year history. Our aim is to nurture a strong brand legacy that excels individual products or campaigns and creates a lasting imprint in the minds of consumers and positions us as a trusted Companion. Throughout its journey the Bank has deeply understood customer needs, translating 'The Bank with a Heart' tagline into tailored financial solutions.

Our brand legacy was further strengthened upon securing the top rank in LMD's Customer Excellence Survey for the fourth consecutive year, showcasing our unparalleled service quality in Sri Lanka's Banking sector. This survey, with over 2,800 The Bank's intellectual capital represented by its unique base of tacit knowledge, organisational structures and brand is a source of competitive advantage in the evolving business landscape. It is pivotal to sustainable value creation and a key contributor towards profitability and productivity. The Bank strives to innovate and adapt to the dynamic digital era, through advanced technology, data analytics, and artificial intelligence, leveraging on the skills and knowledge of its employees over the years.



responses, solidifies Seylan Bank's position as the preferred choice for exceptional service, affirming its continued commitment to superior customer experience and deeprooted customer-first policy.

As a brand, Seylan Bank continuously serves as a catalyst for positive change. Following are some of the campaigns carried out during 2023.

#### E-VOLVE campaign

At Seylan bank, our greatest competitive advantage lies in the exceptional strength of our dedicated staff and the enduring relationships they have created with our valued customers. Over the years, our

## INTELLECTUAL CAPITAL

team has accumulated tacit knowledge, complemented by the fresh perspectives brought in by new staff members, creating a dynamic knowledge ecosystem within the bank. Committed to continuous improvement, we prioritize training and development initiatives that not only enhance our team's skills but also foster a culture of innovation and growth. Therefore with the vision to simultaneously educate and drive business, we launched E-VOLVE 2023 - a comprehensive plan designed to simultaneously educate our staff and customers. By nurturing knowledge and fostering a culture of learning, we pave the way for sustained success and meaningful progress in our evolving industry.

The campaign was launched on 01 June 2023 to increase Seylan Online banking (both Corporate and Retail), Mobile Banking and SeylanPay activation and usage via internal and branch staff. The campaign concluded on 31 Aug 2023 and was able to bring more than 30,000 customers onboard.

#### **Campaign outcomes**

- Increased digital penetration from 15% to 22%
- Onboarded more than 30,000 customers by the end of the campaign
   Retail IB/MB registrations 30,075 and Corporate IB

activations SeylanPay creations 5,966

 Created greater awareness among staff on digital solutions, making them strongly believe in the digital transformation journey



SEYLAN



| Facebook  | Financial sector as the first bank to achieve this milestone                                                                                                                                                                                                                                                                                        |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| YouTube   | Seylan YouTube channel has mainly focused on creating awareness to Seylan<br>and Non seylan customers on financial literacy, also how to video series on Digital<br>products creating knowledge & focusing on customer testimonials to share<br>success stories which have helped us secure 5th rank of followers among other<br>competitive banks. |
| Instagram | 3rd highest number of followers on Instagram among local banks. Focusing<br>mainly on the products campaigns, seasonal offers that have resulted gaining<br>23,700 followers.                                                                                                                                                                       |
| LinkedIn  | Seylan bank LinkedIn has been active with the newest initiatives we have done,<br>awards, life at seylan and job vacancies achieving a 54,626 total followers                                                                                                                                                                                       |
| Tik tok   | Seylan bank is the top 4 most engaging profiles on tik tok in the banking sector<br>with 8,513 followers & 39,500 overall likes, spreading awareness on the financial<br>literacy and also engaging staff to create content to show case life at seylan.                                                                                            |

#### Ranking Seylan 74th in the world for social media channels

https://thefinancialbrand.com/top-100-social-media-banking/top-100-banks-using-social-media/



Signfluencer Campaign



Seylan Bank introduced Sri Lanka's first 'Signfluencer' with the aim to advocate recognition for sign language and support the user community by creating an opportunity to unlock their potential in the social media platforms.

Seylan Bank's Signfluencer campaign creates a spotlight on the need to acknowledge the hearing-impaired community and provide effective communication channels to understand their requirements. In addition to better serve this important community, Seylan Bank aims to ensure banking is more inclusive, removing barriers to financial access and participation, while bringing about positive change in their lives.

Launching the campaign, Seylan Bank introduced Nikita, Sri Lanka's first 'Signfluencer. Nikita advocates raising awareness of sign language as an official language and aims to eliminate isolation among the hearing-impaired community, fostering inclusivity in people's hearts.

As the initial stage in raising awareness and promoting recognition for this community among society, Seylan Bank invited everyone to connect with Nikita by sending a direct message (DM) via any private or public Instagram profile and learn how to sign their name in sign language. The Bank also requests individuals to share videos of themselves signing names in sign language. Seylan Bank firmly believes that the simplest act of introducing oneself by using sign language can significantly increase awareness for the cause.

Seylan Bank as an enabler is committed to expanding its efforts beyond this campaign, with plans to conduct financial literacy programs and product briefings using sign language, further enhancing its reputation as an inclusive bank that truly has a heart for all.

#### Leveraging technology and innovation

The rise of consumer digital preferences and increased fin-tech competition is fueling an eruption of digital investment in banking and payment systems. Seylan Bank aims to leverage technology to offer customers a seamless and personalized banking experience and our strategy for digitization includes both internal and external objectives.

Online channel penetration reached



- Internally we aim to upgrade our systems by investing in new technology for process automation, in order to get more robust returns on investment and focus on enhancing security to enable better internal and external digital stakeholder management
- Robotic process automation has allowed the Bank to automate manual and mundane human capital-intensive work process
- Workflow process automation has facilitated far greater efficiency in processes which has resulted in better Turnaround time and First-Time-Right with minimum or no back and forth, and reducing costs
- Externally our goals include on-boarding a younger audience onto digital channels and creating opportunities for cross-selling products and services. Through these digital

channels, we will be able to deliver a personalized service to our customers

- Development and launch of Open
   Digital Payments app
- Subletting LankaPay (Pvt) Ltd acquiring/issuing services for Lanka QR (LQR), JustPay
- Launching Open Banking (Application Programming Interface) API's services allowing corporate customers to directly interact to Bank's transactional services
- Customising payment collection platforms to specific customer segments

This digitization strategy supports the Bank to create value in line with customer demands while remaining relevant in an increasingly online, and technology driven environment. The value-added services enabled through digitization technology deployed by the Bank has supported increased customer reach and improved customer relationships over the years.

| Key highlights                                                                                                                                                | Impact                                                                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| Launch of SeylanPay<br>– (all LQR scenarios<br>and JustPay)                                                                                                   | Expanded our<br>customer base<br>by 3,500 with<br>approximately many<br>active merchants                                                            |
| Commercially<br>launched Open<br>API (Application<br>Programming<br>Interface) Banking                                                                        | Supporting large<br>merchants of the<br>Bank with these<br>services has<br>directly influenced<br>CEFT revenue and<br>contributed to CASA<br>growth |
| Implemented an<br>automated IB/MB<br>charging system<br>enabling the Bank to<br>recover these fees<br>without the need for<br>Manual Standing<br>Orders (SOs) | Led to a positive<br>P&L impact and we<br>plan to move this<br>service from cost<br>center to an efficient<br>profit center                         |

During the year our online banking channels were revamped, allowing us to provide a better service, facilitating a higher volume of customer on-boarding, and enabling the handling of a greater number of transactions through the online banking system. Furthermore, we broadened the scope of our Seylan Internet Payment Gateway (IPG) services to serve worldwide clientele 24 x 7 x 365 days.

With the Digital Banking Channels P&L formally completed, all income and

expenditure belonging to the different areas were recognized under the current P&L, thereby further streamlining reporting processes.

#### Key challenges

- Maintaining system stability to meet the growing demands of customers
- Maintaining uninterrupted operations amidst the brain drain
- Attracting new talent to manage staff movement

OPEN API (Application Programming Interface) banking services strengthened the Bank's ability to integrate with third parties. This allows customers to conduct transactions, bypassing the Bank's traditional customer-facing infrastructure such as online banking. Allowing trusted third parties to directly connect to the Bank's transactional service securely, has raised the Bank's reputation, and resulted in an increased demand for digital banking services, with noticeable growth in current accounts and savings accounts served in the Corporate and SME segments.

Our Digital strategy of focusing on online bulk payments, such as salary, incentives, and vendor payments has attracted many corporate firms resulting in a significant increase in customer adoption rates and a notable surge in transaction volumes for both retail and corporate banking customers, supported by the introducing of open banking APIs.

We are also looking at leveraging Artificial Intelligence to improve credit quality, reduce stage 3 loans, streamline our internal processes, enhance customer experience, combat financial crime, and to support the Bank's sustainability transformation.

A User Acceptance Testing (UAT) unit was setup during the latter half of the year, which allows business and operation personnel to focus on core areas, of which we will see the results during the second quarter of 2024.

We picked up the pace with the electronic know your customer (eKYC) project where all stakeholders pushed up their commitment, and the Digital Banking Channel (DBC) team took up the lead to complete UAT. All stakeholders have been continuously engaging with the relevant stakeholders to provide the 1st iteration development in early 2024.

## INTELLECTUAL CAPITAL

#### Measures of progress

| KPI for year 2023       | Budget<br>Achievement |
|-------------------------|-----------------------|
| IB/MB Penetration       | 102%                  |
| IB/MB Transaction Value | 117%                  |
| IPG Income              | 106%                  |

#### Value delivered to stakeholders

| Investors                                                 | Employees                       | Customers                                                                                   |  |
|-----------------------------------------------------------|---------------------------------|---------------------------------------------------------------------------------------------|--|
| Communication via     digital channels                    | Remote working     capabilities | <ul><li>Mobile banking services</li><li>Automated and remote<br/>banking services</li></ul> |  |
| Online access to investor information                     | E-learning platforms            |                                                                                             |  |
| Information                                               | Virtual meetings                | Mobile ATMs                                                                                 |  |
|                                                           |                                 | Payment Gateways                                                                            |  |
|                                                           |                                 | QR Payments                                                                                 |  |
|                                                           |                                 | On-site and off-site     ATMs, CDKs, CDMs and     CRMs                                      |  |
| Regulatory authorities                                    | Suppliers                       | Business partners                                                                           |  |
|                                                           |                                 |                                                                                             |  |
| <ul> <li>Integrated system<br/>developments on</li> </ul> | Paperless online     payments   | Connectivity via virtual<br>platforms                                                       |  |
| Integrated system                                         |                                 | Connectivity via virtual                                                                    |  |

#### IT governance and data security

As we increasingly adopt digital solutions to deliver consumer financial services, we understand our clients, customers and others may have concerns about the use of their personal information. Prioritizing IT security is integral to enhancing both internal and external digital stakeholder management and accordingly, significant investments were made in strengthening our digital and security infrastructure.



We have integrated the latest security features in terms of data protection considering confidentiality, integrity and availability for both internal and external stakeholders.

Adding to our commitment to safeguard our customers from cyber threats, the Bank has adopted Global ISMS Best Practices within the digitization strategy. Towards this end, the Bank has designed an extra security measure of onboarding customers, with a 3-factor authentication for online and mobile banking platforms.

#### Key IT security developments

- Kaspersky End Point Detection and Responds System (EDR)
- Trend Micro Deep Security Implementation of all Critical Servers
- Multifactor Authentication System (MFA)
- Manage Engine (ME) Application Control Plus

We are committed to regular monitoring and upgrading our security systems, aligning with national and international IT security and data protection accreditation such as PCI/DSS (Payment Card Industry Data Security Standard) and ISO 27001 ISMS (Information Security Management System) Security standards while continuously staying vigilant to mitigate emerging threats. Ensuring digital compliance across various aspects of technology is a priority for the Bank and we will continue to invest in and address security and compliance related policies and practices on a regular basis.

### NATURAL CAPITAL

# Managing our environmental footprint

# Value created and preserved in 2023

- Strengthening the Environmental and Social Management System (ESMS) across the Bank through capacity building programmes and exercising due diligence
- 190.67 GWh electricity generated and contributed to the national grid through renewable energy projects financed
- 13% reduction in A4 paper purchased

#### **Capitals Impacted**



#### Our environmental policy

Our environmental policy is built on the premise of minimising both the direct and indirect detrimental impact on the environment as a result of our business activities, whilst simultaneously putting in our best effort to protect and replenish the natural resources around us. Accordingly, the Bank ensures that not only its products and services, but also the projects it supports during the normal course of business are compliant with applicable environmental and social regulations. In an era where environmental consciousness is vital, our commitment to sustainable practices plays a pivotal role in defining our corporate responsibility towards current and future generations. Managing our environmental footprint is not just a corporate initiative; it is a collective responsibility that aligns with our values and the broader global movement towards a greener, more sustainable and equitable future. Accordingly, our business model incorporates environmental due diligence across all aspects of banking operations and all stakeholder interactions.

# Our environmental and social management system and ESG compliance

The Bank's Environmental and Social Management System guides the evaluation of capacity, commitment and track records of stakeholders associated with our business operations. While complying with relevant local and global laws, rules and regulations and industry best standards and practices it corresponds with environmental and social due diligence as means of transitioning to a green and clean one.

It also plays a key role in educating our customers on environmental and social management standards, local and global

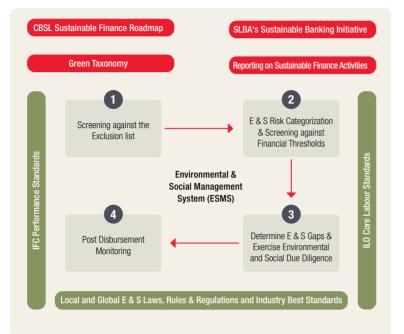
industry best practices and corresponding due diligence to be exercised in their specific business entities as a responsible and collective effort with the Bank.

Being a member to the Sri Lanka Banks Association Sustainable Banking Initiative (SLBA SBI) our Bank abides by the 11 principles in a collective effort with industry participants to create an ethical and level playing field for Sustainable Finance activities while staying abreast with the Sustainable Finance Roadmap of the regulator and the Green taxonomy developed with reporting formality.

## NATURAL CAPITAL

The following diagram portrays the Environmental and Social Governance framework of the Bank and how sustainability is fused within.

#### **Environmental and Social Governance (ESG)**



#### **Responsible lending practices**

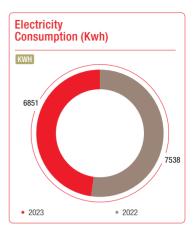
- The ESMS implementation helps to screen all lending transactions of the Bank
- Environmental and Social (E&S) impact assessments (ESIA) are carried out with a comprehensive risk profiling questionnaire and other relevant tools to supplement the same
- E&S due diligence is determined through the lens of E & S risks and financial thresholds where due diligence is exercised with amicable and mutually agreeable E&S action plans. This aims to close E & S gaps if any based on relevant local and global laws, rules and regulations and industry best practises such as IFC performance standards, ILO core labour standards, Equator principle, ESG framework and etc.

#### **Energy consumption**

The Bank is mainly dependent on two forms of energy; electricity and fuel and we actively invest in energy-efficient technologies and practices to minimize our energy consumption. This includes the adoption of renewable energy sources, optimizing lighting and heating systems, and implementing energy-efficient technologies throughout our operations. We mainly source electricity from the national grid and only depend on diesel generators during power outages, with special emphasis on keeping our ATM servers running at all times. Electricity consumption increased during the year mainly due to increased transition from 'work from home' to 'office-based employees'. Energy consumption outside the Bank occurs through staff commuting and transportation of goods relevant to business operations.

## Measures taken to conserve energy usage;

- 10 branches converted to a single storey building
- Workflows and accustom of work at Head Office
- Gradual transition to renewable energy with solar energy installed at branches
- Digitalising work processes via Fintech solutions
- Periodical repairs to the Bank's vehicle fleet
- Awareness creation for drivers to avoid congested routes and times together with efficient driving techniques
- Regular monitoring of the performance
   of vehicles



#### Total energy consumption

|                              | 2023   | 2022     |
|------------------------------|--------|----------|
| Electricity (kWh)            | 7,538  | 6,851    |
| Diesel for<br>generators (L) | 70,998 | 206,633* |
| Petrol (L)                   | 10,536 | 16,515   |
| Diesel (L)                   | 27,865 | 29,235   |
| Lubricants (L)               | 1,636  | 437      |
|                              |        |          |

\* Due to power outages

#### **Emissions management**

Emissions occur due to burning of fossil fuels mainly through generator operations and vehicle usage for staff commuting and transporting goods. We are constantly exploring and implementing initiatives to reduce our carbon footprint including supporting renewable energy projects, investing in carbon offset programs, and continuously monitoring and optimizing our operations to reduce direct greenhouse gas emissions. Our indirect emissions as a result of finance availed to various industries are screened through our ESMS for negating or mitigating detrimental impact if any with due diligence to be exercised.

#### Water management

The Bank uses water mainly for personal hygiene purposes and cleaning of business premises, vehicles, and related utensils which poses a minimal detrimental effect on the environment.

#### Water withdrawal by source

| Units(U) per                                                          |        |        |        |
|-----------------------------------------------------------------------|--------|--------|--------|
| Employee (E)                                                          | 2023   | 2022   | 2021   |
| Surface<br>groundwater,<br>municipal or<br>private water<br>units (U) | 66,005 | 69,063 | 93,370 |
| Usage per<br>employee<br>(U/E)                                        | 21     | 22     | 30     |

#### Managing paper usage

With the rapid acceleration in technology and growing awareness of environmental sustainability, we keep continuous focus towards facilitating a digitally transformed paperless banking operations while strengthening cyber security. This strategic shift not only aligns with our commitment to reducing our carbon footprint but also enhances efficiency, collaboration, and overall operational resilience. During the year we continued to encourage our employees and customers to minimise the use of paper and increasingly embrace digital forms of communication.

The following practices continued to be implemented and supported the Bank's efforts to refuse, reduce, re-use and recycle paper.

- Internal communications using digital channels
- Restricting the printing of receipts based on customer preference

### E-waste

- re-use computers to manage accumulation
- Refurbished computers are donated to needy schools and educational institutes based on respective IT literacy and practical know-how gaps and infrastructure availability
- Authorities are educated to dispose residues responsibly
- During the year the Bank donated 08 computers to two schools

- Training and development undertaken via E-learning platforms
- Printing only in unavoidable circumstances
- Uploading the board papers to respective members using iPad transmission
- Conducting meetings through MS Teams and using other virtual meeting platforms
- YOY growth rate of 32% on the Point of Sale (POS) spend as means of transitioning to paperless process

#### Waste management

An organized waste management strategy is in place to reduce, reuse, and recycle materials. This involves promoting a culture of waste reduction among employees, establishing recycling programs, and working with suppliers who share our commitment to sustainable best practices. Our efforts in educating customers and promoting digital literacy amongst them too result in reducing paper waste as customer adaptation to paperless banking channels become a future demand.

### 69,020 kg of paper recycled

#### 1,173 trees saved

Launch of 'SeylanPay' payment

system & Internet Banking & Mobile Banking penetration of 22%

### Solid and other

- Solid waste accumulated including food waste, paper wrapping and polythene is segregated as per the governing rules and regulations of the government and Basel convention
- Food waste and other is disposed through garbage collectors





#### Indirect waste

- Our ESMS system helps carry out environmental impact assessments through which waste disposals and management of waste become a part of the evaluation criteria for determining necessary due diligence
- ESMS also acts as a knowledge repository to educate customers in environmental standards and best practices while closing gaps if any through amicable environmental and social action plans



## NATURAL CAPITAL

### Our green finance footprint on renewable energy

|                      |                                            |                              | Renewable I         | Energy Projects                     |                          |                                   |                        | GWH                                          |
|----------------------|--------------------------------------------|------------------------------|---------------------|-------------------------------------|--------------------------|-----------------------------------|------------------------|----------------------------------------------|
|                      | _                                          | Amount grant<br>year 2023 (l | -                   | Outstanding<br>as at 31<br>December | Production               | Energy<br>produced<br>during year | No. of                 | GWH<br>Contribution<br>made to               |
| Type of<br>Project   | Project Location                           | Before<br>year 2023          | During<br>year 2023 | 2023<br>LKR Mn                      | capacity (Mega<br>Watts) | 2023 (Gega<br>Watts per<br>hour)  | employment<br>provided | National Grid<br>/Any other<br>relevant info |
|                      | Aranayake                                  | -                            | -                   | 0.56                                | 17.50                    | 6.80                              | 10                     | 6.80                                         |
| Hydro                | Anuradhapura,<br>Kuliyapitiya &<br>Thalawa | -                            | -                   | 187.73                              | 2.24                     | 8.37                              | 8                      | 8.37                                         |
|                      | Kibale, Uganda                             | 1,022.17<br>(USD 3.15)       |                     | 797.62<br>(USD 2.458)               | 6.5                      | 30.66                             | 20                     | 30.66                                        |
|                      | Ratnapura                                  | 172.00                       |                     | 10.69                               | 1.3                      | 4.70                              | 9                      | 4.70                                         |
|                      | Wellampitiya                               | 1.34                         | -                   | 3.90                                | 750.00                   | 500.00                            | 4                      | -                                            |
|                      | Ratmalana &<br>Welipenna                   | -                            |                     | 40.13                               | 0.80                     | 0.94                              | -                      | -                                            |
|                      | Batticaloa                                 | 821.00                       | 226.51              | 1,047.22                            | 10                       | 18.32                             | 15                     | 18.32                                        |
|                      | Monaragala                                 | 88.60                        | -                   | 80.21                               | 1                        | 1.10                              | 2                      | 1.10                                         |
| Ground Solar         | Vavuniya                                   | 100.00                       | -                   | 26.85                               | 1                        | 1.60                              | 5                      | 1.60                                         |
| ΠÂ:                  | Vavuniya                                   | 100.00                       | -                   | 26.85                               | 1                        | 1.60                              | 5                      | 1.60                                         |
| <u> </u>             | Moho & Pannala                             | 249.00                       | 19.10               | 250.56                              | 2                        | 2.60                              | 5                      | 2.60                                         |
|                      | Ampara                                     | 201.50                       | -                   | 192.7                               | 2                        | 3.32                              | 3                      | 3.32                                         |
|                      | Mathugama                                  | 157.50                       | -                   | 113.18                              | 2                        | 3.35                              | 5                      | 3.35                                         |
|                      | Galle                                      | 169.60                       | -                   | 152.1                               | 2                        | 3.37                              | 5                      | 3.37                                         |
| Wind                 | Puttalam                                   | -                            | -                   | 214.00                              | 2.56                     | 11.11                             | 10                     | 11.11                                        |
|                      | Mannar                                     | -                            | -                   | 880.00                              | 22.5                     | 89.73                             | 20                     | 89.73                                        |
|                      | Panadura,Pannipitiya<br>& Nugegoda         | 68.70                        | -                   | 55.10                               | 1                        | 1.30                              | 1                      | 1.30                                         |
|                      | Thambuttegama                              | 27.00                        | -                   | 20.38                               | 0.3                      | 0.36                              | 1                      | 0.36                                         |
|                      | Trincomalee                                | 14.60                        | -                   | 10.39                               | 0.16                     | 0.16                              | 1                      | 0.16                                         |
| Corporate<br>Rooftop | Kalpitiya                                  | 12.50                        | -                   | 8.79                                | 0.1                      | 0.12                              | 1                      | 0.12                                         |
| Solar                | Welipenna                                  | 90.00                        | -                   | 41.02                               | 1                        | 0.50                              | 1                      | 0.50                                         |
| E.A.                 |                                            | 35.95                        | -                   | 29.95                               | 0.45                     | 0.24                              | 2                      | 0.24                                         |
| e de                 | Athurugiriya &<br>Hokandara                | 58.02                        | -                   | 52.26                               | 0.55                     | 0.53                              | 2                      | 0.53                                         |
|                      |                                            | 16.04                        | -                   | 14.38                               | 0.16                     | 0.26                              | 2                      | 0.26                                         |
|                      | Kotugoda-Seeduwa                           | 28.38                        | -                   | 16.87                               | 0.4                      | 0.57                              | 1                      | 0.57                                         |

#### Our green finance footprint on energy efficient vehicles

| Quarter | No. of<br>facilities | Amount<br>LKR Mn | Outstanding<br>LKR Mn |
|---------|----------------------|------------------|-----------------------|
| Q1      | 170                  | 479              | 3,850                 |
| Q2      | 105                  | 364              | 4,175                 |
| Q3      | 300                  | 986              | 4,932                 |
| Q4      | 211                  | 715              | 4,552                 |
| Total   | 786                  | 2,544            |                       |

#### **Protecting biodiversity**

Our premises are not located in proximity to conserved areas of biodiversity and our direct business operations are free from the negative impact on such areas. As part of our conservation efforts to minimise our involvement in indirect biodiversity impact, the Bank's customers who received financing facilities are screened against our ESMS to review their processes and due diligence in complying with local laws and the requirements of the International Union for Conservation and Nature (IUCN). We are also a patron member of Biodiversity Sri Lanka, in harness with its mandates of conserving biodiversity and promoting sustainability.

## Way forward

Managing our environmental footprint is a journey that requires continuous effort and adaptation. By implementing our sustainability strategy and fostering a culture of sustainability, we strive to contribute positively to the environment while ensuring the long-term success and resilience of the Bank. Our focus for 2024 is as follows;

- Convert three potential branches to solar energy
- Progressively accomplish environmental targets set out in the Bank's 5 year Sustainability Strategy
- Explore potential collaborations for Fintech solutions
- Increase the year-on-year point of sale (POS) spend by 5% in 2024
- Embed sustainability best practices into the procurement process

# SUSTAINABILITY PERFORMANCE INDICATORS

| Stakeholder  | Indiantar of Dayformana                                                | Achievement      |                  |                  |                  | GRI              |           |  |
|--------------|------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|-----------|--|
| Group        | Indicator of Performance                                               | 2023             | 2022             | 2021             | 2020             | 2019             | Indicator |  |
| Investors    | Economic value added (LKR Mn)                                          | 24,063           | 18,311           | 15,892           | 13,867           | 15,280           |           |  |
|              | Profit after tax (LKR Mn)                                              | 6,256            | 4,712            | 4,581            | 3,011            | 3,680            |           |  |
|              | Earnings per share (LKR)                                               | 10.17            | 7.66             | 7.44             | 4.89             | 5.989            |           |  |
|              | Return on equity (%)                                                   | 10.88            | 8.85             | 9.07             | 6.43             | 9.29             |           |  |
|              | Return on average assets                                               | 0.9              | 0.74             | 0.79             | 0.56             | 0.75             |           |  |
|              | Dividend per share (LKR)                                               | 2.5              | 2.00             | 3.00             | 1.50             | 2.00             |           |  |
|              | Customer deposits (LKR Mn)                                             | 590,698          | 547,316          | 488,653          | 440,303          | 400,731          | G1        |  |
|              | Number of KYC<br>anti-money laundering programmes [No of participants] | 1,043            | 239              | 218              | 512              | 726              | G2        |  |
|              | Penalties arising from non-compliance of laws (LKR Mn)                 | 1                | Nil              | *                | Nil              | Nil              |           |  |
| Customers    | Number of banking centres                                              | 171              | 171              | 171              | 172              | 173              |           |  |
| (A)          | Number of ATMs                                                         | 215              | 215              | 214              | 215              | 215              |           |  |
| Aunt         | Total customer advances (Gross)(LKR Mn)                                | 497,205          | 490,432          | 465,905          | 409,301          | 389,991          | G1        |  |
|              | Number of housing loans                                                | 4,391            | 5,276            | 5,765            | 5,254            | 5,703            |           |  |
|              | Value of housing loans (LKR Mn)                                        | 15,828           | 17,833           | 17,899           | 16,731           | 16,765           |           |  |
|              | Housing loans to total loans (%)                                       | 3.18             | 3.64             | 3.84             | 4.09             | 4.30             | G2        |  |
|              | Number of 'Tikiri' kids events held                                    | 2                | 4                | 15               | 27               | 104              | GRI 413-1 |  |
|              | Number of student saving centres                                       | 98               | 98               | 98               | 98               | 98               | G1        |  |
|              | Number of customer complaints                                          | 6,394            | 4,865            | 5,786            | 4,534            | 4,824            | GRI 418-1 |  |
| Employees    | Turnover rate (%) (Including sales staff)                              | 17.12            | 12.23            | 7.56             | 5.88             | 9.26             | GRI 401-1 |  |
| 0 <b>0</b> 0 | Permanent employees (%)                                                | 86               | 90               | 95               | 94               | 88               | G1        |  |
|              | Average benefits per employee (LKR '000)                               | 2,974            | 2,540            | 2,203            | 2,235            | 1,970            | GRI 405-2 |  |
|              | Staff covered by health plan (%)                                       | 100              | 100              | 100              | 100              | 100              | GRI 403-1 |  |
|              | Women employees (%)                                                    | 46               | 45               | 43               | 43               | 43               | GRI 405-1 |  |
|              | Women in corporate and middle management (%)                           | 31               | 32               | 31               | 29               | 28               | GRI 405-1 |  |
|              | Union membership (%)                                                   | 83               | 88               | 92               | 91               | 90               | G1        |  |
|              | Number of pending human rights cases against the Bank                  | Nil              | Nil              | Nil              | Nil              | Nil              | NA        |  |
|              | Number of participants on external and foreign training                | 81               | 139              | 210              | 94               | 341              | GRI 404-2 |  |
|              | Ratio of standard entry level wage                                     | Above<br>minimum | Above<br>minimum | Above<br>minimum | Above<br>minimum | Above<br>minimum | G2        |  |
|              | Proportion of Senior Management from local community (%)               | 100              | 100              | 100              | 100              | 100              |           |  |
| Community    | Contribution on the community projects (LKR Mn)                        | 16.48            | 7.52             | 3.32             | 26.75            | 15.37            | GRI 413-1 |  |
| n Sta        | Contribution on education-related pursuits (LKR Mn)                    | 5.19             | 5.47             | 0.14             | 5.42             | 8.81             | GRI 413-1 |  |
| DC           | Number of loans granted under 'Seylan Scholar'                         | 2                | Nil              | 6                | 14               | 17               | GRI 413-1 |  |
|              | Number of SME loans                                                    | 20,818           | 22,522           | 19,510           | 18,872           | 22,148           | GRI 413-1 |  |
|              | Value of SME loans (LKR Mn)                                            | 98,349           | 82,996           | 92,628           | 100,650          | 100,708          | GRI 413-1 |  |
|              | Number of micro finance loans                                          | 8,514            | 5,226            | 3,237            | 8,668            | 3,478            | _         |  |
|              | Value of micro finance loans (LKR Mn)                                  | 1,992            | 587              | 740              | 1,537            | 837              |           |  |

\* Please refer page no. 57 in Annual Report 2021.

| Stakeholder                         |                                                                        | Achievement |           |           |           |           | GRI       |  |
|-------------------------------------|------------------------------------------------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|--|
| Group                               | Indicator of Performance                                               | 2023        | 2022      | 2021      | 2020      | 2019      | Indicator |  |
| Suppliers                           | Purchases from locally based suppliers (LKR Mn)                        | 689.3       | 546.31    | 469.60    | 525.56    | 589.59    | G2        |  |
| NTAS S                              | Electricity consumed (Units kWh) '000                                  | 7,538       | 6,851     | 7,449     | 7,651     | 8,413     | GRI 302-1 |  |
|                                     | Electricity consumption – units per employee (kWh)                     | 2,450       | 2,171     | 2,366     | 2,353     | 2,503     | GRI 302-1 |  |
| Environment                         | Water consumption – Units                                              | 66,005      | 69,063    | 93,370    | 85,830    | 77,370    |           |  |
|                                     | Water consumption – Units per employee                                 | 21          | 22        | 30        | 26        | 23        |           |  |
|                                     | Generator diesel consumption (litres)                                  | 70,998      | 206,633   | 48,093    | 65,460    | 74,626    |           |  |
|                                     | Vehicle petrol consumption (litres)                                    | 10,536      | 16,515    | 8,128     | 8,238     | 11,426    | G3        |  |
|                                     | Vehicle diesel consumption (litres)                                    | 27,865      | 29,235    | 47,860    | 43,157    | 52,940    |           |  |
|                                     | Lubricant consumption (litres)                                         | 1,636       | 437       | 499       | 595       | 767       | 767       |  |
|                                     | Total business travels (km)                                            | 373,451     | 296,434   | 497,754   | 486,523   | 668,725   |           |  |
|                                     | Packets of A4 paper purchased                                          | 10,309      | 12,963    | 16,909    | 18,878    | 23,984    | NA        |  |
|                                     | Weight of A4 paper (kg)                                                | 123,708     | 159,445   | 202,908   | 226,536   | 287,808   | NA        |  |
|                                     | A4 packets purchased per business unit                                 | 55          | 69        | 90        | 100       | 126       | NA        |  |
|                                     | Waste paper recycled (kg)                                              | 69,020      | 100,035   | 96,755    | 76,387    | 102,026   |           |  |
|                                     | Savings from recycled papers Trees (No.)                               | 1,173       | 1,701     | 1,645     | 1,299     | 1,734     |           |  |
|                                     | Water (litres)                                                         | 2,193,456   | 3,179,112 | 3,074,874 | 2,427,579 | 3,242,386 |           |  |
|                                     | Electricity (kWh)                                                      | 276,080     | 400,140   | 387,020   | 305,548   | 408,104   | G3        |  |
|                                     | Oil (litres)                                                           | 121,130     | 175,561   | 169,805   | 134,059   | 179,056   |           |  |
|                                     | Land fill (cubic meters)                                               | 207         | 300       | 290       | 229       | 306       |           |  |
|                                     | Carbon footprint (kg) reduced                                          | 13,804      | 20,006    | 19,351    | 15,277    | 20,405    |           |  |
| The                                 | Income tax (LKR Mn)                                                    | 3,824       | 1,917     | 1,447     | 1,100     | 1,418     |           |  |
| Government<br>and the<br>Government | Value added tax and nation building tax on financial services (LKR Mn) | 3,455       | 2,647     | 1,935     | 1,528     | 2,767**   |           |  |
| Institutions                        | Social security contribution levy (LKR Mn)                             | 481         | 127       | NA        | NA        | NA        | G2        |  |
| AND NOT                             | Total tax (VAT/NBT/SSCL and income tax % of PBT)                       | 77          | 71        | 56        | 64        | 53**      |           |  |

\*\* Includes debt repayment levy

# INDEPENDENT ASSURANCE REPORT - SUSTAINABILITY

KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha, P. 0. Box 186, Colombo 00300, Sri Lanka. Tel Fax Internet +94 - 11 542 6426 +94 - 11 244 5872 +94 - 11 244 6058 www.kpmg.com/lk

#### INDEPENDENT ASSURANCE REPORT TO SEYLAN BANK PLC

We have been engaged by the Directors of Seylan Bank PLC ("the Bank") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2023. The Sustainability Indicators are included in the Seylan Bank PLC Integrated Annual Report for the year ended 31 December 2023 (the "Report").

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

| Assured Sustainability Indicators | Integrated Annual Report Page |
|-----------------------------------|-------------------------------|
| Financial Highlights              | 05                            |

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

|                                             | Integrated Annual |
|---------------------------------------------|-------------------|
| Limited Assurance Sustainability Indicators | Report Page       |
| Sustainability Performance Indicators       | 74 to 75          |
| Information provided on following           |                   |
| Financial Capital                           | 37 to 43          |
| Manufactured Capital                        | 44 to 45          |
| Human Capital                               | 46 to 53          |
| Social & Relationship Capital               | 54 to 64          |
| Intellectual Capital                        | 65 to 68          |
| Natural Capital                             | 69 to 73          |
|                                             |                   |

#### **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, in all material respects, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2023, in all material respects, has been prepared and presented by the management of Seylan Bank PLC in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

#### Limited Assurance Sustainability Indicators

Based on the evidence we obtained from the assurance procedures performed, as described below we are not aware of any material misstatements that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2023, have not in all material respects, been prepared and presented by the management of Seylan Bank PLC in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

KPMG, a Srl Lankan partnership and a member firm of the KPMG global organization of independent member firms artiliated with KPMG Internetional Limited, a private English company limited by guarantee. All rights reserved.

C. P. Jayatilake FCA Ms. S. Josoph FCA G. A. U. Karunaratine FCA R. H. Rejan FCA A.M.R.P. Alahakoon ACA T. J. S. Rajakariar FCA W. K. D. C. Abeyramine FCA R.M.D.B. Rajapakse FCA M.N.M. Shameel FCA M. P.M.K. Swimpasekara FCA

W, W, J. C. Perera FCA S. T. D. L. Perera FCA Ms. B.K.D.T.N. Rodingo FCA Ms. C.T.K.N. Perers ACA R.W.M.O.W.D.B. Rethnadiwakara FCA

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 include 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 Bank 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 Bank'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 Engagements SLSAE 3000:

Audits or Reviews of Historical Financial

Assurance Engagements other than

A.M.R.P. Alahakoon ACA Me. P.M.K. Semanasekara FCA R.W.M.O.W.D.B. Reihnadiwakaca FC Principals: S.R.L. Parere FCMA(UK), LLB, Attorney-akLaw, H.S. Goonewardene ACA, Ms. F.R. Zyard FCMA (LK), FTII



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 for professional Accountants issued by CA Sri Lanka (Code of Ethics).

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.

Our firm applies Sri Lanka Standard on Quality Control (SLSQC) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### 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 controls 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 Bank's internal controls 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 Bank 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 Bank, 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 Bank's processes for determining material issues for the Bank'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 Bank;
- 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 Bank for the purpose of assisting the Directors in determining whether the Bank'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

This report has been prepared for the Directors of Seylan Bank PLC for the purpose of providing an assurance conclusion on the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators included in the Seylan Bank PLC Integrated Annual Report for the year ended 31 December 2023 and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Seylan Bank PLC, or for any other purpose than that for which it was prepared.

CHARTERED ACCOUNTANTS Colombo

20 February 2024

## BOARD OF DIRECTORS

# Leading with responsibility

78



Ms Averil A Ludowyke Mr S Viran Corea, PC

Non-Executive Director Mr Ramesh Jayasekara Director/Chief Executive Officer





Mr W M R S Dias Non-Executive Director/ Chairman Mr D M Rupasinghe Independent Director Ms Sandya K Salgado Senior Independent Director Mr L H A Lakshman Silva Independent Director Ms V G S Sunjeevani Kotakadeniya Non-Executive Director 80

## **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 09 May 2016.

#### Areas of Expertise:



👔 Finance

#### Membership in Board Subcommittees:

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

#### **Skills and Experience:**

Senior Banker with long years of banking experience and lastly served 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, Senkadagala Finance PLC, and was a Council Member of the Employers' Federation of Ceylon.

Mr Dias presently serves on the boards of Carson Cumberbatch PLC, Tokyo Cement Company (Lanka) PLC and is the Chairman of Ceylon Tea Marketing (Pvt) Ltd. He also serves on the Board of United States-Sri Lanka Fulbright Commission.

## Mr Ramesh Jayasekara

#### **Director/Chief Executive Officer**

#### Qualifications:

B.Com (First Class-Honours) [University of Colombo], ACA (Sri Lanka), ACCA (UK), ACMA (Sri Lanka) Post Graduate Diploma in Marketing CIM (UK)

#### Appointed to the Board:

01 May 2023 as an Executive Director

#### Areas of Expertise:



#### Finance

#### Membership in Board Subcommittees:

Board Integrated Risk Management Committee, Board Credit Committee, Board Sustainability Committee, Board Marketing and Product Development Committee, Board Strategic Plan Committee, Board Information Technology Committee and Board Procurement and Capital Expenditure Supervisory Committee

#### **Skills and Experience:**

Mr Jayasekara was appointed as the Director/Chief Executive Officer of Seylan Bank PLC on 01 May 2023. He was the Deputy Chief Executive Officer of the Bank prior to his appointment as the Director/ Chief Executive Officer.

Mr Jayasekara joined Seylan Bank in 2011 as the Chief Financial Officer and was appointed as the Chief Risk Officer in 2016. He was the Deputy General Manager – Corporate Banking of the Bank from 2018 to 2019. In January 2020, he was promoted to the grade of Senior Deputy General Manager, and in January 2021, he was made the Chief Operating Officer of the Bank. Subsequently, in terms of succession, he was appointed as the Deputy Chief Executive Officer in September 2022.

Mr Jayasekara serves as the Chairman of Seylan Developments PLC. Additionally, he serves on the Boards of LankaPay (Pvt) Limited, Lanka Financial Services Bureau Ltd and Sri Lanka Banks' Association.

Prior to joining Seylan Bank PLC, he was the Deputy Regional Financial Controller of the French Banking giant BNP Paribas, Middle East Region – (Bahrain, Saudi Arabia, Kuwait, Qatar, Dubai, Abu Dhabi & Cyprus) based in Bahrain. He also held senior roles at HSBC Sri Lanka as Resident Manager – Finance & Planning and at KPMG Sri Lanka as an Audit Manager.

He has over 25 years of experience in Banking, Strategic Planning, Financial Management, Risk and Audit both locally and internationally.

## Mr S Viran Corea, PC

**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

#### Areas of Expertise:





Legal Appeals (Civil, Employment and Company Law),

Contracts

### Negotiations

#### Membership in Board Subcommittees:

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

#### **Skills and Experience:**

President's Counsel with over 26 years' experience at the Bar and a Legal Consultant.

Mr Corea's 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 appeared as counsel in a number of landmark cases of national and public importance reported in the Sri Lanka Law Reports and was appointed a President's Counsel in December 2023. At present, he is also a legal advisor to many companies and organizations. He also serves as a member of the Legislation Steering Committee of the Ceylon Chamber of Commerce ('CCC'), the Board of Management of the Legal Aid Unit of the Law Faculty of the University of Colombo, the Bar Council of the Bar Association of Sri Lanka ('BASL') and Child Protection Officer of the Colombo Diocese of the Church of Ceylon.

He served as a member of the Drafting Committee providing expert legal inputs pertaining to prevention of torture for the formulation of the National Human Rights Action Plan - NHRAP (2017-2021) for the Foreign Ministry of Sri Lanka.

He also served as a State Counsel at the Attorney General's Department of Sri Lanka for several years and has represented in court and advised government departments and state institutions in several important matters.

In 2012, Mr Corea was selected as an Asia 21 Young Leader by the Asia Society.

## Ms Sandya K Salgado

Senior Independent Director

#### **Qualifications:**

MBA (International) Edith Cowan University, Perth, Australia BA (English, French, Linguistics) University of Kelaniya, Sri Lanka, MCIM, Chartered Institute of Marketing, UK – 1999

#### Appointed to the Board:

01 December 2016 as an Independent Director and was appointed as the Senior Independent Director on 06 November 2023

#### Areas of Expertise:



Strategic Communications & Sustainable Business Management

#### Membership in Board Subcommittees:

Board Sustainability Committee (Chairperson), Board Marketing and Product Development Committee (Chairperson), Board Strategic Plan Committee (Chairperson), Board Human Resources and Remuneration Committee, Board Nomination Committee and Board Procurement and Capital Expenditure Supervisory 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 Johns Hopkins University in Baltimore, USA in Strategic Communications and was the CEO of Ogilvy Action for twelve 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 and "Zonta Woman of Achievement" in 2006. She was also selected as "the Woman of Inspiration" by Women in Management and IFC. She is an 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) CIMA (UK) - Passed Finalist

#### Appointed to the Board:

01 October 2018 as a Non-Executive Director

#### Areas of Expertise:





#### Membership in Board Subcommittees:

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

#### **Skills and Experience:**

Mr Krishan Thilakaratne is the Director/CEO of LOLC Finance PLC and a Member of the Senior Management Team of LOLC Holdings PLC.

Mr Thilakaratne is a Director of LOLC South East Asia covering Philippines, Indonesia and Pakistan. Further, Mr Thilakaratne is a Director of LOLC Central Asia covering Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan. He serves on the Boards of Fazo S Micro Deposit Organization in Tajikistan, OJSC Micro Finance Company "ABN" in Kyrgyzstan and is appointed as the Director of R Finance in Kazakhstan. He is an Advisor to "Lombard Micro Finance Company" in Tajikistan.

Mr Thilakaratne is also a Board Member of Commercial Insurance Brokers (Pvt) Ltd in Sri Lanka. He was a board member of Credit Information Bureau of Sri Lanka (CRIB), Prasac Micro Finance Institution Ltd, Cambodia and the past Chairman of the Finance Houses Association of Sri Lanka (FHASL), the Apex body for Non-Bank Financial Institutions (NBFIs) in Sri Lanka.

He is a Passed Finalist of the Chartered Institute of Management Accountants (CIMA) UK and Associate member of the Institute of Bankers of Sri Lanka (AIB). He has followed the Strategic Leadership Training Programme in Micro Finance at Harvard Business School, USA and counts over 28 years of experience in Management, Credit, Channel Management, Marketing, Factoring, Portfolio Management and Islamic Finance. He conceptualized and introduced Islamic Finance to LOLC Group in 2007 and is a Guest Speaker at International Islamic Finance Forums.

## **BOARD OF DIRECTORS**

## Mr D M Rupasinghe

Independent Director

#### **Qualifications:**

BA (Honours) Economics [University of Kelaniya], MA Economics [Colorado State University-Fort Collins, USA], Post-graduate trainings/ assignments at Harvard University, Western Australia University and National University of Singapore

#### Appointed to the Board:

01 October 2021 as an Independent Director

#### Areas of Expertise:



Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

#### Membership in Board Subcommittees:

Board Governance and Compliance Committee (Chairman), Board Integrated Risk Management Committee (Chairman) and Board Nomination Committee (Chairman), Board Audit Committee.

#### **Skills and Experience:**

Mr Rupasinghe was the former Assistant Governor of the Central Bank of Sri Lanka and has also held the positions of Head/Director of the Financial Intelligence Unit of Sri Lanka and Controller of Exchange among other key positions in the Central Bank. He has completed several Post-graduate assignments/trainings at Harvard University, Western Australia University and National University of Singapore.

He is a recognized expert in finance/economics and in particular, in the areas of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

He has also held many important positions at various important committees and institutions in Sri Lanka during his career as a member /working group member/Advisor of different committees and forums and also as a member of the Special Presidential Task Force on Recovery of State Assets of Government of Sri Lanka.

Mr Rupasinghe was the Country Researcher for Research Projects on "Socio-economic Impacts of Hydro-Metrological Disasters", UN-ESCAP- Thailand and "The impact and Policy Response of Oil Price Shocks in Sri Lanka" SEACEN Centre, Malaysia. He also worked closely with the Financial Action Task Force (FATF) and the regional FATF Secretariats, in particular with Asia Pacific Group of Money Laundering (APG) for over a decade, and served as a Co-chair of Asia Pacific Group on Money Laundering (APG) and its Governing Committee Member thereafter. He also served as Egmont Group (of Financial Intelligence Units) Governance Committee Member and Asia Pacific Regional Representative until his retirement from the Central Bank in 2020.

## Mr L H A Lakshman Silva

**Independent Director** 

#### Qualifications:

B.Com (Special) [University of Kelaniya], MBA [Postgraduate Institute of Management of the University of Sri Jayewardenepura], Licentiate (Institute of Chartered Accountants of Sri Lanka), Associate in Development Bank Management (Association of Development Financing Institutions in Asia and the Pacific, Philippines)

#### Appointed to the Board:

18 July 2022 as an Independent Director

#### Areas of Expertise:



Finance

#### Membership in Board Subcommittees:

Board Human Resources and Remuneration Committee (Chairman), Related Party Transactions Review Committee (Chairman), Board Procurement and Capital Expenditure Supervisory Committee (Chairman), Board Integrated Risk Management Committee, Board Governance and Compliance Committee, Board Information Technology Committee and Board Nomination Committee

#### **Skills and Experience:**

Mr Lakshman Silva was the Director/Chief Executive Officer of DFCC Bank PLC from August 2017 to December 2021 until his retirement.

Mr Silva commenced his professional career with the Department of Inland Revenue of Sri Lanka and joined the DFCC Banking Group in 1987. He was seconded to the service of DFCC Vardhana Bank in 2003 and functioned as the Chief Operating Officer until appointment as the Chief Executive Officer/Executive Director in January 2010. He held the position of Deputy Chief Executive Officer/ Director of DFCC Bank PLC from October 2015 until August 2017.

Until his retirement from DFCC Bank PLC in December 2021, he held the position of Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited (subsidiary companies of DFCC Bank PLC) and the Chairman of Lanka Financial Services Bureau Limited as well as Sri Lanka Banks' Association (Guarantee) Limited. He held the positions of Chairman of Acuity Partners (Pvt) Limited, the joint venture company of DFCC Bank PLC and Chairman of Lanka Ventures Limited and LVL Energy Fund PLC. He also served as a Director of Lanka Clear (Pvt) Ltd.

Mr Silva was a member of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific and Board of Management of the Sri Lanka Sustainable Energy Authority, and Ceylon Chamber of Commerce. Mr Silva is a Past President of Association of Professional Bankers of Sri Lanka.

At present, he holds the position of Chairman/ Non-Executive Independent Director at Panasian Power PLC and its subsidiary companies. Mr Silva is also a Independent Non-Executive Director at Fintech Consultancy (Pvt) Ltd and a Independent Non-Executive Director at HNB Assurance PLC. He also serves as a member of the Stakeholder Engagement Committee of Central Bank of Sri Lanka.

## Ms V G S Sunjeevani Kotakadeniya

Non-Executive Director

#### **Qualifications:**

FCMA(UK), CGMA(USA), MBA (University of Colombo)

#### Appointed to the Board:

17 August 2022 as a Non-Executive Director

#### Areas of Expertise:

## Finance

Financial Management

#### Membership in Board Subcommittees:

Board Information Technology Committee (Chairperson), Board Audit Committee, Board Nomination Committee, Board Strategic Plan Committee, and Board Marketing and Product Development Committee

#### **Skills and Experience:**

She is a senior finance professional with three decades of experience in financial management and has extensive experience in strategic development, investment portfolio management, project management, mergers and acquisitions, IT and administration disciplines holding senior positions in Financial Services, Insurance, Leisure, Construction, Trading, Renewable Energy, Plantations and Manufacturing sectors.

Ms Sunjeevani Kotakadeniya is the Chief Financial Officer of the LOLC Group, overseeing the Group's local and international businesses' finance functions.

Ms Kotakadeniya serves as a Director in several LOLC Group companies including listed entities; Sierra Cables PLC, Udapusellawa Plantations PLC, Hapugastenna Plantations PLC, LOLC General Insurance PLC and Agstar PLC and plays a strategic role in these entities. Ms Kotakadeniya has been a catalyst in corporate restructuring and change management, mergers and acquisitions, and project management.

## Ms Averil A Ludowyke

Independent Director

#### Qualifications:

FCA (CA Sri Lanka), FCMA (UK)

#### Appointed to the Board:

17 August 2022 as an Independent Director

#### Areas of Expertise:



Accounting & Finance

#### Membership in Board Subcommittees:

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

#### **Skills and Experience:**

Ms Averil Ludowyke counts over 26 years of experience at M/s Ernst & Young and has served as a Partner from 2011 to 2022.

Ms Ludowyke was lead Audit Partner at M/s Ernst & Young, of several groups of companies, and she launched and led forensics and integrity services of the firm. Her clients included banks and finance companies, and companies engaged in retail, manufacturing, telecommunications, construction, real estate, shipping and logistics, insurance, leisure, plantations and development.

She also counts 13 years of senior level experience in finance and accounting in the manufacturing sector, and in a relief and development organization.

Ms Ludowyke has been a resource person for public seminars and workshops of CA Sri Lanka, Sri Lanka Institute of Directors, CIMA, the Ministry of Public Enterprise Development, ACAMS Regional Conference of the Indian subcontinent, National Chamber of Commerce, University of Kelaniya, ACCA, AAT, CMA, and the Institute of Internal Auditors.

Ms Ludowyke was appointed as a Director of Ceylinco Life Insurance Ltd and Bogala Graphite PLC.

#### 84

### SENIOR MANAGEMENT TEAM

# Shaping the path towards excellence



## RAMESH JAYASEKARA

Director/ Chief Executive Officer

#### Experience



#### Qualifications

- Associate Member of Institute of Chartered Accountants of Sri Lanka
- Bachelor of Commerce Degree (First Class) -University of Colombo
- Associate Member of Chartered Institute of Marketing - UK
- Associate Member of Institute of Certified Management Accountants

### JAYANTHA AMARASINGHE

Deputy General Manager -Human Resources

#### Experience



#### Qualifications

- Master of Business Administration -Buckinghamshire New University
- Bachelor of Law (LL.B)
- 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

\*Resigned with effect from 15 April 2024.





### Ms CHAMPIKA DODANWELA

Chief Financial Officer

#### Experience



#### Qualifications

- Master of Business Administration University of Colombo
- Fellow member of ACCA UK
- Associate Member of Institute of Chartered Accountants of Sri Lanka
- Associate member of Certified Management Accountants
- Fellow member of Institute of Bankers of Sri Lanka
- B.Sc. Management University of Sri Jayewardenepura
- B.Sc. Applied Accounting Oxford Brooke UK

### HARSHA WANIGATUNGA

Chief Information Officer

#### Experience



### Qualifications

- B.Sc. Computer System Design University of Houston - Clear Lake
- M.Sc. Computer Engineering University of Houston - Clear Lake





MALIK WICKRAMANAYAKE

Deputy General Manager -Operations

#### Experience



#### Qualifications

 BA in Business & Administration Studies - Lewis & Clark College, Portland, Oregon, USA

### **SHANAKA** PERERA

Deputy General Manager - Treasury

#### Experience



#### Qualifications

- Master of Business Administration PIM -University of Sri Jayewardenepura
- 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 -• Institute of Bankers of Sri Lanka





### ARUNA **FERNANDO**

Deputy General Manager/ Chief Risk Officer

#### Experience



#### Qualifications

- Master of Financial Economics, University of • Colombo
- Master of Business Administration - PIM, University of Sri Jayewardenepura
- Associate Member of Institute of Bankers of 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

### VARUNA KOGGALAGE

Deputy General Manager -Internal Audit

#### Experience



#### Qualifications

· Fellow member of Institute of Chartered Accountants of Sri Lanka



86

## SENIOR MANAGEMENT TEAM



### Ms SHARON FONSEKA

Deputy General Manager -Corporate Credit Branches

#### Experience



#### Qualifications

 Associate member of Institute of Bankers of Sri Lanka

### RANIL DISSANAYAKE

Deputy General Manager -Branch Credit

#### Experience



 Associate member of Institute of Bankers of Sri Lanka

Qualifications





### EUGENE SENEVIRATNE

Deputy General Manager -Retail Banking

#### Experience



### ERANGA Lankatilaka

Deputy General Manager -Recoveries

#### Experience



#### Qualifications

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

#### Qualifications

- Master of Business Administration- Sikkim Manipal University
- Certificate IV in Business Frontline Management -TAFE
- Certificate in Credit College of Banking & Finance
- Intermediate Banking Diploma Institute of Bankers of Sri Lanka





### WASANTHA **KARUNARATNE**

#### Assistant General Manager -Services

#### Qualifications

Diploma in Purchasing and Materials Management

#### Experience





### **KAPILA** RATHNAYAKE

#### Assistant General Manager -**Premises Maintenance**

#### Qualifications

- B.Sc. Engineering Honours (Peradeniya)
- Master of Business Administration PIM University of Sri Jayewardenepura Chartered Engineer
- Corporate Member of Institution of Engineers (IESL)
- Associate Professional Green Building Council of Sri Lanka

#### Experience





## SAMPATH **FERNANDO**

Assistant General Manager -Information Technology

#### Qualifications

Master of Business Administration -• University of Manipal

#### Experience





### **RUWAN FERNANDO**

#### Assistant General Manager -Branches II

#### Qualifications

- Master of Business Administration UK
- Associate Member of Chartered Institute of Management Accountants - UK
- Chartered Global Management Accountant
- Associate member of Institute of Bankers • of Sri Lanka

#### Experience





## **Ms VAYOMA** PARANAGAMA

#### Assistant General Manager -Legal

#### Qualifications

- Attorney-at-Law & Notary Public
- Associate member of Institute of • Bankers of Sri Lanka
- Master of Business Administration -• University of Sri Jayewardenepura

#### Experience





## DILAN **WIJEGOONAWARDENA**

#### Assistant General Manager -International

#### Qualifications

- Master of Business Administration PIM • University of Sri Jayewardenepura
- Fellow Member of the Chartered Institute . of Management Accountants - UK
- Fellow Member of Certified Management • Accountants of Sri Lanka
- Fellow member of Institute of Bankers of Sri Lanka
- Diploma in International Trade Institute of Bankers of Sri Lanka

#### Experience



88

## SENIOR MANAGEMENT TEAM



## Ms NILANTHIE DE MERAL

Assistant General Manager -Corporate Banking

#### Qualifications

 Associate member of Institute of Bankers of Sri Lanka

#### Experience





### 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 University of Sri Jayewardenepura
- B.Sc. Management (Public) Special degree - University of Sri Jayewardenepura

#### Experience





## Shanuka Jayarathna

#### Assistant General Manager – Finance

#### Qualifications

- B.Sc. Accountancy (Special) Degree, University of Sri Jayewardenepura
- Master of Business Administration (Finance), University of Colombo
- Associate Member of Institute of Chartered Accountants of Sri Lanka

#### Experience





## Ms CHAYA GUNARATHNE

#### Assistant General Manager -Compliance

#### Qualifications

- Attorney-at-Law
- Master of Law University of Colombo
- BA (History Honors) University of Colombo
- International Compliance Diploma -International Compliance Association
- Post Graduate Diploma in Banking & Finance Institute of Bankers of Sri Lanka.

#### Experience





## ASIRI ABHAYARATNE

Assistant General Manager -Marketing & Sales

#### Qualifications

- B.Sc. Management University of London
- Diploma in Economics London School of Economics
- Postgraduate Diploma in Marketing -Chartered Institute of Marketing - UK

#### Experience





## **NISSANKA RAJAPAKSHA\***

#### Assistant General Manager -Internal Audit

#### Qualifications

- Fellow member of Institute of Chartered Accountants of Sri Lanka
- Certified Information Systems Auditor (CISA) - ISACA

#### Experience





### Ms AMANTHI **MOTHA\***

Assistant General Manager -Human Resources

#### Qualifications

- Master of Business Administration in Human Resource Management -University of Colombo
- B.Sc. Human Resources Management -University of Sri Jayewardenepura
- Chartered Member of the Chartered . Institute of Personnel Management
- Professional Part I Chartered Accountants of Sri Lanka

#### Experience





## **CHAMINDA** SENEWIRATNE\*

#### Assistant General Manager - Digital Banking/ Head of Digital Banking

#### Qualifications

•

- Master of Business Administration -• University of Honolulu
  - Certificate Course on Financial Technology (Fintech) Innovations - University of Michigan Certificate Course on Future Commerce from
- Massachusetts Institute of Technology
- Diploma in LTE & Advanced Communications • - Informa Telecoms & Media
- Certified Information Systems Security Professional - ISC2
- Chartered Professional Marketer Asia
- Pacific Marketing Federation Diploma in Marketing Sri Lanka Institute of • Marketing
- Diploma in Computer Studies IDM **Computer Studies**

#### Experience





### CECILTON PHILIP\*

#### Assistant General Manager -**Branch Credit**

#### Qualifications

· Associate member of Institute of Bankers of Sri Lanka

#### Experience





### Ms ASTRID **IDDAMALGODA\***

#### Assistant General Manager -Operations

#### Qualifications

- Master of Business Administration -Edith Cowen University
- AIB (Intermediate) Institute of Bankers of Sri Lanka.

#### Experience



\* Promoted after the reporting date

89

#### CORPORATE GOVERNANCE

# Setting a robust platform of governance

#### Dear Shareholder/s

The past year has underscored the importance of resilience and adaptability consequent to the macro level economic challenges the country faced in 2022 and its consequences alongside the endeavors made by the authorities to address the same with long-term and short-term plans. Our continued commitment as a listed corporate to effective Corporate Governance has been a guiding force as we navigate uncertainties and seize opportunities. I express my gratitude to our Board Members, Corporate Management, and employees for their unwavering commitment in upholding the values that define our institution and to withstand despite challenges to deliver good results during the year.

Seylan Bank believes that a strong governance framework is essential for sustaining trust, fostering long-term value creation, and safeguarding the interests of our shareholders. Throughout the past year, we have strived to uphold the highest standards of transparency, accountability, and ethical conduct. In the face of evolving challenges, our Bank remained steadfast in its dedication to maintaining a governance structure that not only complies with regulatory requirements but also goes beyond to embrace best practices. We have continued to refine our policies, enhance risk management processes, and fortify our internal controls to adapt to the dynamic business landscape.

Year 2023 brought in changes to the external regulatory environment. In addition to the Corporate Governance principles set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) which was mandatory for compliance by all Licensed Commercial Banks, there were amendments brought in for compliance by listed entities by the listing regulator. The revised Listing Rules of the Colombo Stock Exchange ('CSE') on Corporate Governance were introduced in October 2023. In addition, the Code of Best Practices on Corporate Governance 2023, published by the Institute of Chartered Accountants of Sri Lanka was also released in December 2023.

This Corporate Governance Report contains the statement of compliance on the mandatory requirements of the Banking Act Direction No. 11 of 2007 (as amended) and the Listing Rules of the Colombo Stock Exchange which have been applicable to the Bank during the period under review. The Bank also ensures compliance with its own Articles of Association, Corporate Governance Framework, Code of Ethics, Code of Conduct as well as its various policies and charters approved by the Board, which form part of the Bank's Corporate Governance Framework.

The Board Governance and Compliance Committee and the Board of Directors reviewed the Corporate Governance Report and were satisfied with the level of compliance in terms of applicable regulations and governance requirements in respect of the year ended 31 December 2023.

Yours sincerely,

W M R S Dias Chairman

20 February 2024

The Board and management of Seylan Bank PLC ('the Bank') continuously monitors its systems, procedures and practices to ensure that the Bank meets the required standard of Corporate Governance which has a positive impact on efficiency, effectiveness and long term sustainable value creation and stability of the Bank.

Bank's Corporate Governance Framework is built on the following core pillars:



The Bank's Corporate Governance philosophy encompasses not only regulatory and legal requirements but also various internal governance structures within the Bank. The Bank's governance structure includes its policies, charters and codes of conduct and ethics which were formulated and adopted by the Bank, taking into consideration the regulations, rules, directions, guidelines and principles, of the relevant statutes and regulatory bodies in addition to its' own Articles of Association. This provides a sound framework for the dissemination of timely and reliable information to the stakeholders of the Bank relating to its financial performance and to inspire confidence in the leadership and governance structures of the Bank.

#### **External Framework**

## includes (but not limited to) the following Regulations and Guidelines

- Banking Act No. 30 of 1988 (as amended)
- Companies Act No. 07 of 2007
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks of Sri Lanka (as amended)
- Banking Act Directions, Determinations, Guidelines, Circulars issued by the Central Bank of Sri Lanka from time to time
- Rules of the Colombo Stock Exchange (as amended)
- Guidelines of the Securities and Exchange Commission of Sri Lanka in pursuance of its regulations
- Acts, Gazettes and regulations issued by the Tax Authorities
- Sri Lanka Financial Reporting Standards and Accounting Standards
- Guidelines issued by the Institute of Chartered Accountants of Sri Lanka
- Other applicable regulations, directions and recommended best practices on Corporate Governance, Financial Disclosures, Related Party Transactions etc.

#### Internal Framework includes (but not limited to) the following Policies and Guidelines

- Articles of Association
- Corporate Governance Framework
- Terms of Reference for the Senior Independent Director
- Terms of References of the Board Subcommittees
- Terms of References of Management Committees
- Integrated Risk Management Framework and Risk Management Policies
- Compliance Reference Guide covering Compliance related policies, internal guidelines, regulatory directions, regulatory reporting requirements etc.
- All policies approved by the Board including policies on all operational areas, human resources/ employee related policies
- Employee Manual including Code of Ethics and Code of Conduct for Employees
- Code of Business Conduct and Ethics for Directors
- Operations Manual
- Lending Guidelines
- Credit Standards and Procedure Manual

The Corporate Governance statements which are in compliance with the principles and directions set out in the Banking Act Direction No. 11 of 2007 [as amended] for Licensed Commercial Banks ('the Banking Act Direction'), that are reported in this Corporate Governance Report as well as in the Reports of the regulatory Board Committees published in the Annual Report describe Seylan Bank PLC's key Corporate Governance approach and practices of the Bank for the financial year ended

31 December 2023 ('FY 2023'). Such disclosures together with the disclosures on financials and notes thereof on Internal Controls, on ESG (Environmental Social Governance), on Risk Management, etc., published in the Annual Report further demonstrate the Bank's commitment to transparency and accountability, the Board's oversight of strategy and the commitment of the Board as well as the management for the application of good governance practices. The Board Governance and Compliance Committee and the Board of Directors reviewed the statements in this Corporate Governance Report and were satisfied with the disclosures and confirmations on the level of compliance in respect of the FY 2023 under the aforementioned Banking Act Direction and Governance Codes and principles. The findings of the External Auditors' Factual Findings Report carried out based on the Agreed upon Procedure

## CORPORATE GOVERNANCE

in terms of Sri Lanka Related Services Practice Statement 4,750 were reported to be consistent with the matters disclosed in this Corporate Governance Report.

### STATEMENT OF COMPLIANCE IN ACCORDANCE WITH BANKING ACT DIRECTION NO. 11 OF 2007 ON CORPORATE GOVERNANCE (AS AMENDED)

In accordance 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') the Bank is required to disclose the level of compliance of matters as set out in Direction No. 03 of said Banking Act Directions on Corporate Governance with pertinent disclosures in the 'Corporate Governance Report' of the Annual report.

Relevant disclosures made 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 aforementioned Direction and Banking Act regulations, other directions, determinations and circulars issued by the Monetary Board of the Central Bank of Sri Lanka (presently known as the Governing Board) 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.

#### Directions/Compliance Status key indicator - complied ♥; not complied ♥ ; partially complied ₽

[the numbers against the captions indicate the respective section of the Banking Act Direction No. 11 of 2007]

## 3(1) RESPONSIBILITIES OF THE BOARD

3(1)(i) • Ensuring the safety and soundness of the Bank

The Board has taken relevant measures to ensure the safety and soundness of the Bank by ensuring compliance with the regulations and policy measures, directions, determinations and circulars released by the regulators time to time and various governance related frameworks and policies adopted by the Bank. Such measures were taken with responsibility and accountability of the Board. Management strengthened the safety and soundness of the Bank whilst promoting public confidence mainly of its depositors, investors and borrowers.

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

Upon the expiry of the Strategic Plan for 2017-2020, with the guidance of the Board Strategic Plan Committee, corporate management developed the Strategic Plan 2021-2023 with the approval of the Board. 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 to the employees, by means of the Bank's Employment Manual, the Codes of Conduct and Ethics, the Bank's Intranet as well as supporting policies. The Strategic Plan and corporate objectives are communicated to the staff upon the launch of 'Town Hall meetings attended by Director/CEO, vide a series of communications planned through first working day messages to all staff, meetings and communications to the senior corporate management, branch management and to all staff of head office and branches vide circulars.



The corporate values and the importance of achieving the objectives were emphasized to staff at orientation programs, training and development forums and through the intranet. Different management forums and performance review forums were 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
- The Code of Conduct as well as the Code of Ethics for the Bank's employees including the Key Management Personnel ('KMP').

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 emphasize the following principles and guidelines (but not limited to) to be adhered to 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 is available on the Bank's intranet for perusal and due adherence by all staff.

#### Whistle Blowing Policy

The Bank has established an effective Whistleblower program to protect the integrity and reputation of the Bank, augment its framework of internal controls and provide a channel for employees to report inappropriate activity and ethical concerns of which they may be aware. Matters reported are diligently investigated and appropriate action taken and the Whistleblower Framework is closely monitored and improved. The Bank is committed to Whistleblower protection and maintaining confidentiality and fostering employee trust in the Whistleblower mechanism. Employees are educated and encouraged to raise any concerns affecting compliance culture of the Bank through the whistleblowing mechanism.

#### **Anti-Bribery and Corruption Policy**

The Bank is committed to conduct its business in accordance with the highest ethical standards. In line with this commitment, the Bank adopts a "zero tolerance" approach for bribery and corruption breaches including deviations from ethical standards. Board Governance and Compliance Committee, established as a Subcommittee of the Board of Directors, assists the Board in adopting appropriate governance standards to fulfill Board's responsibility for oversight on the overall Corporate Governance Framework of the Bank. Beyond its regular compliance obligations, this Subcommittee performs specific tasks such as overseeing the regular monitoring and periodic assessment of the Bank's conduct risk management framework and the Anti-Bribery and Corruption Framework both at policy and procedural levels. In order to ensure that risks arising from those within the Bank's business are appropriately identified, mitigated and managed, the Anti-Bribery and Corruption Policy clearly defines unacceptable behavior and activity relating to bribery and corruption. The Anti-Bribery and Corruption Policy clearly demarcates the policy boundaries and the related procedures on gifts and hospitality related expenses.

The approach is applicable across the Bank from the Board of Directors and the top management to the bottom level employees including temporary recruits. It is also applicable to agents and representatives of the Bank. To achieve these objectives, continuous awareness raising initiatives are available at staff induction sessions. Procedures for monitoring are in place to guarantee that all stakeholders abide by the highest ethical standards of integrity and accountability obligations. The Bank's Compliance Department is vested with the responsibility of ensuring the implementation of the recommendations of the Board and its Subcommittees in this regard.

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

#### Strategic Plan

The Board approved Strategic Plan for 2021-2023 included measurable goals and targets (KPIs) which were assigned to KMPs and are monitored on a regular basis and linked to respective performance appraisals. It was agreed to extend the Strategic Plan of 2021-2023, till 2024, with the incorporation of new Pillars such as Recoveries, Transformation of HR Strategy and Digital focus, in deciding the

way forward on the new Corporate Strategy formulation with a review of the progress of qualitative and quantitative key strategic drivers relating to 2021-2023 Strategic Plan. Sustainability Strategy of the Bank is embedded in the overall Corporate Strategy.

A joint forum of the Board Human Resources and Remuneration Committee and Board Strategic Plan Committee was held in June 2023 in order to build a Road Map of the HR Strategy formulation. Subsequent to the same, an off-site event with the participation of the Board of Directors and the Senior Management was held in June 2023 in order to review the overall corporate strategy and to have a brainstorming on strategic initiatives to be taken forward during 2023/2024. A monthly dashboard reporting the achievements of key strategic drivers to the Board, was introduced during 2023.

Risk policies and the risk management framework are regularly monitored by the Risk Management Unit and reported to the Board Integrated Risk Management Committee and the Board which strengthens the business strategy. The policies are reviewed periodically or when the need arises in order to dynamically manage risk appetite of the Bank.

The internal Project Management Office (PMO) in collaboration with the management focused on driving the results of the selected priorities of the corporate strategy as per an agreed operational plan.

#### **Risk Management**

The Board has delegated the responsibility for formulating and implementing prudent risk management policies, to its subcommittee, the Board Integrated Risk Management Committee (BIRMC). The BIRMC ensures/monitors the Bank's Risk Unit headed by the Chief Risk Officer, identifies principal risks and puts in place policies and guidelines to be reviewed and approved by the Committee. Systems put in place were being tested by the Risk Management Unit. Minutes and reports of BIRMC Committee meetings are submitted to the Board regularly.

During the year, the Board ensured that the implementation of overall business strategy and the goals and targets were aligned

with the Bank's overall risk assessment and risk appetite. The Board approved the Integrated Risk Management Policy and other risk management policies and procedures in place to constitute the overall Risk Management Framework of the Bank which were constantly tested and reviewed by the Risk Management Unit and the status was 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. This Policy is reviewed by the Board Governance and Compliance Committee and the Board periodically.
- Customer Charter (Customers include depositors and borrowers): This document which is published in all three languages on the Bank's website, www.seylan.lk outlines the Bank's policy on dealing with customers, handling customer complaints, contact information for making complaints to the Bank and/or to the Financial Ombudsman.
- Shareholder Communication Policy: Accessible on the Bank's website, www.seylan.lk. This Policy was set out with the objective of enhancing long term shareholder value and to ensure that shareholders have timely access to publicly available information of the Bank. This Policy is reviewed by the Board Governance and Compliance Committee and the Board periodically.
- Communication Policy: This Policy provides guiding principles to the staff on both internal and external communication, mainly the dissemination of corporate information to the media.

## CORPORATE GOVERNANCE

 Information Disclosure Policy: This Policy is an internal document which sets out guidelines for a governance framework in disclosing information by the Bank such as financial information, governance information, risk information and any other relevant information that is required to be disclosed to shareholders, employees, existing and potential investors, customers, creditors and other stakeholders (including public) in a timely manner and in an accurate, fair, complete comprehensive and efficient way.

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

In order for the Internal control systems to be effective, its components to be present and function effectively for operations, financial reporting and compliance. These responsibilities come under the purview of the Board Audit Committee (BAC) and are dealt with by the BAC. The BAC ensures that the internal control systems within the organization is adequate. This responsibility includes determining the extent to which internal controls are evaluated by the internal and external auditors. The confirmed Minutes of the BAC are submitted to the Board periodically for perusal of the proceedings of the BAC and also for the concurrence of the decision/actions taken by the BAC.

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

As per the International Accounting Standards, 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. 01 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 taken to ensure compliance with section 3(7) of the Banking Act Direction No. 11 of 2007, provisions of the Sri Lanka Accounting Standards 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 duties and responsibilities of the Board of Directors are stipulated in relevant statutes and governance codes/guidelines and have been incorporated in the Bank's Corporate Governance Framework and other applicable policies. The areas of authority of the KMPs are defined in their respective Job Description documents.

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

The objective of effective management oversight is to ensure that management is involved in and clearly committed to the delivery of the results. The Board was satisfied that there was appropriate oversight of the affairs of the Bank by the KMPs. Communication of Board approved policies and decisions are conveved through Board minute extracts to the Key Management Personnel. Appropriate follow up actions and reports/decisions of relevant key Management Personnel confirm their required oversight on relevant matters. The Board also exercises appropriate oversight on the affairs of the Key Management Personnel who attend respective Subcommittee Meetings. The Board Subcommittees exercise their powers as delegated by the Board vide their respective Board approved Terms of Reference.

The monthly management reports presented to the Board by the Chief Financial Officer ('CFO') provide an overall account of the performance of the Bank and of the business units and support units, against the agreed strategic objectives and targets. In addition, progress of Capital Adequacy Ratio, Liquidity position, utilization of Capital Expenditure were submitted. These were reviewed and deliberated in depth by the Board members at Board meetings at which the CFO and Director/CEO answer queries and provide clarifications to the Board.

Reports, Board papers and/or proposals submitted by KMPs to the Board and Board Subcommittees for information, review and concurrence or decision were pursuant to due diligence, identification of key risks and solutions for mitigation of such risks, highlighting the benefits and impact and placing their recommendations with reasoning and justifications. The proposals include those aligned to the instructions of the Board and/or its Subcommittees, Board policies, and those arising from management level strategic decisions at meetings headed by the Director/CEO. KMPs make presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas.

3(1)(i)(i) ⊘ - Effectiveness of the Board's own governance practices/ Board Assessments

The benefits of regular Board Assessments/ Evaluations encourage collaborative decision making and enhanced performance of individual directors and further encourage directors to work together effectively. It can contribute significantly in terms of improved leadership, greater clarity of roles and responsibilities, reduce conflict in the board room, embed a culture of good governance, greater accountability, better decisionmaking, improved communication and more efficient board operations.

The Board reviews and discusses the Board's effectiveness as required herein including those of the Board appointed Committees on an annual basis. This was made possible by the Subcommittee Self Evaluation Reports and responses of the directors to a standard questionnaire/ checklist issued to them annually. Additionally, directors also submit their Self-Assessment reports on an annual basis.

As a progressive governance initiative, an Evaluation of Board Chairman's performance was introduced in respect of year 2022 onwards. Evaluations done by the Directors were tabled at the meetings of the Board Governance and Compliance Committee and the Board during the year for review. Reviewing the effectiveness of the Board's performance and that of its Committees were done annually. Each Director completes a detailed questionnaire annually with responses on the governance practices adopted by the Board/Bank, 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;
- Capitalization 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 Board Performance Evaluation were collated by the Company Secretary and submitted for review and comments and/or recommendations of the Board Governance and Compliance Committee (BGCC) and thereafter submitted to the Board during the year, for an overall assessment of the Board effectiveness and decisions where appropriate. The results reflected that the Board and Board Subcommittees have made valuable contributions towards the Board's responsibilities.

Meetings of the Independent Directors which are headed by the Senior Independent Director of the Bank ('SID') are forums which discuss on methodology and process for Board Evaluation. Consequent to the resignation of former Senior Director/ Independent Director of the Bank Mr A S Wijesinha, Ms Sandya K Salgado was appointed as the Senior Independent Director with effect from 06 November 2023. Meeting of the Independent Directors held in December 2023 discussed the framework for the meetings of the Independent Directors, the role of the Senior Independent Director as the Chairperson of the Meetings, periodical evaluation of

Board performance including evaluation of Chairman's performance, Senior Independent Director's Terms of Reference in place and the revised Rules of the CSE (which came into effect from October 2023) which stipulated requirements for a SID.

A Report submitted by SID is published on page 115 in this Annual Report.

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

This responsibility is vested with the Board Nomination Committee ('BNC'). Succession Plan of KMPs with the first and second level succession planning arrangements of said KMPs was reviewed. The Committee deliberated on medium term and long-term succession and planned and un-planned succession taking into account the organizational or functional needs arising time to time and the need to review the said Succession Plan annually. The importance of providing trainings for first and second line successors identified for specific roles and their regular evaluations to be made by the management was noted.

3(1)(i)(k) *⊘* - Regular meetings with Key Management Personnel (KMPs)

Key Management Personnel heading different areas of authority and the Director/ CEO were invited to the meetings of Board Subcommittees which exercise the oversight on respective areas as well as to 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 and were updated by the Head of Compliance and the other KMPs such as the Chief Financial Officer and the Company Secretary of the changes in the regulatory environment relating to or affecting the licensed commercial banks in general and/or the activities of the Bank, at the Board Subcommittee level and at Board level. The Board discusses and/or advises/endorses the steps taken to comply with such changes as appropriate. 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 to the Board to appoint External Auditors.

The Committee reviews and ensures the change of the Audit Engagement Partner every five years in compliance with applicable regulatory requirements and appropriate disclosures are made in confirmation of such a change if and when due.

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

Non-Executive Director, Mr W M R S Dias was appointed as the Chairman of the Bank with effect from 9 May 2016.

Mr Ramesh Jayasekara was appointed as the Director/CEO on 01 May 2023 upon former Director/CEO Mr Kapila Ariyaratne's retirement on 30 April 2023.

The functions and responsibilities of the Chairman are as defined in section 3(5) of the Banking Act Directions which are distinct from the role and responsibilities of the CEO who reports to the Board, and CEO's functions and responsibilities are defined in his Job Description as approved by the Board.

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

Twelve regular meetings were held monthly during the year 2023 with the active participation of Directors. Additionally, four (04) special meetings were also held during the year to consider important issues.

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. 96

## **CORPORATE GOVERNANCE**

Directors actively participated, shared their views and made valuable contributions at Board proceedings. Resolutions by circulation were restricted to matters of routine nature and/or for urgent business requirements with the prior clearance received from the Chairman of the Board. A summarized report of all such resolutions passed, were confirmed/ratified at the immediate regular monthly Board meeting. The Directors' attendance at Board meetings are disclosed in the table under 3(1)(vi) below. the opportunity to include matters and/or proposals relating to business of the Bank and other relevant matters to be considered at the regular monthly Board Meetings. Directors proposed and collectively agreed on any additional matters to be included in the agendas of future Board Meetings and/or Board Subcommittee meetings. Papers and information were provided by the Management to comply with any such requests of the Board prior to such Board meetings.

#### 3(1)(iv) 🕑 - Agenda

Board meetings are scheduled monthly. Directors are noticed of the date of the next meeting well in advance. Directors had 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. The agenda along with the connected papers/ reports were circulated to the Directors by uploading them to the Board Papers Application System, "Seylan BoardPAC" 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 twelvemonth 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                   | 16                          | 16                | 100.00              |
| Mr Kapila Ariyaratne**           | EXD/CEO                                | 5                           | 5                 | 100.00              |
| Mr S Viran Corea                 | Non-IND NED                            | 16                          | 16                | 100.00              |
| Mr A S Wijesinha***              | IND NED/Senior Director                | 10                          | 7                 | 70.00               |
| Ms Sandya K Salgado              | IND NED/Senior Independent<br>Director | 16                          | 13                | 81.25               |
| Mr D M D Krishan Thilakaratne    | Non-IND NED                            | 15                          | 12                | 80.00               |
| Mr D R Abeysuriya ****           | IND NED                                | 12                          | 11                | 91.66               |
| Mr D M Rupasinghe                | IND NED                                | 16                          | 14                | 87.50               |
| Mr L H A Lakshman Silva          | IND NED                                | 16                          | 14                | 87.50               |
| Ms V G S Sunjeevani Kotakadeniya | Non-IND NED                            | 15                          | 13                | 86.66               |
| Ms Averil A Ludowyke             | IND NED                                | 16                          | 16                | 100.00              |
| Mr Ramesh Jayasekara*****        | EXD/CEO                                | 11                          | 11                | 100.00              |

\*Status of Directorship, NED – Non-Executive Director; IND – Independent; EXD – Executive Director

\*\* Retired on 30 April 2023

\*\*\* Resigned w.e.f. 21 September 2023

\*\*\*\* Directorship ceased due to his demise on 25 October 2023

\*\*\*\*\* Appointed to the Board on 01 May 2023

#### 3(1)(vii) 💙 - Company Secretary

Ms Saraswathie Poulraj who is an Attorneyat-Law is the Company Secretary of the Bank appointed by the Board with effect from 08 May 2022. She is also registered as a Secretary in accordance with the Companies (Secretaries) Regulations No. 1 of 2023 made under Section 527 read with Section 222 of the Companies Act No. 07 of 2007. In conformity with Section 43 of the Banking Act No. 30 of 1988 (as amended), she is not an employee of any other organization or institution. The Board approved Job Description of the Company Secretary includes the roles and responsibilities of a Company Secretary/Board Secretary to be performed in compliance with the relevant laws, regulations and the Articles of Association of the Bank.

The Company Secretary's primary responsibilities include, but not limited to assisting the Chairman and the

Chairpersons of the Subcommittees to make arrangements to convene meetings, preparing meeting agendas and convening and conducting shareholders' meetings in line with the regulations and Articles of Association of the Bank. Among other functions, she oversees the administration and day to day operations of the Company Secretariat of the Bank including the registrar's functions, capital issues, communications with shareholders, and communication 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

The Company Secretary reports to the Board and to respective Board Subcommittees and supports the members on matters relevant to the functioning of the Board and Board Subcommittees in line with good Corporate Governance. 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 offered by the Company Secretary.

3(1)(ix)&(x) ♥ - Minutes of Board Meetings

Minutes of Board Meetings are prepared and circulated to the Directors to enable them to peruse the same and confirm or rectify and record any discrepancy at the subsequent Board Meeting. Minutes are maintained by the Company Secretary for inspection or apprising the Directors of any past decisions as may be required by any director on reasonable notice. Minutes of Board meetings are recorded by the Company Secretary to enable a proper assessment to be made of the extent of deliberations at the meetings.

Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.

## 3(1)(xi) **⊘** - Independent professional advice

The Directors are permitted to seek independent professional advice on any matters 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 whenever required. The 'Policy on Seeking Independent Professional Advice by Directors' was reviewed and revised by the Board Governance and Compliance Committee and approved by the Board during the year and included a provision (among other) to seek professional advice from an individual/firm/party outside Sri Lanka, subject to proper evaluation and securing approvals therefore, if and when needed.

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 draws 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 generally refrain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Directors abstain from voting on any resolution in which the Directors have related party interests or are interested by virtue of their directorships. Declarations on Directors' Interests called for by the Company Secretary from the Directors have been updated on a regular basis which enables to ascertain any interests when transactions of interest are discussed by the Board.

The Code of Business Conduct and Ethics for Directors and the Policy on Related Party Transactions and Conflicts of Interest has laid down principles and procedures in this regard which the Directors are familiar of.

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

There is a formal schedule of matters included in the agenda reserved for Board's decisions. 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 Subcommittees. 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 readopted the reviewed and revised Contingency Funding Plan (CFP) which was approved by the Board. This policy document covers the procedures to be followed in a liquidity crisis situation and the stage when Central Bank is to be kept informed on the measures taken to keep up solvency. Such a situation has not arisen during the period under review.

## 3(1) (xv) ♥ - Capitalization of the Bank

The Bank complied with regulatory and prudential requirements relating to capital adequacy as required by the Monetary Board under Banking Act Direction No. 01 of 2016 (as amended) on Capital Requirements under BASEL III for Licensed Commercial Banks and Licensed Specialized Banks. The Capital Adequacy Position based on the Capital Augmentation Plan (CAP) was reviewed during the year. Chief Financial Officer submitted a paper on the position of capital adequacy monthly to update status to the Board. The Board approved Capital Augmentation Plan was submitted to Central Bank in May 2023. The Bank submitted the revised Capital Augmentation Plan to Central Bank in December 2023.

The Board has ensured to take appropriate steps to stay capitalized as required in terms of the requirements of the Central Bank. The total Capital Ratio as at 31 December 2023 based on certified audited financials was 15.84% (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 the Banking Act Directions on Corporate Governance.

#### 3(1) (xvii) ✓ - Scheme of Selfassessment

Each member of the Board submitted his/her own self-assessment report reporting on the extent of their respective contributions to the Board and to the Board Subcommittees they were attached to. The self-assessment reports submitted by the Directors are tabled at Board Meetings and are filed for records by the Company Secretary.

These facilitated the Board members to assess the extent to which they have fulfilled their duties and responsibilities and 98

## **CORPORATE GOVERNANCE**

further it ensured that appropriate processes are in place to ensure due diligence to planning and oversight over the organization. The process and approach for evaluations have been reviewed and the adoption of improvements is being done.

#### 3(2) THE BOARD'S COMPOSITION

#### 3(2) (i) 🕗 - Board Composition

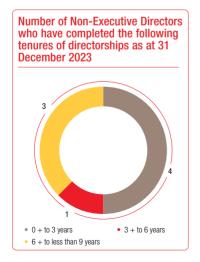
The Bank is in compliance with this section of the Banking Act Directions, i.e. that the composition of the Board to be not less than seven directors and not more than thirteen directors at any one time as described in the table below.

| No. | Director                         | Status*                                | Date of Appointment | Period served as at 31 December 2023                                                     |
|-----|----------------------------------|----------------------------------------|---------------------|------------------------------------------------------------------------------------------|
| 1.  | Mr W M R S Dias                  | Non-IND NED /Chairman                  | 29 May 2015         | 8 years, 7 months                                                                        |
| 2.  | Mr Kapila Ariyaratne             | EXD/Chief Executive Officer            | 16 February 2015    | Retired on 30 April 2023 after completion of 8 years, 2 months                           |
| 3.  | Mr Ramesh Jayasekara             | EXD/Chief Executive Officer            | 01 May 2023         | 8 months                                                                                 |
| 4.  | Mr S Viran Corea                 | Non-IND NED                            | 14 May 2015         | 8 years , 7 months                                                                       |
| 5.  | Mr A S Wijesinha                 | IND NED<br>Senior Director             | 1 December 2016     | Resigned on 21 September 2023 after completion of 6 years, 9 months                      |
| 6.  | Ms Sandya K Salgado              | IND NED<br>Senior Independent Director | 1 December 2016     | 7 years, I month                                                                         |
| 7.  | Mr D M D Krishan Thilakaratne    | Non-IND NED                            | 1 October 2018      | 5 years, 3 months                                                                        |
| 8.  | Mr D R Abeysuriya                | IND NED                                | 17 October 2018     | Directorship ceased due to his demise on 25<br>October 2023, after completion of 5 years |
| 9.  | Mr D M Rupasinghe                | IND NED                                | 1 October 2021      | 2 years, 3 months                                                                        |
| 10. | Mr L H A Lakshman Silva          | IND NED                                | 18 July 2022        | 1 year, 5 months                                                                         |
| 11. | Ms V G S Sunjeevani Kotakadeniya | Non-IND NED                            | 17 August 2022      | 1 year, 4 months                                                                         |
| 12. | Ms Averil A Ludowyke             | IND NED                                | 17 August 2022      | 1 year, 4 months                                                                         |
|     |                                  |                                        |                     |                                                                                          |

\*Status of Directorship, NED - Non-Executive Director; IND - Independent; EXD - Executive Director

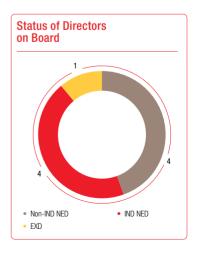
3(2) (ii) • Period of Service of Directors other than a Director who holds the position of CEO

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



The Board comprised only one Executive Director throughout (Mr Kapila Ariyaratne, former Director/CEO until 30 April 2023 and present Director/CEO, Mr Ramesh Jayasekara from 01 May 2023 onwards) and all others were Non-Executive Directors, including the Chairman of the Board. Thus the Bank complied with this direction which states that Executive Directors on the board shall not exceed one third of the total number.

3(2)(iv) *Q* - Independent Directors This Direction states that the minimum requirement of Independent Non-Executive Directors shall be three or one-third of the total number of directors on the board, whichever is higher. The Board comprised four (04) Independent Non-executive Directors out of the total Nine (09) Directors of the Board as at 31 December 2023. The Board comprised the minimum number of Independent, Non-Executive Directors throughout the year 2023. The criteria stated herein are reviewed vide declarations submitted by the Directors. Determination of Independence: The Board determined the Independent and Non-Independent status of the Non-Executive Directors based on the declarations submitted by respective Directors in accordance with the criteria defined in sections 3(2)(iv) and 3(5)(iii) of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, and also in terms of applicable sections of the Rules of the Colombo Stock Exchange (as amended).



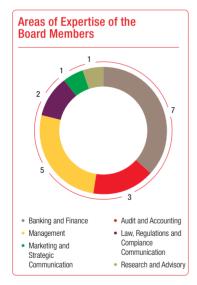
3(2)(v) 🕗 - Alternate Directors

There were no alternate Directors appointed to represent any director during the year.

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

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 are published in the Annual Report. Their knowledge and expertise brought comprehensive oversight and independent judgement on issues of strategy, 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 decisionmaking process.

The Board Nomination Committee is vested with the responsibility of recommending Directors' appointment and is guided by the Terms of Reference of the Committee (with amendments thereto time to time) and the Board approved procedure for appointment of Directors.



Gender Diversity: This was another aspect that the Board takes into consideration when nominees were considered for Board appointments. The Board of Directors comprised 33% female Directors and 67% male Directors as at 31 December 2023. 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.

The quorum for Board Meetings is fixed at minimum five members or 50% of the number on the Board whichever is higher. Since the Bank has only one executive director, this requirement was complied.

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

The status of directorships has been expressly identified in all corporate communications including in the Annual Reports. Designations of Directors who were designated with identified positions such as, Chairman, Senior Independent 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 (and subject to amendments time to time), 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 nominations referred to the Committee.

Upon the retirement of Mr Kapila Ariyaratne, former Director/CEO, Mr Ramesh Jayasekara was appointed as the Director/ CEO w.e.f. 01 May 2023. Requirements as stipulated under Banking Act Directions No 01 of 2019 and 08 of 2019 have been complied in formalizing the said Board change.

#### 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. The following Directors who were appointed in 2022 to fill the casual vacancies on the Board were reelected by the Shareholders at the Annual General Meeting held on 30 March 2023.

- Independent Director, Mr L H A Lakshman Silva who was appointed to the Board on 18 July 2022;
- Independent Director, Ms Averil A Ludowyke who was appointed to the Board on 17 August 2022;
- Non-Executive Director, Ms V G S Sunjeevani Kotakadeniya who was appointed to the Board on 17 August 2022.

There were no directors appointed during the year 2023 to fill any casual vacancy.

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

Upon the Board accepting and/or recording the resignation or removal or cessation/ retirement of office as a Director, it is informed to the regulatory authorities (namely the Central Bank of Sri Lanka and the Registrar of Companies) and also to the shareholders through announcements 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.

Market announcements were published in the CSE website in respect of the retirement of former Director/CEO Mr Kapila Ariyaratne on 30 April 2023, resignation of former Senior Director/Independent Director, Mr A S Wijesinha effective 21 September 2023 and the demise of Mr D R Abeysuriya on 25 October 2023.

## 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. The Bank has stipulated this requirement in its Corporate Governance Framework, in the Policy Governing Directors' Appointment and in the letters of appointment issued to employees and the Employee Manual and related policies of the Bank. Profiles of persons proposed/nominated to the Board are first reviewed by the Board Nomination Committee in making its recommendations to assess whether they are compliant with this direction. The letters of appointment 100

issued to employees stipulate that they are not permitted to take up employment or appointments in other corporates which includes banks.

#### 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 ('CBSL') in terms of Section 42 of the Banking Act No.30 of 1988 (as amended) whilst Affidavits of the continuing Directors in terms of the said section were forwarded to the Director, Bank Supervision, at least 15 working days prior to the Annual General Meeting of the Bank, for perusal and approval of the Director, Bank Supervision, CBSL.

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.

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 Director of the Bank who was over 70 years of age served in the Board during the year 2023.

The Delegation Process of the Bank

3(3)(ii) (amended by Direction No. 03 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 during the year 2023.

The Bank will ensure that 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 (coolingoff 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. There was no appointment of a new director to the Board, during 2023.

#### 3(4) MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD OF DIRECTORS

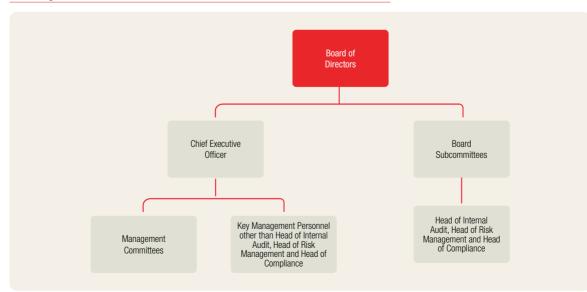
3(4)(i)-(iii) ♥ - Board delegation arrangements in place

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 scope of the respective Terms of Reference which are approved by the Board, to the CEO and to other key management personnel/ line management through approved delegated authority limits and the scope of their approved job descriptions which are reviewed from time to time. The Board approves delegation of authority limits on credit and other transactions on need basis.

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, were considered and approved/ decided by the Board. The Board's review of the Terms of References, policies and procedures in place from time to time based on the recommendations made by the management and Subcommittees ensured that the delegation processes in place remain relevant to the needs of the Bank. Recommendations from the line management/CEO either direct or through the Board subcommittees are submitted to the Board for review and approval/decision.



## 3(5) (i) 😋 - Roles of the Chairman and the Chief Executive Officer (CEO)

The role and responsibilities of the Bank's Chairman and that of the CEO are separate and distinct and the Board has outlined them in the Corporate Governance Framework of the Bank. The Chairman and the CEO execute their respective roles in coordination with each other and/or with the Board to reach high-level decisions in the best interest of the Bank. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Bank giving effect to the strategies and policies approved by the Board. Mr W M R S Dias, Non-Executive Director is the Chairman of the Bank, whilst Mr Kapila Ariyaratne (till 30 April 2023) and Mr Ramesh Jayasekara (from 01 May 2023 onwards) functioned as the Director/CEO.

3(5)(ii) **⊘** - Independent status of the Chairman

Chairman. Mr W M R S Dias is a Non-Executive Director. He was determined as 'Non-Independent', as he was nominated to the Board by Sri Lanka Insurance Corporation Ltd, a material shareholder of the Bank. Therefore, a Board approved Terms of Reference for the appointment of Senior Director has been in place. Mr A S Wijesinha, who was appointed as the Senior Director of the Bank since 23 September 2022 (after the retirement of former Senior Director Ms M C Pietersz on 22 September 2022), resigned from the Board with effect from 21 September 2023. Independent, Non-Executive Director, Ms Sandya K Salgado was appointed as the Senior Independent Director effective 06 November 2023. Board Nomination Committee at their meeting held on 13 October 2023, recommended late Mr Ravi Abeysuriya as the Senior Independent Director of the Bank subject to the approval of the Board. However, due to the demise of Mr Abeysuriya on 25 October 2023 said recommendation was not formalized.

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 2023. However, Directors, Mr D M D Krishan Thilakaratne and Ms V G S Sunjeevani Kotakadeniya were nominated to the Board by the Bank's material shareholders, Brown & Company PLC and LOLC Investments Ltd and represent common interests; whilst Directors, Mr W M R S Dias and Mr S Viran Corea were similarly nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Ltd. However, these two directors do not hold any directorships or positions in SLIC.

#### 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. The role played by the Chairman was aligned to the requirements set out in this Banking Act Direction, which included:

- Providing leadership and governance of the Board so as to create the conditions for overall Board's and individual Director's effectiveness, it is ensured that all key and appropriate issues are discussed by the Board in a timely manner.
- The responsibility for preparation of the formal agenda to the Board Meetings is delegated to the Company Secretary who takes into consideration any matters advised by the Chairman and any concerns raised by other Directors.
- Ensuring that Board papers covering adequate information of matters are circulated well in advance prior to the meeting in order to ensure that the Directors, especially new Directors on the Board are duly briefed on issues arising for deliberation at Board meetings.
- The Board has a self evaluation process to review the effectiveness of their contribution to the Board's affairs with the Chairman taking the lead role.
- Promoting effective relationships and open communication to create an environment that allows constructive debates and challenges between

Non-Executive Directors and the management.

- 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.
- Not engaging in direct supervision of the key management personnel or in any other executive duties and was only engaged in the oversight capacity along with the other Non-Executive Directors.
- 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 utilized 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 (interim financial statements and Annual Reports) in the public domain. Corporate announcements and information will be disseminated in accordance with the legal and regulatory requirements applicable to the Bank.

3(5)(xi) 🕑 Chief Executive Officer

Mr Kapila Ariyaratne continued as the Director/CEO until his retirement on 30 April 2023 and Mr Ramesh Jayasekara was appointed on 01 May 2023 as the Director/CEO. Mr Jayasekara functions as the Key Executive, who is in charge of the day to day management of the Bank's operations and business handled by the KMPs responsible for the different functions reporting to him. He reports directly to the Board of Directors and is accountable to the Board on the performance of the Bank.

#### **3(6) BOARD APPOINTED COMMITTEES**

3(6)(i) **⊘** - Subcommittees appointed by the Board

The Board has established Twelve Board Subcommittees (as listed below), which includes regulatory Committees and other Board Subcommittees:

## **CORPORATE GOVERNANCE**

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

- Board Audit Committee
- Board Human Resources and Remuneration Committee
- Board Nomination Committee
- Board Integrated Risk Management Committee
- Board Procurement and Capital
   Expenditure Supervisory Committee
- Board Procurement and Capital Expenditure Supervisory Committee was established during the year, in compliance with Banking Act Direction No. 01 of 2023 dated 02 February 2023.
- Revised Rules of the CSE which came into effect from 01 October 2023 set out the requirement to appoint a 'Nominations and Governance Committee'. However, the Bank had two separate Subcommittees namely, Board Governance and Compliance Committee and Board Nomination Committee which were in existence when the revised Listing Rules of the

#### Scope and Objectives of the Committee

#### (1) Board Audit Committee

Providing insights to the Board in fulfilling its oversight 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.

[Please also refer section 3(6)(ii) in this Corporate Governance Report and also the Report of the Committee on pages 116-117 for more disclosures]

## (2) Board Human Resources and Remuneration Committee

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.

[Please also refer section 3(6)(iii) in this Corporate Governance Report and also the Report of the Committee on pages 118-119 for more disclosures]

#### Committees established as per the Rules of the Colombo Stock Exchange and/or as per the Code of Best Practice on Corporate Governance, issued by the ICASL

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

CSE came into effect from 01 October 2023. Said Committees were carrying out their responsibilities based on two separate Terms of Reference.

Afore-stated Board appointed Subcommittees functioned within Board approved Terms of Reference and reported to the Board. All Committees were chaired by Independent Directors except for Board Credit Committee and Board Information Technology Committee which were chaired by Non-Independent, Non-Executive Directors as at 31 December 2023 (consequent to the changes of the Directorate during the year). Reports and papers that required the Board's attention

#### Composition / Membership / Quorum

| Chairperson                             | Ms Averil A Ludowyke, Independent Non-Executive Director |
|-----------------------------------------|----------------------------------------------------------|
| Independent Non-Executive Directors     | Ms Averil A Ludowyke, Mr D M Rupasinghe*                 |
| Non-independent Non-Executive Directors | Ms V G S Sunjeevani Kotakadeniya                         |
| Executive Directors                     | Nil                                                      |
| Quorum                                  | Two members                                              |
|                                         |                                                          |

\* Consequent to the demise of Mr D R Abeysuriya, Independent Non-Executive Director, who was a Member of the Committee on 25 October 2023, the afore-stated composition was considered as re-constituted by the Board on 06 November 2023.

| Chairman                                | Mr L H A Lakshman Silva, Independent Non-Executive<br>Director                                                              |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors  | Mr L H A Lakshman Silva, Ms Sandya K Salgado and Ms<br>Averil A Ludowyke (appointed as a Member w.e.f. 24 October<br>2023)* |
| Non-independent Non-Executive Directors | Mr S Viran Corea and Mr D M D Krishan Thilakaratne                                                                          |
| Executive Directors                     | Nil                                                                                                                         |
| Quorum                                  | Two members                                                                                                                 |
|                                         |                                                                                                                             |

\* The Committee was re-constituted w.e.f. 24 October 2023. Ms Averil A Ludowyke Independent Non-Executive Director was appointed w.e.f. 24 October 2023 in place of Mr D R Abeysuriya Independent Non-Executive Director.

## Additional Committees established by the Board

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

and/or decisions were followed up and circulated to the Board along with copies of confirmed minutes of the Committee meetings by the respective Committee Secretary/Company Secretary.

The following table provides a summary of the scope and objectives, composition and membership of Directors of the Subcommittees as at 31 December 2023. Individual reports of the respective Subcommittees as mandated by the Banking Act Directions and the Rules of the Colombo Stock Exchange have also been published in the Annual Report as pertinent to the disclosure requirements applicable for 2023.

#### Scope and Objectives of the Committee (3) Board Nomination Committee

#### Composition / Membership / Quorum

|                                                     | Chairmai  |
|-----------------------------------------------------|-----------|
| To assist the Board in fulfilling the role and      |           |
| responsibilities involving appointment of Directors | Independ  |
| and Key Management Personnel of the Bank.           | Directors |

[Please also refer section 3(6)(iv) in this Corporate Governance Report and also the Report of the Committee on pages 120-121 for more disclosures]

| Chairman                                | Mr D M Rupasinghe, Independent Non-Executive Director (*appointed as the Chairman w.e.f. 12 October 2023),                                        |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors  | Mr D M Rupasinghe, Mr L H A Lakshman Silva<br>* Ms Sandya K Salgado, Senior Independent Director<br>(appointed as a Member w.e.f.31 October 2023) |
| Non-independent Non-Executive Directors | Mr W M R S Dias and Ms V G S Sunjeevani Kotakadeniya                                                                                              |
| Executive Directors                     | Nil                                                                                                                                               |
| Quorum                                  | Two members                                                                                                                                       |

\* Mr A S Wijesinha, Independent Non-Executive Director/Senior Director, Chairman of the Committee resigned from the Board w.e.f. 21 September 2023

\*\* Mr D R Abeysuriya, Independent Non-Executive Director was appointed as a Member w.e.f. 12 October 2023. Consequent to the demise of Mr D R Abeysuriya on 25 October 2023, the Committee was further re-constituted on 31 October 2023 and the composition was as stated above.

#### (4) Board Integrated Risk Management Committee

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.

[Please also refer section 3(6)(v) in this Corporate Governance Report and also the Report of the Committee on pages 123-124 for more disclosures]

## (5) Related Party Transactions Review Committee

To review Related Party Transactions as required by the Listing Rules of the Colombo Stock Exchange (and any amendment from time to time) and the Code of Best Practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka.

[Please also refer section 3(7) in this Corporate Governance Report and also the Report of the Committee on page 122 for more disclosures]

| Chairman                                | Mr D M Rupasinghe, Independent Non-Executive Director (appointed as the Chairman w.e.f. 06 November 2023), |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors  | Mr D M Rupasinghe Mr L H A Lakshman Silva and Ms Averil<br>A Ludowyke*                                     |
| Non-Independent Non-Executive Directors | Mr W M R S Dias                                                                                            |
| Executive Directors                     | Mr Ramesh Jayasekara (appointed as a Member w.e.f. 01<br>May 2023)**                                       |
| Management                              | Mr L A S Fernando - Chief Risk Officer (Non-Board Member)                                                  |
| Quorum                                  | Two members                                                                                                |
|                                         |                                                                                                            |

\* Consequent to the demise of Mr D R Abeysuriya, Independent, Non-Executive Director, Chairman of the Committee on 25 October 2023, the Committee was re-constituted and the composition was as stated above.

\*\* Director/Chief Executive Officer, Mr Kapila Ariyaratne retired on 30 April 2023

| Chairman                                | Mr L H A Lakshman Silva, Independent Non-Executive<br>Director (*appointed as the Chairman w.e.f. 24 October<br>2023) |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors  | Mr L H A Lakshman Silva and Ms Averil A Ludowyke                                                                      |
| Non-independent Non-Executive Directors | Mr S Viran Corea                                                                                                      |
| Executive Directors                     | Nil                                                                                                                   |
| Quorum                                  | Three members                                                                                                         |

\* Mr A S Wijesinha, Independent Non-Executive Director/Senior Director, Member of the Committee Resigned from the Board w.e.f. 21 September 2023.

\* Mr L H A Lakshman Silva was appointed as the Chairman of the Committee w.e.f. 24 October 2023. Mr D R Abeysuriya's directorship and membership ceased due to his demise on 25 October 2023.

\* Consequent to the demise of Mr D R Abeysuriya on 25 October 2023, the Committee composition as stated above was noted as re-constituted by the Board, on 06 November 2023.

## **CORPORATE GOVERNANCE**

#### Scope and Objectives of the Committee

#### (6) Board Credit Committee

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/recommending/ approving (as appropriate);

- credit facilities;
- improving credit policies, procedures and lending guidelines;
- Processes for recoveries, empowerment and accountability for credit decision making.

# Composition / Membership / Quorum Chairman Mr D M D Krishan Thilakaratne, Non-Executive Director (\*appointed as the Chairman of the Committee we f O

| Chairman                                   | Mr D M D Krishan I hilakarathe, Non-Executive Director<br>(*appointed as the Chairman of the Committee w.e.f. 06<br>November 2023) |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors     | Nil*                                                                                                                               |
| Non-independent Non-Executive<br>Directors | Mr S Viran Corea and Mr D M D Krishan Thilakaratne                                                                                 |
| Executive Directors                        | Mr Ramesh Jayasekara (appointed as a Member w.e.f. 01<br>May 2023)**                                                               |
| Quorum                                     | Two members                                                                                                                        |

\* Mr A S Wijesinha, Independent Non-Executive Director/Senior Director, Chairman of the Committee resigned from the Board w.e.f. 21 September 2023. Mr D R Abeysuriya, Independent, Non-Executive Director was proposed to be appointed as the Chairman of the Committee, as per the Committee re-constitution decided on 24 October 2023, however due to his demise on 25 October 2023, Non-Executive Director, Mr D M D Krishan Thilakaratne was appointed as the Chairman of the Committee w.e.f. 06 November 2023.
\*\* Director/Chief Executive Officer, Mr Kapila Ariyaratne retired from the Board on 30 April 2023

#### (7) Board Marketing and Product Development Committee

To review the overall Marketing plans of the Bank to ensure that the plans aim at optimizing 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.

(8) Board Sustainability Committee To make decisions on behalf of the Board within the framework of the authority and responsibilities assigned to the Committee as set out in its Terms

of Reference.

| Chairperson                                                                   | Ms Sandya K Salgado, Independent Non-Executive Director/<br>Senior Independent Director                                                  |
|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors                                        | Ms Sandya K Salgado*                                                                                                                     |
| Non-independent Non-Executive<br>Directors                                    | Mr W M R S Dias, Mr D M D Krishan Thilakaratne and Ms V<br>G S Sunjeevani Kotakadeniya (appointed as a Member w.e.f.<br>24 October 2023) |
| Executive Directors                                                           | Mr Ramesh Jayasekara (appointed as a Member w.e.f. 01<br>May 2023)**                                                                     |
| Quorum                                                                        | Two members                                                                                                                              |
| resigned from the Board w.e.f. 21 S<br>** Director/Chief Executive Officer, M | fr Kapila Ariyaratne retired from the Board on 30 April 2023                                                                             |
| Chairperson                                                                   | Ms Sandya K Salgado, Independent Non-Executive Director/<br>Senior Independent Director                                                  |
| Independent Non-Executive Directors                                           | Ms Sandya K Salgado                                                                                                                      |
| Non-Independent Non-Executive Directors                                       | Mr S Viran Corea and Mr D M D Krishan Thilakaratne                                                                                       |
| Executive Directors                                                           | Mr Ramesh Jayasekara (appointed as a Member w.e.f. 01<br>May 2023)*                                                                      |
| Quorum                                                                        | Two members                                                                                                                              |

#### Scope and Objectives of the Committee

#### (9) Board Governance and Compliance Committee

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.

| Composition / Membership / Quorum       |                                                                                                                           |  |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--|
| Chairman                                | Mr D M Rupasinghe, Independent Non-Executive Director                                                                     |  |
| Independent Non-Executive<br>Directors  | Mr D M Rupasinghe, Ms Averil A Ludowyke and Mr L H A<br>Lakshman Silva (appointed as a Member w.e.f. 24 October<br>2023)* |  |
| Non-Independent Non-Executive Directors | Mr W M R S Dias and Mr S Viran Corea                                                                                      |  |
| Executive Directors                     | Nil                                                                                                                       |  |
| Quorum                                  | Two members                                                                                                               |  |

The revised Rules of the CSE which came into effect from 01 October 2023 required Listed Entities to appoint a 'Nominations and Governance Committee'. The Bank however, had a Board Governance and Compliance Committee in existence when the said revised Rules of the CSE came into effect, in addition to the Board Nomination Committee. Both Committees continued with two separate Terms of References ('TOR') governing respective Committees' composition, scope and the responsibilities clearly set out therein.

TOR of Board Nomination Committee vested the oversight responsibility on the Committee on Board Appointments and appointment of Directors to the Subcommittees, monitoring procedure relating to appointment of Directors and KMPs.

TOR of Board Governance and Compliance Committee vested the Committee with oversight responsibility on overall governance framework, review and update of governance polices and framework in compliance with the regulatory, statutory requirements.

The Board Governance and Compliance Committee was re-constituted w.e.f. 24 October 2023. Mr L H A Lakshman Silva, Independent, Non-Executive Director was appointed as a Member of the Committee.

| Chairperson                                | Ms Sandya K Salgado, Independent Non-Executive Director/<br>Senior Independent Director (*appointed as the Chairperson<br>of the Committee w.e.f. 24 October 2023)** |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors     | Ms Sandya K Salgado                                                                                                                                                  |
| Non-Independent Non-Executive<br>Directors | Ms V G S Sunjeevani Kotakadeniya (*appointed as a Member w.e.f. 24 October 2023)                                                                                     |
| Executive Directors                        | Mr Ramesh Jayasekara (appointed as a Member w.e.f. 01<br>May 2023)*                                                                                                  |
| Quorum                                     | Two members                                                                                                                                                          |

\* Director/Chief Executive Officer, Mr Kapila Ariyaratne retired on 30 April 2023

\*\*Mr A S Wijesinha, Independent Non-Executive Director/Senior Director, Chairman of the Committee, resigned from the Board w.e.f. 21 September 2023

\*\*\* The Committee was re-constituted with the composition as stated above w.e.f. 24 October 2023. Mr D R Abeysuriya, Independent Non-Executive Director ceased to be a Member pursuant to said re-constitution.

#### (10) Board Strategic Plan Committee

To oversee, to monitor and to provide the necessary guidance to the management to drive and achieve the Strategic Plan objectives within the set timelines.

## **CORPORATE GOVERNANCE**

#### Scope and Objectives of the Committee (11) Board Information Technology Committee

To assist the Board in fulfilling its' Corporate Governance and oversight responsibilities for the Bank's investments and strategy in relation to digital, information technology and information systems.

#### Composition / Membership / Quorum

| Chairperson                                | Ms.V G S Sunjeevani Kotakadeniya, Non-Independent Non-<br>Executive Director (*appointed as the Chairperson of the<br>Committee w.e.f. 06 November 2023) |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Independent Non-Executive<br>Directors     | Mr L H A Lakshman Silva**                                                                                                                                |
| Non-independent Non-Executive<br>Directors | Ms.V G S Sunjeevani Kotakadeniya (appointed as a Member<br>w.e.f. 24 October 2023 and as the Chairperson of the<br>Committee on 06 November 2023)        |
| Executive Directors                        | Mr Ramesh Jayasekara (appointed as a member w.e.f. 01<br>May 2023)*                                                                                      |
| Quorum                                     | Two members                                                                                                                                              |

\* Director/Chief Executive Officer, Mr Kapila Ariyaratne, Member of the Committee, retired on 30 April 2023

\*\*Mr A S Wijesinha, Independent Non-Executive Director/Senior Director, Member of the Committee, resigned from the Board w.e.f. 21 September 2023

Director

\*\*\* Consequent to the demise of Mr D R Abeysuriya, Independent Non-Executive Director, Chairman of the Committee on 25 October 2023, Ms V G S Sunjeevani Kotakadeniya, who was appointed as a Member w.e.f. 24 October 2023 was appointed as the Chairperson of the Committee w.e.f. 06 November 2023 and the reconstituted Committee is as stated above.

## (12) Board Procurement and Capital Expenditure Supervisory Committee

To evaluate and to approve/recommend nonessential and/or non-urgent expenditure and/or capital expenditure to be incurred by the Bank (if any) as required to ensure compliance in terms of Banking Act Direction No. 01 of 2023 dated 02 February 2023 (and any amendments thereto time to time).

This Committee was formed w.e.f. 28 March

2023.

 Independent Non-Executive
 Mr L H A Lakshman Silva, Ms Sandya K Salgado

 Directors
 Non-independent Non-Executive

 Directors
 Nil

 Executive Directors
 Mr Ramesh Jayasekara

 Quorum
 Two members

Mr L H A Lakshman Silva, Independent Non-Executive

\* Consequent to the demise of Mr D R Abeysuriya, Independent Non-Executive Director, and Member of the Committee on 25 October 2023, the above Committee composition was noted as re-constituted w.e.f. 06 November 2023.

All these Committees carried out self-assessments and submitted their reports to the Board for review. Having reviewed the same, the Board was satisfied that the Committees have carried out their responsibilities in a satisfactory manner as per the requirements set out in respective Terms of References.

Chairman

#### **Directors' Attendance at Subcommittee Meetings**

| Director<br>C – Chairperson of<br>Committee ; M – Member<br>of the Committee | Audit                     | Human<br>Resources and<br>Remuneration | Nomination             | Integrated<br>Risk<br>Management | Related Party<br>Transactions<br>Review | Credit                 | Marketing<br>and Product<br>Development | Sustainability       | Governance and<br>Compliance | Strategic Plan       | Information<br>Technology | Procurement          |
|------------------------------------------------------------------------------|---------------------------|----------------------------------------|------------------------|----------------------------------|-----------------------------------------|------------------------|-----------------------------------------|----------------------|------------------------------|----------------------|---------------------------|----------------------|
| Mr W M R S Dias<br>Non-Executive Director/<br>Chairman                       |                           |                                        | <b>(M)</b><br>5 of 5   | <b>(M)</b><br>9 of 10            |                                         |                        | <b>(M)</b><br>3 of 3                    |                      | <b>(M)</b><br>4 of 4         |                      |                           |                      |
| Mr Ramesh Jayasekara **<br>Director/Chief Executive<br>Officer               |                           |                                        |                        | <b>(M)</b><br>8 of 8             |                                         | <b>(M)</b><br>18 of 18 | <b>(M)</b><br>1 of 1                    | <b>(M)</b><br>3 of 3 |                              | (M)<br>3 of 3        | <b>(M)</b><br>2 of 2      | <b>(M)</b><br>3 of 3 |
| Mr Kapila Ariyaratne*<br>Director/Chief Executive<br>Officer                 |                           |                                        |                        | <b>(M)</b><br>2 of 2             |                                         | <b>(M)</b><br>6 of 8   | (M)<br>2 of 2                           |                      |                              |                      | <b>(M)</b><br>1 of 1      |                      |
| Mr S Viran Corea<br>Non-Executive Director                                   |                           | <b>(M)</b><br>4 of 6                   |                        |                                  | <b>(M)</b><br>5 of 5                    | (M)<br>26 of 26        |                                         | <b>(M)</b><br>3 of 3 | <b>(M)</b><br>4 of 4         |                      |                           |                      |
| Mr A S Wijesinha<br>Independent Director/<br>Senior Director***              |                           |                                        | <b>(C)</b><br>3 of 3   |                                  | <b>(M)</b><br>2 of 2                    | <b>(C)</b><br>19 of 19 | <b>(M)</b><br>2 of 2                    |                      |                              | <b>(C)</b><br>2 of 2 | <b>(M)</b><br>2 of 2      |                      |
| Ms Sandya K Salgado<br>Senior Independent<br>Director*****                   |                           | <b>(M)</b><br>6 of 6                   | <b>(M)</b><br>1 of 1   |                                  |                                         |                        | <b>(C)</b><br>3 of 3                    | <b>(C)</b><br>3 of 3 |                              | <b>(C)</b><br>3 of 3 |                           | <b>(M)</b><br>3 of 3 |
| Mr D M D Krishan<br>Thilakaratne<br>Non-Executive Director                   |                           | <b>(M)</b><br>6 of 6                   |                        |                                  |                                         | <b>(C)</b><br>22 of 26 | (M)<br>3 of 3                           | <b>(M)</b><br>3 of 3 |                              |                      |                           |                      |
| Mr D R Abeysuriya<br>Independent Director ****                               | <b>(M)</b><br>6 of 7      | <b>(M)</b><br>6 of 6                   | <b>(M)</b><br>1 of 1   | <b>(C)</b><br>6 of 7             | <b>(C)</b><br>3 of 3                    |                        |                                         |                      |                              | (M)<br>3 of 3        | <b>(C)</b><br>3 of 3      | <b>(M)</b><br>2 of 2 |
| Mr D M Rupasinghe<br>Independent Director                                    | <b>(M)</b><br>10 of<br>11 |                                        | <b>(C)</b><br>5 of 5   | <b>(C)</b><br>10 of 10           |                                         |                        |                                         |                      | <b>(C)</b><br>4 of 4         |                      |                           |                      |
| Mr L H A Lakshman Silva<br>Independent Director                              |                           | <b>(C)</b><br>6 of 6                   | ( <b>M</b> )<br>5 of 5 | <b>(M)</b><br>10 of 10           | <b>(C)</b><br>2 of 2                    |                        |                                         |                      | <b>(M)</b><br>1 of 1         |                      | <b>(M)</b><br>3 of 3      | <b>(C)</b><br>3 of 3 |
| Ms V G S Sunjeevani<br>Kotakadeniya<br>Non-Executive Director                | <b>(M)</b><br>11 of<br>11 |                                        | <b>(M)</b><br>5 of 5   |                                  |                                         |                        | <b>(M)</b><br>1 of 1                    |                      |                              | <b>(M)</b><br>N/A    | <b>(C)</b><br>N/A         |                      |
| Ms Averil A Ludowyke<br>Independent Director                                 | (C)<br>11of 11            | <b>(M)</b><br>N/A                      |                        | <b>(M)</b><br>10 of 10           | <b>(M)</b><br>5 of 5                    |                        |                                         |                      | (M)<br>4 of 4                |                      |                           |                      |

\*\*Appointment of Mr Ramesh, Javasekara as the Director/Chief Executive Officer we f 01 May 2023. Mr Ramesh, Javasekara is a Non-Independent/Executive Director on the Roard \*\*\* Resignation of Independent, Non-Executive Director/ Senior Director, Mr A S Wijesinha from the Board w.e.f from 21 September 2023

Hesgiptation of independent, worl-backure birectory come birectory, and the first of the security entry of the demise of the Drake of t

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

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

Ms Averil A Ludowyke (Independent Director appointed to the Board on 17 August 2022) [FCA (CA Sri Lanka), FCMA (UK)] was appointed as the Chairperson of the Committee w.e.f. 23 September 2022 and counts over 37 years of experience in auditing, accounting and finance. All Committee members are Non-executive Directors.

The BAC comprised four Non-Executive Directors till October 2023 and consequent to the demise of Mr D R Abeysuriya on 25 October 2023, the Committee comprised of Ms Averil A Ludowyke (Chairperson, Independent Non-Executive Director), Ms Sunjeevani Kotakadeniya (Non-Independent Non-Executive Director) and Mr D M Rupasinghe (Independent Non-Executive Director) which was noted as reconstituted by the Board of Directors w.e.f. 06 November 2023.

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:

The present Audit partner of the External Auditors has been engaged in the Bank's audit from the 2019 financial year. The Audit Partner was not engaged in the Bank's audit prior to the current engagement. The Board at its Meeting held on 22 February 2023 concurred with the Board Audit Committee's recommendation for the re-appointment/engagement of M/s KPMG, as Auditors for the year 2023 which was approved by the Shareholders at the Annual General Meeting held on 30 March 2023.

- 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) complying with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) in all material respects.
- Representations made by the External Auditors stating their independence,

### **CORPORATE GOVERNANCE**

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 2023.

Prior to the publishing of this report in February 2024, the Committee 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 2024 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 and as amended by Banking Act No. 33 of 1995. The Policy on the engagement of an external auditor to provide non-audit services is in place and was recommended by the Board Audit Committee and approved by the Board during the year.

Fees payable to External Auditors in respect of Audit and Non audit services provided were reviewed and recommended by the Committee and approved by the Board.

3(6)(ii)(f) 🗸 - Scope of External Audit The nature, scope and approach of audit in respect of the financial year 2023, was presented by the External Auditors, discussed and agreed upon at a meeting held with the Auditors in the last guarter 2023. 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. Audit Partner engages with regular discussions with the CFO and the Committee, in view of Audit work that are in progress.

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

Internal Auditors performed certain audit procedures with regard to interim unaudited financial statements for the 3 months ended 31 March 2023 and 9 months ended 30 September 2023 and were checked by the Internal Auditors whilst the audited financial statements for the half-year ended 30 June 2023 and the year ended 31 December 2023 were reviewed/audited 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.

Meetings of the Committee are convened to review/discuss/comment and make recommendations on the reports and information presented by the Chief Financial Officer in order to ensure the relevance of the financial statements prepared for disclosure and published in the Bank's Annual Report and Accounts and guarterly unaudited financial statements and reports. The Committee also reviews the draft audited interim financial statements before they are submitted for Board's review. Observations/comments and appropriate changes recommended by the Auditors were taken into consideration and incorporated to the financial statements and submitted to the BAC by the Chief Financial Officer. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the contents of the financial statements, focusing on applicable accounting principles, reasonableness of significant adjustments and estimates, major judgmental areas, etc., which helped the Board in its oversight and decision on the Financial Statements to evidence a true and fair view on the financial position and performance of the Bank being disclosed. Year on year accounting policies are reviewed and submitted to the Committee and the Board with updates/changes if any, for approval. Based on the approved accounting policy, financial information is prepared.

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/ findings of the external audit.

3(6)(ii)(i) 🕗 - Management Letter of the External Auditors

The Committee having reviewed the Management letter during the year recommended the same for approval of the Board and submitted to the Central Bank of Sri Lanka within required timelines. Relevant management actions were taken to close/rectify any findings on lapses/ breaches that were arising from the Management Report and progress on same was reported periodically.

## 3(6)(ii)(j)I ⊘ - 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 recommended by the Committee and approved by the Board. The Committee also reviewed and discussed the adequacy of the scope and resources of the IAD. The Committee ensures that the Internal Audit function complies with the terms and guidelines set in the Internal Audit Charter.

3(6)(ii)(j)II → Internal Audit Division carried out its responsibilities in line with the approved Audit Plan of 2023. The IAD reported on the audits carried out as per the Audit Plan and also updated the Committee on the status and extent of addressing/ resolving the findings of audits carried out by the management concerned. 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 issued advice/ instructions to relevant management calling assurances on the remedial action in respect of identified risks from the audit findings which ensured the effectiveness of internal control procedures.

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

Appraisals/assessments of performance of the senior staff of the Internal Audit Department was carried out annually by the Head of Internal Audit and reported to the Committee which notes such evaluations. Evaluation of the Head of Audit's performance was carried out by the Committee.

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

The Committee reviewed the adequacy of the human resources for the internal audit functions and recommended appointments/ successions planning and outsourcing of services where deemed appropriate. The Committee is usually kept informed of senior staff resignations of the Internal Audit Department.

### 3(6)(ii)(j)VI − < − Independence of the Internal Audit function

Internal Audit department directly reports to the Head of the Internal Audit Department who directly reports to BAC for independence. The audits are performed with impartiality, proficiency and due professional care.

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

Reports on investigations carried out by the Internal Audit including major findings and management responses thereto are submitted to and discussed with suitable action points agreed upon at the Board Audit Committee Meetings.

3(6)(ii)(I) ♥ - 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. The BAC also invited the External Auditors to present their findings, observations and the external audit scope and plan.

#### 

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 Committee has met eleven times during the year which included 2 meetings with the External Auditors as well. Regular meetings included separate meetings for reviewing internal audit reports and financial updates; meetings for the financial statements; and meetings with the External Auditors. Head of Internal Audit and the Chief Financial Officer discussed their areas of functions and concerns, and BAC provided appropriate advice at the meetings held, where necessary.

The Agenda and the papers for discussions and consideration/approval were circulated prior to the Meeting.

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

A Report of the BAC signed by the Chairperson is included on pages 116-117 of this 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)(p) 🕑

The Company Secretary functions as the Secretary of the Board Audit Committee. The minutes of the proceedings of the Meetings were recorded in sufficient detail and maintained by the Company Secretary. The Committee continuously emphasized on the requirement that ethical values are upheld by 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 and framework on Whistleblowing and a Policy on Anti-Bribery and Corruption. 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 BAC ensured that all employees are duly informed and duly advised of the effective use of the Whistleblowing process if they suspect wrong doings or other improprieties. The Whistleblowing Policy encompass defined and specific provisions for whistleblower protection which includes the maintenance of strict confidentiality of the identity of the whistleblowers and right to anonymity. Secure and multi-channel escalation paths are made available for whistleblowers. Annual review of Whistleblowing Policy was reviewed at the BAC Meeting held during fourth quarter 2023 .The investigations undertaken by the Internal Audit Division on Whistleblower complaints are reported to the Committee and appropriate follow up action is being taken.

All appropriate procedures have been put in place to conduct independent investigations by the Internal Audit Department on complaints/incidents reported directly through Whistleblowers or other identified means. The consequent disciplinary process and procedures are operated by Human Resource Department. 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

### CORPORATE GOVERNANCE

remuneration, salaries, allowances and other financial or non-financial benefits, perquisites, special incentives, etc., to Directors, the CEO, the 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 2023 were reviewed and approved along with the KPIs for the KMPs.

CFO together with HR department submit the same for the review of the Committee.

The Committee reviewed/evaluated the achievement of KPIs of the Bank/ CEO for 2022 in the first quarter 2023. CFO together with HR submits the evaluation of KPIs of CEO against the actual for the review of BHRRC. Achievement of KPIs of Key Management Personnel (who directly report to Director/CEO) for 2022 were reviewed and recommended by the Committee and approved by the Board during first quarter 2023.

## 3(6)(iii)(d) − Proceedings at Meetings of the BHRRC

The BHRRC comprised of Independent Directors and Non-Executive Directors during the year and was chaired by an Independent Director. Six meetings of the Committee were held during the year. Director/CEO and Head of Human Resources and the CFO attended the meetings of the Committee when invited. They were not present at meetings of the Committee, when matters relating to them were being discussed.

Proceedings conducted met requirements in terms of the Terms of Reference of the Committee. 3(6)(iv) Board Nomination Committee (BNC)

3(6)(iv)(a) ⊘- Procedure for Selection/Appointment of Directors, Chief Executive Officer (CEO) and Key Management Personnel (KMPs)

Appointment of KMPs and the CEO comes under the scope and responsibilities of the Board Nomination Committee as set out in its Terms of Reference. The procedure to select and appoint new directors is set out in the Board approved Policy Governing Appointment of Directors.

The Committee recommends the reelection of the Directors in accordance with the Bank's Articles of Association taking into account their contributions to the Board. With the concurrence of the Board they were included in the Agenda of the Annual General Meeting seeking shareholders' approval for the re-election. Directors, Mr S Viran Corea and Mr A S Wijesinha were re-elected in terms of Section 82 of the Articles of Association of the Bank at the AGM held on 30 March 2023 subsequent to being recommended by the Committee and approved by the Board respectively.

Re-election of Directors at the next AGM:

The BNC and the Board have recommended the proposals for the re-election of Directors, Mr D M D Krishan Thilakaratne and Ms Sandya K Salgado who are due to retire by rotation in terms of Article 82 at the AGM scheduled to be held in March 2024. The proposals for their re-election have been included in the Notice of the AGM to seek shareholders' approval. The Committee took into account the contribution and performance of said Directors for the overall discharge of Board's responsibility.

#### 3(6)(iv)(c) ♥ - Criteria for eligibility – CEO and KMPs

The Bank is guided by the required job descriptions and responsibilities of the CEO and KMPs in appointments and promotions to those positions. The Committee reviews the profiles and or interviews the proposed recruits to the key management positions and recommends their appointment if satisfied. 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 KMPs or promoting to the KMP positions. Prior to the date of the AGM of the Bank in 2023, declarations submitted by the continuing Directors were forwarded to the Director, Bank Supervision, Central Bank of Sri Lanka (CBSL) for review and approval in terms of Section 42 of the Banking Act No.30 of 1988 (as amended) and related Directions. The Directors also submitted Affidavits as required with the Guidelines of the Securities and Exchange Commission of Sri Lanka (SEC) and such Affidavits were submitted to the SEC as and when required.

Directors submitted the declarations on fit and proper assessment as required in terms of the revised Listing Rules of the CSE and same were submitted for review and assessment by the Committee and the Board.

3(6)(iv)(e) → Succession Plan In keeping with the Board succession arrangements the Committee considered and recommended matters relating to the change of Director/CEO of the Bank upon retirement of Mr Kapila Ariyaratne on 30 April 2023 and the appointment of Mr Ramesh Jayasekara as Director/ CEO effective 01 May 2023. Taking into consideration the Board changes that took place during the year, the Committee reviewed the requirement of the Board /

Board Subcommittee structure and made appropriate recommendations to the Board to carry out such reconstitutions as and when required in terms of respective Terms of References of Board Subcommittees and applicable regulations pertinent to same.

The Committee reviewed and made decisions based on the Succession Planning relating to relevant key management positions which became vacant/going to be vacant due to retirement/s which were due/will be due. The Succession Plan for the first and second level successors for Key Management Personnel assessing the suitability of the identified successors to the KMP positions, was reviewed with an emphasis on the training and development of identified successor/s for the said role and recommended by the Committee during the year. Board approved Succession Plan was submitted to the Central Bank.

#### 

The BNC comprised five Non-Executive Directors, majority of them were Independent Directors till the resignation of Mr A S Wijesinha as a Director effective 21 September 2023 (who was also the Chairman of the Committee). Board Nomination Committee was re-constituted with effect from 12 October 2023. Mr D R Abeysuriya was appointed as a Member, however, due to the demise of Mr D R Abeysuriya on 25 October 2023, the Committee was again re-constituted with the appointment of Ms Sandya K Salgado as a Member with effect from 31 October 2023 as following:

Mr D M Rupasinghe (Chairman) (Independent Non-Executive Director)

Mr W M R S Dias (Non-Executive Director)

Ms Sandya K Salgado (Senior Independent Director)

Mr L H A Lakshman Silva (Non-Executive, Independent Director)

Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director)

3(6)(v) Board Integrated Risk Management Committee (BIRMC)

3(6)(v)(a) → Composition of the Committee – The Board Integrated Risk Management Committee (BIRMC) comprised six members as at 01 January 2023; Three Independent Directors, one Non-Executive Director, Director/Chief Executive Officer and the Chief Risk Officer. The Committee was chaired by Independent Director, Mr D R Abeysuriya. Subsequent to the demise of Mr D R Abeysuriya on 25 October 2023, the BIRMC was re-constituted on 06 November 2023 as follows:

Mr D M Rupasinghe (Chairman, Independent, Non-Executive, Director)

Mr L H A Lakshman Silva (Independent, Non-Executive, Director)

Mr W M R S Dias (Non-Executive Director)

Ms Averil A Ludowyke (Independent, Non-Executive, Director) Mr Ramesh Jayasekara (Director/CEO)

\*Mr A S Fernando (DGM/CRO) (Non-Board Member)

CEO who is an Executive Director on the Board serves as a Member of the Committee. The Chief Risk Officer who serves as Member of the Committee 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) assessed and reviewed the respective categories of risks, namely, credit, market, liquidity and operational risks coming under their respective purview. Key matters and issues arising therefrom were reported to the BIRMC at its guarterly 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 at its quarterly meetings 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 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. Seven regular meetings and one special meeting were held during the year. Additionally 2 more meetings were held in September and December 2023 without the Management.

3(6)(v)(f) ✓ - Action against those who fail to identify specific risks

Officers and/or branches/departments failing to identify specific risks and consequent impact to the Bank were identified during the internal audit reviews and internal audit investigation and were revealed in the audit/investigation reports. Depending on the nature of the offence they were reported to the line management and/or to the Head of Human Resources and/or to the Chief Executive Officer for disciplinary or other 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 and related paper submitted by the CRO for the Board's perusal and appropriate decisions/ concurrence.

### CORPORATE GOVERNANCE

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. The Head of Compliance 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 scrutinizing 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 Board takes necessary steps to avoid any conflicts of interest that may arise from any 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:

- Bank's Subsidiary companies (the Bank has only one Subsidiary, Seylan Developments PLC);
- Bank's associate companies;
- Directors of the Bank;
- Key management personnel (KMPs);
- 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.

Audited Financial Statements published in the Annual Report carries a separate Note on 'Related Party Transactions'.

3(7)(iii) *Q* - Favourable Treatment In engaging in transactions with related parties it was reviewed that such parties do not receive a "more favorable 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 emphasizes 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

Credit facility accommodations to Directors were granted with the approval of the Board with not less than two-thirds of the number of Directors (with covering approval/s where pertinent) other than the Director concerned. 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 (presently known as the Governing Board).

Approval process relating to Related Party Transactions was reviewed during the year and the revised approval process was made effective to be followed by relevant Units from January 2024 onwards.

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

Mr Ramesh Jayasekara was appointed as the Director/CEO since 01 May 2023 and loans obtained by him were granted under the relevant schemes applicable to employees of the Bank.

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, in a similar manner as described in Direction 3(7)(v).

Accommodation granted to employees or related parties connected to the employees are reviewed by the Staff Loan Committee which also evaluates any exception to the above and provide guidance to HR as and when needed.

#### 3(7)(vii) ⊘ - Prior approval of Monetary Board for Remittance of Accommodation

There was no requirement to comply with the requirement of this section during 2023, 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 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.

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 2023 have been prepared in line with applicable standards and regulatory requirements (Reference: pages 162-163).

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 157-158).

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 159).

#### 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:

Disclosed in the Report of the Board of Directors, the Profile of the Directors while transactions with the bank, fees/remuneration, etc are disclosed in the notes to the financials.

| Details                                | Section of the Annual Report                                       | Page/s  |
|----------------------------------------|--------------------------------------------------------------------|---------|
| Names, qualifications, expertise       | Profile of the Directors                                           | 80-83   |
| Fitness and Propriety                  | Report of the Board of Directors<br>and Section 3(6)(iv)(d) of the | 147-153 |
|                                        | Corporate Governance Report                                        | 111     |
| Details on Directors interest in other | Annexure to the Report of the                                      |         |
| entities                               | Board of Directors                                                 | 154-156 |
| Transactions with the Bank/ Related    | Note 52 to the Financial                                           |         |
| Party Transactions                     | Statements                                                         | 263     |
| Fees/Remuneration paid to Directors    | Disclosure under Direction 3(8)(ii)                                |         |
|                                        | (f) of this report.                                                | 113     |

3(8)(ii)(e) 🕗 - Total Net Accommodations to Related Parties

Disclosure on accommodations granted to related parties is given in Note 52.1 and 52.2 to the Financial Statements.

The net accommodation as at 31 December 2023, 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<br>(LKR Mn) | % of regulatory<br>capital |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------------|
| Directors, Key Management Personnel and their<br>close relations (Transactions including credit card                                |                    |                            |
| accommodations)                                                                                                                     | 457.62             | 0.65                       |
| Subsidiary, Seylan Developments PLC                                                                                                 | 175.00             | 0.25                       |
| Material shareholders of the Bank and concerns in which a Director of the Bank or material shareholder has a substantial interest * | 24,522.96***       | 34.96                      |
| Other entities including common Directorship Entities **                                                                            | 4,259.62           | 6.07                       |

\* Includes accommodations non-funded, undrawn facilities - LKR 5,614.49

\*\*Includes accommodation non-funded, undrawn facilities - LKR 2,327.89

\*\*\*Includes LKR 5.4 Bn cash back facility

 $3(8)(ii)(f) \oslash$  - 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 2023 were as follows.

| Remuneration / Transaction                                                                                                              | Amount<br>(LKR Mn) |
|-----------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Remuneration to Executive Directors and KMPs (as per CBSL definition)*                                                                  | 404.38             |
| Directors' Fees for Non-Executive Directors                                                                                             | 31.57              |
| Loans and Advances (including Securities purchased under Re-sale<br>Agreements and Credit Card accommodations to KMPs and Non-Executive |                    |
| Directors)                                                                                                                              | 457.62             |
| Deposits of KMPs and Non-Executive Directors                                                                                            | 371.42             |
| Investments by KMPs and Non-Executive Directors –Other Investments                                                                      |                    |
| (Liability)                                                                                                                             | 89.13              |

### **CORPORATE GOVERNANCE**

\* Includes cash/non cash benefits and postemployment 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 in respect of 2022 on the Bank's extent of compliance with the Directions as disclosed in the Corporate Governance Report for 2022 and the same was submitted to the Central Bank in May 2023.

External Auditors will issue their Factual Findings Report in respect of 2023 in due course on the 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 this 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 except an administrative penalty imposed by the Regulator due to an operational lapse where the screening of the guardian of a Minor Account. Bank has fully paid the amount of LKR. 1,000,000/- to Financial Intelligence Unit in March 2023.

114

The screening mechanism and the process is already in place within the Bank and instructions have been issued to staff on name screening. Bank has issued further strict guidelines to staff on name screening and also further strengthen the post screening automated mechanism.

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

#### Confirmation

disclosed to the public.

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 20 February 2024 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



<sup>(</sup>Ms) Saraswathie Poulraj Company Secretary

20 February 2024 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.

As per the Guidance Note issued by the CSE dated 20 November 2023, on 'Annual Report Disclosures relating to Section 7 and Section 9 of the CSE Listing Rules', Rule 7.10 of the Listing Rules on Corporate Governance Requirements which were in force prior to 01 October 2023, shall continue to be effective until 01 October 2024 and the Listed Entities shall at a minimum comply with the requirements as set out in the said Note, during the transitional period. Disclosures made in this Annual Report are in conformity with said requirements.

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 as applicable for the period under review.

# REPORT OF THE SENIOR INDEPENDENT DIRECTOR

This report is presented in compliance with the requirement set out in Section 9.6.3(e) of the revised Listing Rules on Corporate Governance of the Colombo Stock Exchange ('CSE') (hereinafter referred to as the revised Rules of the CSE'), which came into effect on 01 October 2023.

The requirement of appointing a 'Senior Independent Director' to Seylan Bank PLC ('the Bank'), has arisen in terms of Section 3(5)(ii) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended), which requires the Chairman of a Licensed Commercial Bank to be a Non-Executive and preferably an Independent Director, and in the event the Chairman is not an Independent Director, an Independent Director to be designated by the Board as the Senior Director with suitably documented Terms of Reference to ensure greater independence.

Mr W M R S Dias, who is a Non-Independent Director, was appointed as the Chairman of the Bank with effect from 09 May 2016. Ms C Pietersz (former Director) was appointed as the Senior Director of the Bank in compliance with the aforesaid requirement of the Banking Act, and the 'Terms of Reference for the Senior Director' was approved by the Board.

Subsequent to the retirement of Ms C Pietersz on 22 September 2022 (who had served on the Board for a period of nine years), Independent Director, Mr A S Wijesinha was designated as the Senior Director of the Bank with effect from 23 September 2022.

Subsequent to the resignation of Mr A S Wijesinha from the Board with effect from 21 September 2023 the Board Nomination Committee deliberated on the appointment of Mr D R Abeysuriya as the Senior Director. However, due to the untimely demise of Mr D R Abeysuriya, this recommendation had to be withheld, and subsequently the undersigned was appointed as the Senior Independent Director of the Bank with effect from 06 November 2023.

#### Meetings

The Senior Independent Director chairs the meetings of the Independent Directors which are held at least once a year. The last meeting of the Independent Directors held on 18 December 2023 was chaired by the undersigned. The Independent Directors deliberated on the framework for meetings of the Independent Directors to ensure efficiency in transacting governance related matters raised by the Directors and the Board Evaluation process of the Bank, in addition to the review of the current Terms of Reference of the Senior Director.

The Independent Directors also noted Rule 9.6.3 of the revised Listing Rules of the CSE i.e. the requirement for a Senior Independent Director ('SID') and the instances in which a SID is to be appointed in terms of the aforesaid revised Listing Rules.

#### Role and Responsibilities of Senior Independent Director

In terms of role and responsibilities of the SID of the Bank as stated in the Terms of Reference, the principal role of the SID is to support the Chairman in his role and duties, acting as an intermediator for the Non-Executive Directors as and when necessary, and to facilitate the due exercise of the functions of the Chairman with the Non-Executive Directors.

It is important to state that the role and the responsibilities vested on the SID of the Board is significant in the current context of Corporate Governance regulations, standards and best practices being frequently reviewed and revised by regulators. The SID of the Bank is committed to upholding the requisite governance standards while providing necessary assistance to the Chairman of the Board through discussion and communication between Non-Executive and Independent Directors of the Bank in addressing the development needs of the Board as a whole with a view of enhancing the overall effectiveness of the Board.

and

(Ms) Sandya K Salgado Senior Independent Director

20 February, 2024

# REPORT OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee of Seylan Bank PLC presents its report for the year ended 31 December 2023 which was approved by the Board of Directors ('the Board').

#### The Board Audit Committee

The Board Audit Committee ('BAC' or 'the Committee') of Seylan Bank PLC ('the Bank') is delegated with the authority by the Board of Directors ('the Board') of the Bank to assist and provide the Board, independent oversight of the Bank's financial reporting integrity and internal control systems, the adequacy of the internal and external audits, the process for monitoring compliance with laws, regulations and codes of conduct and best practices.

The authority, composition, and the scope and responsibilities of the BAC are clearly set out in the Terms of Reference of the BAC which is reviewed (annually) and approved by the Board.

#### Re-constitution of the Committee during 2023 and its Composition as at 31 December 2023:

- (i) The Committee comprised of Ms Averil A Ludowyke (Independent Director/ Chairperson of the Committee), Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director), Mr D R Abeysuriya (Independent Director), and Mr D M Rupasinghe (Independent Director) until the demise of Mr D R Abeysuriya on 25 October 2023.
- (ii) Subsequent to the demise of Mr D R Abeysuriya, the Committee comprised of Ms Averil A Ludowyke (Independent Director/ Chairperson of the Committee), Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director), and Mr D M Rupasinghe (Independent Director), which composition was noted as re-constituted by the Board on 06 November 2023, and remained unchanged as at 31 December 2023.

The Chairperson of the Committee, Ms Averil A Ludowyke who counts over 37 years' experience in auditing, accounting and finance is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants, UK. The profiles of the current members are given on page 80-83 of the Annual Report.

The Company Secretary of the Bank functioned as the Secretary to the Committee during the year.

#### Meetings

The Committee held eleven meetings during the year. The attendance of the members during the year was satisfactory and a summary of the attendance is presented in the table titled, 'Directors' Attendance at subcommittee Meetings' in the Corporate Governance Report of the Annual Report.

#### Activities and responsibilities discharged by the Committee during 2023

- Discussed the Audit Scope and the Plan presented by the External Auditors for the year 2023 and matters addressed in the presentation by the External Auditors on the year end Audit carried out for 2023.
- Reviewed and discussed the Management Letter of the External Auditors, in respect of the Audit for the financial year, 2022 and further action required to address the matters raised.
- Reviewed and discussed the External Auditors presentation relating to the half-year Audit carried out in 2023.
- Conducted regular meetings with Internal Audit and reviewed, discussed and recommended actions reported in the internal audit reports and related updates.
- During the year the Committee reviewed key assumptions and judgments including;
- Loan impairment allowance, factors considered for modelled ECL, related management overlay and related post model adjustments made
- Impairment allowances made for government bonds
- Recognition of deferred tax assets
- Tax provisions
- and factors considered in by the management in the assessment of going concern

- Reviewed the interim quarterly financial statements and the annual financial statements including disclosures with the CFO and recommended the financial statements to the Board for approval and publication.
- Conducted two meetings with the External Auditors, M/s KPMG, without the presence of the management.
- Reviewed and evaluated the performance of the Head of Internal Audit who reports directly to the BAC, and the Key Performance Indicators (KPIs) of the Internal Audit Department in respect of the year 2022. Reviewed and discussed the KPIs agreed by Internal Audit Department for 2023.
- Reviewed the effectiveness of the whistleblowing mechanism and follow up action by Internal Audit
- Reviewed the Internal Audit Charter

The Head of Internal Audit and the CFO attended the regular meetings of the BAC. The Director/Chief Executive Officer, other members of the management 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 financial reporting, audit findings and related matters.

In accordance with its mandate, the committee focused on the following areas, among others.

#### **Internal Controls**

The Committee;

- Assessed the adequacy and effectiveness of the Bank's internal control systems over financial reporting, and banking 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. The Committee reviewed the controls and procedures in place to provide reasonable assurance that the Bank's assets are safeguarded.
- Reviewed the effectiveness of controls over information technology security and systems;

 Agreed on the scope of External Auditors' review of internal controls over financial reporting and reviewed their observations, findings and recommendations together with management responses. The External Auditors have issued an Assurance Report on the Directors' Statement on Internal Control over Financial Reporting which is published on page 159 of the Annual Report.

#### **Internal Audit**

The Committee reviewed the independence, objectivity and performance of the internal audit function; the findings of the internal audit reviews and investigations and internal audit's evaluation of the Bank's internal control system.

The Internal Audit Plan for the year was based on the risk assessment carried out on each component of the audit universe of the Bank which included but not limited to 'Branch Network', 'Centre Operations' and 'Information Systems and Infrastructure'. The progress of audits in relation to the plan was reviewed regularly by the Committee.

#### Effective Internal Control over Financial Reporting

The Management is primarily responsible for the preparation of financial statements and maintaining effective internal controls over financial reporting and assessing the effectiveness of such control systems. The committee reviewed the assessment of the effectiveness of these controls, and the risk management process.

## Interim Financial Statements and the Annual Report

The Committee exercised its oversight role in respect of financial reporting, with focus on adoption of the accounting standards, assessment of the reasonableness of the underlying assumptions leading to significant estimates and judgements made by the management in the preparation of the financial statements and adequacy of disclosures. The committee reviewed financial information, in order to monitor the integrity of the Financial Statements of the Bank, its statutory financial statements, and quarterly interim financial statements prepared together with disclosures. The Committee also assessed the reasonableness and appropriateness of the judgment and estimates applied in the preparation of the financial statements. The assessment took into consideration the uncertainties relating to the current economic conditions prevailing in the country and its resultant implications on expected credit loss including the related post model adjustment.

#### **External Audit**

The meetings of the Committee with the External Auditors focused on the scope of the external audit plan for the year 2023, discussions on the findings and recommendations arising from the halfyear and annual audits carried out and, the requirements of the new regulatory circulars and relevant Accounting Standards and Banking Act Directions.

The two meetings held by the Committee during the year with the External Auditors without the presence of executive management and the Director/CEO 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.

#### **Non-Audit Services**

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 Code of Professional Conduct issued of the Institute of Chartered Accountants of Sri Lanka and recommended their reappointment as the Auditors of the Bank for the financial year 2024 subject to the concurrence of its recommendation by the Board and approval of such appointment by the Shareholders at the forthcoming Annual General Meeting.

#### 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 Committee undertook a selfevaluation of the Committee and appraisal of the effectiveness of executing the responsibilities within the scope of authority of its Terms of Reference and was satisfied that the Committee had carried out its responsibilities effectively during the year, 2023.

douglie

(Ms) Averil A Ludowyke (Independent Director)

Chairperson – Board Audit Committee 20 February, 2024

# REPORT OF THE BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

118

The Board Human Resources and Remuneration Committee of Seylan Bank PLC presents its report for the year ended 31 December 2023. This report was approved by the Board of Directors.

## Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee ('the BHRRC' or 'the Committee') of Seylan Bank PLC ('the Bank') is vested with the power to review, evaluate and make recommendations to the Board of Directors ('the Board') on matters that impact or relate to human resources ('HR') of the Bank, HR 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. In doing so, the Committee assists the Board in exercising its' oversight role and responsibilities in that regard.

The Terms of Reference of the Committee sets out the aforementioned authority and has also clearly defined the composition, scope and responsibilities. The Terms of Reference is reviewed (annually) and approved by the Board.

#### Reconstitution of the Committee during 2023 and its Composition as at 31 December 2023:

- (i) The Committee comprised of Mr L H A Lakshman Silva (Independent Director/ Chairman of the Committee), Mr S Viran Corea (Non-Executive Director), Ms Sandya K Salgado (Senior Independent Director), Mr D R Abeysuriya (Independent Director) and Mr D M D Krishan Thilakaratne (Non-Executive Director).
- (ii) The Committee re-constituted w.e.f. 24 October 2023 comprised of Mr L H A Lakshman Silva (Independent Director/ Chairman of the Committee), Mr S Viran Corea (Non-Executive Director), Ms Sandya K Salgado (Senior Independent Director), Mr D M D Krishan Thilakaratne (Non-Executive Director), and Ms Averil A Ludowyke (Independent Director), and remained unchanged until 31 December 2023.

The Director/Chief Executive Officer and Deputy General Manager - Human Resources 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.

The composition of the Committee as at 31 December 2023 consisted of 05 Non-executive Directors, out of which 03 Directors were independent.

The Company Secretary functioned as the Secretary to the Committee during the year.

#### Meetings

The BHRRC held four (04) Meetings (with management), one (01) meeting without management, and one (01) joint meeting with the Board Strategic Plan Committee, totaling to six (06) meetings during the year. Recommendations made by the Committee were submitted to the Board of Directors for decision. The attendance of the members at the meetings of the BHRRC is presented in the table titled, Directors' Attendance at Subcommittee Meetings' in the Corporate Governance Report published in the Annual Report.

#### Highlights of Activities during 2023

The key activities carried out by the BHRRC during the year included the following:

- Reviewed and recommended Bank's/ CEO's proposed KPIs for 2023 and Performance Evaluation of KPIs agreed for 2022.
- Reviewed the Performance Evaluations of KMPs (direct reportees to Director/ CEO) for 2022.
- Reviewed and approved the KPIs of Staff Members directly reporting to Director/CEO for 2023.
- Reviewed and recommended the Payment of Performance Bonus, emoluments and benefits to Director/ CEO.
- Reviewed the Organization Structure and current reporting lines of Director/ CEO taking into account the current and short term business strategy of the Bank.

- Analyzed the sustainability initiatives and recommended providing Solar Loan scheme for the staff and granting duty leave to staff engaging in CSR projects.
- Deliberated on the initiatives rolled out on Culture Assessment and Transformation Survey.
- Discussed the Payment of Performance Bonus and salary revisions to staff members in the Senior Management and recommended the bonus pot distribution and salary revisions.
- Reviewed and recommended the payment of temporary relief incentive to staff in all grades (including Director/CEO).
- Reviewed and recommended the Performance Bonus Scheme for certain departments of the Bank.
- Conducted a joint forum with the Board Strategic Plan Committee to formulate new Human Resource strategies and the organizational structure.
- Reviewed and recommended the Human Resources Policies.
- Reviewed and recommended the proposals for the Collective Agreement with Staff Unions on revision of staff salaries and benefits for 2024.

#### **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 its 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.

In discharging its responsibilities, the BHRRC focuses on strategies that will attract, develop, motivate and retain qualified, competent, high performing talent 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. There were no such circumstances 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 the table reporting compliance with the Banking Act Directions on Corporate Governance as published in the 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.

#### 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.

 $\sqrt{2}$ 

L H A Lakshman Silva (Independent Director)

Chairman, Board Human Resources and Remuneration Committee

20 February, 2024

# REPORT OF THE BOARD NOMINATION COMMITTEE

The Board Nomination Committee of Seylan Bank PLC presents its Report for the year ended 31 December 2023. This report was approved by the Board of Directors.

#### **Board Nomination Committee**

The Board Nomination Committee ('the BNC' or 'the Committee') of Seylan Bank PLC is a Subcommittee of the Board of Directors ('the Board') of Seylan Bank PLC ('the Bank') vested with the authority to assist the Board in fulfilling its' role and responsibilities involving the appointment of Directors and Key Management Personnel ('KMPs') of the Bank. The Terms of Reference sets out the authority, composition, scope and responsibilities of the BNC, which is annually reviewed and approved by the Board.

120

The Bank has a Policy Governing Directors' Appointments and a Policy on Succession Planning, Selection and Recruitment of Key Management Positions as adopted by the Board. Both these policies which are reviewed periodically set out the principles and procedures to be followed in selecting and appointing new directors and KMPs, emphasizing on the requirements relating to qualifications, competencies, experience, etc., and that such appointees should be fit and proper persons to hold office.

#### Re-election of Directors in terms of Article 82 and 83 of the Articles of Association

The Board, having taken into account the number of directorships held in other entities and other principal commitments, knowledge, experience, performance and overall contribution made to meet the strategic demands of the Bank and the discharge of the Board's overall responsibilities, recommended the re-election of Ms Sandya K Salgado (Senior Independent Director) and Mr D M D Krishan Thilakaratne (Non-Executive Director) who are due to retire by rotation in terms of Article 82 and 83 of the Articles of Association, subject to obtaining shareholder approval at the forthcoming Annual General Meeting ('AGM').

#### Information of Directors who have been proposed for re-election:

| Description                                                             | *Ms Sandya K Salgado                                                        | **Mr D M D Krishan Thilakaratne                               |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------|
| Date of first appointment as a Director                                 | 01/12/2016                                                                  | 01/10/2018                                                    |
| Date of last re-election as a Director at an AGM                        | 24/06/2020                                                                  | 30/03/2021                                                    |
| Board Committees served on                                              | Board Sustainability Committee (Chairperson)                                | Board Credit Committee (Chairman)                             |
|                                                                         | Board Marketing and Product Development<br>Committee (Chairperson)          | Board Sustainability Committee (Member)                       |
|                                                                         | Board Strategic Plan Committee (Chairperson)                                | Board Marketing and Product Development<br>Committee (Member) |
|                                                                         | Board Human Resources and Remuneration Committee (Member)                   | Board Human Resources and Remuneration<br>Committee (Member)  |
|                                                                         | Board Nomination Committee (Member)                                         |                                                               |
|                                                                         | Board Procurement and Capital Expenditure<br>Supervisory Committee (Member) |                                                               |
| Present Directorships/ Chairpersonships in Listed and unlisted entities | Please refer Annexure to the 'Report of the Board of page 154-156.          | of Directors on the State of Affairs of the Company' or       |

\*Ms Sandya K Salgado is the Senior Independent Director of the Bank.

\*\* Mr D M D Krishan Thilakaratne is a Non-Executive Director of the Bank. He represents Brown & Company PLC and LOLC Investments Limited, which are substantial shareholders of the Bank.

#### Re-constitution of the Committee during 2023 and its Composition as at 31 December 2023:

(i) The Committee comprised of Mr A S Wijesinha (Independent Director/Senior Director, Chairman of the Committee, until his resignation w.e.f. 21 September 2023), Mr W M R S Dias (Non-Executive Director/ Chairman of the Board), Mr D M Rupasinghe (Independent Director), Mr L H A Lakshman Silva (Independent Director), and Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director) until the re-constitution of the Committee.

(ii) The Committee re-constituted w.e.f. 12 October 2023 comprised of Mr D M Rupasinghe (Independent Director/ Chairman of the Committee), Mr W M R S Dias (Non-Executive Director/ Chairman of the Board), Mr D R Abeysuriya (Independent Director), Mr L H A Lakshman Silva (Independent Director) and Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director).

(iii) Subsequent to the demise of Mr D R Abeysuriya on 25 October 2023, the Committee re-constituted w.e.f. 31 October 2023 comprised of Mr D M Rupasinghe (Independent Director/ Chairman of the Committee), Mr W M R S Dias (Non-Executive Director/ Chairman of the Board), Ms Sandya K Salgado (Senior Independent Director), Mr L H A Lakshman Silva (Independent Director) and Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director) and remained unchanged as at 31 December 2023.

## Appointment dates of the Committee Members as at 31 December 2023:

- Mr D M Rupasinghe (Independent Director) - Appointed as a Member on 27 October 2021 and as the Chairman of the Committee on 12 October 2023
- Mr W M R S Dias (Non-Executive Director/Chairman of the Board)
   Appointed as a Member on 30 May 2016)
- Ms Sandya K Salgado (Senior Independent Director) - Appointed as a Member on 31 October 2023
- Mr L H A Lakshman Silva (Independent Director) - Appointed as a Member on 24 August 2022
- Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director) - Appointed as a Member on 24 August 2022

The composition of the Committee as at 31 December 2023 consisted of five Non-Executive Directors, out of which three Directors were independent.

The Company Secretary functioned as the Secretary to the Committee during the year.

#### Meetings

The Committee held five meetings during the year. Recommendations of the Committee were submitted to the Board for review and decision. Attendance of the members at the meetings of the Board Nomination Committee is presented in the table titled, 'Directors' Attendance at Subcommittee Meetings' of the Corporate Governance Report published in the Annual Report.

Director/CEO and Deputy General Manager -Human Resources attended the Meetings of the Committee on invitation.

#### Key Activities during 2023

 Carried deliberations on the succession arrangements for the position of Director/ CEO (to appoint Mr Ramesh Jayasekara as an Executive Director of the Board upon Mr Kapila Ariyaratne's retirement and designated Mr Ramesh Jayasekara as 'Director/CEO') and made recommendations to the Board in formalizing said leadership change of the Bank effective 01 May 2023.

- Deliberated and made recommendations to appoint Mr Ramesh Jayasekara (Director/CEO of the Bank) as the Chairman and Ms Champika Dodanwela (Chief Financial Officer of the Bank) as a Non-Executive Director of Seylan Developments PLC, the subsidiary of the Bank, w.e.f. 01 May 2023.
- Pursuant to the resignation of Mr A S Wijesinha as a Director, the Committee recommended the appointment of Independent Director, Mr D R Abeysuriya as the Senior Independent Director of the Bank. However, this recommendation was withheld due to Mr Abeysuriya's demise on 25 October 2023, and subsequently the Committee recommended the appointment of Independent Director, Ms Sandya K Salgado as the Senior Independent Director.
- Reviewed and recommended the Promotions of five (05) Chief Managers to the Grades of Assistant General Manager.
- Reviewed and recommended the successors to the positions of Assistant General Manager – Compliance and Assistant General Manager – Marketing and Sales (which positions became vacant during the year).
- Reviewed and recommended the succession plan for the Key Management Personnel (KMPs) and direct reportees to the Board Subcommittees.
- Noted the re-constitution of Board Subcommittees pursuant to the changes to the directorate during the year.
- Reviewed and recommended the Directors to be re- elected at the Annual General Meeting held on 30 March 2023.

 Reviewed and recommended the Affidavits obtained from the current Directors of the Board for the year 2023 to be submitted to the Director, Bank Supervision, Central Bank in terms of Section 42 of the Banking Act No 30 of 1988 (as amended) for the assessment of their fitness and propriety.

#### **Board diversity**

The Bank's Board remained a diverse and inclusive Board during 2023. By embracing a variety of experiences, ages, skills and genders the Bank's Board was better positioned to perform effectively.

#### **Independence of the Directors**

The independent and non-independent status of the Non-Executive Directors was determined based on the declarations submitted by respective Directors in accordance with the criteria defined in sections 3(2)(iv) and 3(5)(iii) of the Banking Act Direction No. 11 of 2007 issued by Central Bank of Sri Lanka, and also in terms of applicable sections of the Listing Rules of Colombo Stock Exchange (as revised).

#### Compliance with the Banking Act Direction on Corporate Governance

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 published in the Annual Report.

#### **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.

D M Rupasinghe (Independent Director)

Chairman - Board Nomination Committee

20 February, 2024

# REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee ('the Committee' or 'RPTRC') presents its report for the year ended 31 December 2023. This Report was approved by the Board of Directors.

#### Scope and Terms of Reference

The Board approved Terms of Reference of the Committee has set out the scope and objective of the Committee in accordance with the Listing Rules of the Colombo Stock Exchange ('CSE').

## Changes to the Committee composition during 2023:

- (i) The composition of the Committee as at 01 January 2023 was : Mr D R Abeysuriya (Independent Director/ Chairman of the Committee) Ms Averil A Ludowyke (Independent Director), Mr S Viran Corea (Non-Executive Director), and Mr A S Wijesinha (Independent Director/Senior Director)
- (ii) Mr A S Wijesinha resigned from the Board with effect from 21 September 2023.
- (iii) The Committee re-constituted w.e.f. 24 October 2023 comprised of Mr L H A Lakshman Silva (Independent Director), appointed to the Committee as Chairman, Mr D R Abeysuriya (Independent Director), Ms Averil A Ludowyke (Independent Director) and Mr S Viran Corea (Non-Executive Director)
- (iv) Consequent to the demise of Mr D R Abeysuriya on 25 October 2023, the Committee comprised of Mr L H A Lakshman Silva (Independent Director/ Chairman of the Committee), Ms Averil A Ludowyke (Independent Director) and Mr S Viran Corea (Non-Executive Director). The Board considered said composition as re-constituted w.e.f. 06 November 2023.
- The Composition of the Committee as at 31 December 2023 consisted of three Non-Executive Directors out of which two were independent.
- The Company Secretary functioned as the Secretary to the Committee during the year.

 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 five meetings during the year. Copies of confirmed minutes of the meetings were submitted to the Board for noting/confirmation.

Details of attendance of the Members at the meetings are presented in the table providing Directors' attendance at Subcommittee meetings in the Corporate Governance Report published in 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 reviewed related party transactions submitted during the year and made appropriate recommendations (with observations where relevant) to the Board of Directors. The approval process applicable for various related party transactions which are dealt by the Board Credit Committee, Related Party Transactions Review Committee and the Board was reviewed and revised by the Board and noted by the Committee.

The Committee ensured compliance with Section 9 of the Rules of the Colombo Stock Exchange ('CSE') (prior to the revision of the Rules of the CSE on Corporate Governance) and Section 9.14 of the Revised Listing Rules of the CSE on Corporate Governance.

Summarized Lists of recurrent related party transactions which were approved by the Board of Directors were presented to the regular meetings of the Committee, for noting.

There were no occurrence of events in terms of Section 9.14.7(1) and 9.14.8 (1) and (2) of the revised Listing Rules of the CSE that required disclosures as specified therein.

The Bank has in place a Board approved Related Party Transaction and Avoidance of Conflict of Interest Policy and Process Document and Delegated Authority Limits for Granting of Facilities to the related parties. The Committee 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 conducted regular assessments 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 or deviations from the set processes that involved in transactions with 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.

 $\lambda mm$ 

L H A Lakshman Silva (Independent Director)

Chairman - Related Party Transactions Review Committee

20 February 2024

# 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 2023. The Report was approved by the Board of Directors.

## 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, technology, information security and strategic risks facing the Bank and its reputation and 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. A comprehensive set of risk management policies approved by the Board provide a strong administrative framework towards meeting the objectives of the Committee.

#### **Composition of the BIRMC**

During the year 2023, the Committee comprised the following members:

Late Mr D R Abeysuriya, Independent Director - Chairman of the Committee (01 January 2023 to 25 October 2023)

Mr D M Rupasinghe, Independent Director - Chairman of the Committee (w.e.f. 06 November 2023)

Mr W M R S Dias, Non-Executive Director/ Chairman of the Board

Mr Kapila Ariyaratne, Director/Chief Executive Officer (30 April 2023)

Mr Ramesh Jayasekara, Director/Chief Executive Officer (w.e.f. 01 May 2023)

Mr L H A Lakshman Silva, Independent Director

Ms Averil A Ludowyke, Independent Director

Mr L A S Fernando, Deputy General Manager/ Chief Risk Officer

Profiles of the Directors holding membership in the Committee are provided in pages 80 to 83 of the Annual Report. The Deputy General Manager/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 two special meetings held without the Management. The Key Performance Indicators of CRO was reviewed by the Committee during the first quarter.

#### Meetings of the BIRMC

Seven regular meetings on a quarterly basis and three special meetings (which includes the two special meetings without the management) 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.

Details of attendance of the members at the meetings are presented in the table providing 'Directors' attendance at Subcommittee meetings' in the Corporate Governance Report published in the Annual Report. 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.

#### 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 for creating, managing and implementing 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 Operational 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 included in the Annual Report.

#### **Compliance Function**

The Head of Compliance, Ms Chava Gunarathne reports directly to the BIRMC. She is responsible for ensuring due compliance of the Bank with laws, regulations, internal controls, 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; compliance risk dash boards, findings of internal audit, external audit and regulatory audits on compliance function 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/ technology and strategic risks.
- Review and recommend policies related to risk management and compliance.
- Review and assessment of the extent of independent credit risk reviews, business continuity planning, disaster

### REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

recovery testing, information security risk controls, outsourced activities, Risk Control and Self-Assessment (RCSA) exercise.

- Review the key risk indicators for credit risk, market risk, operational risk and technology risk on a quarterly basis and to inquire on any deviations from the Board approved limits.
- Ensure conducting of stress testing exercise considering various adverse scenarios to assess materiality and probability of potential losses and their impact on profitability and capital adequacy.
- 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.
- Assessment and impact of the Macroeconomic downturn in the country.
- Evaluation and review of the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
- Provide guidance on the implementation of important regulatory Directions across the Bank.
- Review of the Bank's credit risk management framework and set in place an Action Plan to implement an effective Early Warning Indicator monitoring mechanism across the Bank, validate the Bank's SLFRS9 Impairment Models/Internal Risk Rating Models, further development and improvement of the said Models, arranging to introduce a Risk Based

Pricing Methodology and to use Internal Risk Rating Models for the computation of SLFRS9 Impairment amounts.

• 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 M Rupasinghe (Independent Director)

Chairman – Board Integrated Risk Management Committee

20 February 2024

#### **RISKS AND OPPORTUNITIES**

# Managing the risk universe

Seylan Bank undertakes risk management with the primary aim of adopting and advocating an enterprise-wide approach towards the management of risk. The Bank takes a holistic approach towards risk management which enables both the pursuit of business objectives and the fulfilment 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. This 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

The

The

Seylan Bank manages its business risk using the 'Three Lines of Defence' model. This approach ensures that each employee is fully aware of their responsibilities in the management of risk, irrespective of whether their role is in a commercial, policy-making 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.

#### line of defence

Comprises of 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 are responsible for managing and steering the relevant business units that ensures proper risk management and controls are adhered to and complied with.

#### line of defence

Comprises of the Risk Management Unit and the 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. It 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.

#### line of defence

rd

Internal and External Audit functions which provide 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 risk has enabled the Bank's risk management function to evolve and 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 risk 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 in particular, ensures merging of responsibilities across the organisation in terms of business, risk, 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.

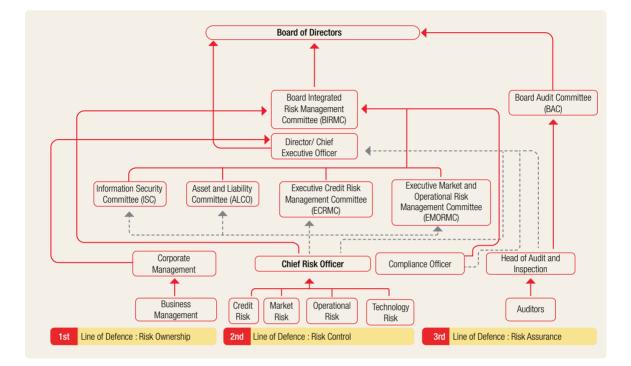
The Board Integrated Risk Management Committee (BIRMC) performs its 'oversight' role by setting the 'Tone at the Top'.

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 risk related policies and the approval of internal control over financial and non-financial risks.

### **RISKS AND OPPORTUNITIES**

#### The Risk Management Structure

The Risk Management Structure clearly defines the roles and responsibilities of the management and the executive committees. To a greater extent these roles involve in managing and monitoring of risk exposures, the risk appetite aligned with the strategic goals of the Bank.



- The Executive Credit Risk Management Committee (ECRMC) manages the credit risk throughout the Bank. It also formulates clear credit policies and makes recommendations for 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 for high value lending.
- The Asset and Liability Committee (ALCO) has authority to decide on managing market, interest rate and liquidity risks. BIRMC is apprised with information in this regard for decision making, and if required the final approval is with the Board of Directors.
- The Executive Market and **Operational Risk Management** Committee (EMORMC) has the authority to oversee all Operational Risk, Technology Risk, Market Risk, Liquidity Risk and Compliance Risk matters related to the Bank's business activities. The committee is responsible to coordinate the processes of implementing and managing the effectiveness of Operational Risk Management Policies, Information Security Risk Management Policies and Market Risk Management Policies that are formulated and reviewed by BIRMC and approved by the Board of Directors.
- The Information Security Committee (ISC) is responsible for both strategic and operational aspects of information security and technology risk management.

#### The Risk Appetite Statement

The risk appetite outlines the amount of risk the Bank is willing to accept in the pursuit of its objectives. The Bank has set comprehensive and robust risk tolerance limits based on the Risk Appetite of the Bank. While BIRMC reviews the Risk Appetite Statement of the Bank, the final approval lies with the Board of Directors. The Board of Directors are responsible for 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 technology risk.



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 risk is managed and mitigated.

|    |                                                                          | Limit               | 2023       | 2022      |
|----|--------------------------------------------------------------------------|---------------------|------------|-----------|
| 1  | Impaired Loans (Stage 3) Ratio%                                          | 6.0%                | 3.85%      | 4.98%     |
| 2  | Impairment (Stage 3) to Stage 3 Loans Ratio %                            | 55%                 | 68.29%     | 54.36%    |
| 3  | Performing Overdrafts without limits (LKR Mn)                            | 500                 | 127        | 323       |
| 4  | Large exposures (over LKR 500 Mn)/Total capital                          | 8 Times             | 7.04 Times | 7.1 Times |
| 5  | Exposures on the Related parties/Total Capital                           | Max of 55%          | 38%        | 36.72%    |
| 6  | Total Government Security Investments to Total Assets (Interest Earning) | Less than 30%       | 26.77%     | 23.04%    |
| 7  | Equity Investment Value (Quoted CSE) to Total Assets (Interest Earning)  | Less than 1%        | 0.47%      | 0.45%     |
| 8  | Net Open Position (USD Mn)                                               | +10/-16             | +1.993     | +4.130    |
| 9  | Statutory Liquid Asset Ratio - Overall                                   | Greater than 21.00% | 38.04%     | 25.51%    |
| 10 | Statutory Liquid Asset Ratio - Domestic Banking Unit                     | Greater than 21.00% | 38.51%     | 25.16%    |
| 11 | Statutory Liquid Asset Ratio - Foreign Currency Banking Unit             | Greater than 21.00% | 23.28%     | 25.02%    |
| 12 | Advances to Deposits Ratio Bank                                          | Less than 97.50%    | 84.17%     | 89.61%    |
| 13 | Advances to Deposits + Debentures                                        | Less than 95.00%    | 81.42%     | 86.20%    |
| 14 | Advances to Stable Funds                                                 | Less than 100.00%   | 85.90%     | 89.60%    |
| 15 | Swaps (USD Mn)                                                           | 175                 | 7.50       | 56.38     |
| 16 | External Borrowings (LKR Bn)                                             | 50                  | 4.90       | 5.48      |

#### Banking Act Direction No.13 of 2021 – Classification, Recognition and Measurement of Credit Facilities in Licensed Banks

The Central Bank of Sri Lanka issued the Direction on Classification, Recognition and Measurement of Credit Facilities in Licensed Banks dated 14/09/2021. The Direction has been issued with a view to further strengthen and harmonise the regulatory framework on Classification, Recognition and Measurement of Credit Facilities in Licensed Banks with the Sri Lanka Accounting Standard, SLFRS 9: Financial Instruments and establishing consistent and prudent practices in the Banking industry.

To be in compliance with the Banking Act Direction No. 13 of 2021, the Bank developed and implemented the following Policies, Procedures and Guidelines with effect from 1 January 2022 with the approval of the Board of Directors.

- Procedure and Guidelines on Estimating Impairment Allowance under SLFRS 9.
- Model Validation Policy Document

for Expected Credit Loss Model in line with the SLFRS 9 "Financial Instruments".

- Policy on Upgrading/ Downgrading of Re-scheduled/ Restructured Facilities.
- Policy on Staging of Credit Facilities under Stage 2 & Stage 3 due to Significant Increase in Credit Risk (SICR) and the Rebuttals.
- Policy on Write off/ Write down of Nonperforming Advances.

### **RISKS AND OPPORTUNITIES**

Further, the Risk Management Unit on a quarterly basis gets involved in ensuring accurate assessment of individually significant customers as impaired based on Objective Evidence and Independent Validation of (expected cash flows/ assumptions) individually significant impaired facilities.

#### Need for Monitoring of Credit Facilities

Once credit facilities are granted to worthy clients after a careful credit evaluation, the Lending Officers need to recognise the importance of closely monitoring the relevant credit exposures during the total tenor of the facilities to ensure that such credit facilities remain in the Performing Category to derive the expected financial benefits to the Bank. If not properly monitored the possibility of any credit facility later getting classified under the "Under Performing Credit Facilities - UPCFs (Stage-2)" or "Non-Performing Credit Facilities - NPCFs (Stage-3)" is more and such deterioration in the credit exposures will generate many adverse impacts.

Noting the importance of closely monitoring the credit facilities and to take timely corrective action to prevent slippage of such facilities in to the "Under Performing" or "Non Performing" categories, the Bank has already made arrangements by issuing internal guidelines to effectively establish a strong mechanism to monitor the Early Warning Indicators [EWIs] and Significant Increase in Credit Risk (SICR) factors across the Bank's network and to take required remedial measures in time.

#### Monitoring of Early Warning Indicators (EWI)

As part of our Bank's efforts in identifying the distressed credit exposures at an early date to take the required corrective measures as relevant. The Bank is in the process of implementing an Al enabled robust EWI system as part of Delinquency Management System.

#### **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.

Seylan Bank has developed a wellstructured 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.
- Diversification strategies across products, geographical areas, 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 risk and are applicable to all lending activities undertaken by the Bank.

In addition to setting up exposure limits for individual customers, the Bank manages counter-party 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 and industrial sectors. 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 ensures prevention of diversion of funds into unintended areas and 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, these 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 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 grant facilities on an unsecured basis on the strength of their operational 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, 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.

The Retail/SME and Corporate customers capital outstanding equivalent or greater than LKR 50.0Mn and LKR 200.0Mn respectively as at assessment date is considered as Individually Significant and selected for Individual assessments. Further, all individually not significant credit facilities and individually significant nonimpaired facilities are selected for Collective assessment.

Impairment provisions of Individually significant impaired facilities are measured by estimating future cash flows on an individual basis as follows;

- Multiple scenario application for facilities LKR 100.0 Mn and above
- Single Scenario assessment for facilities below LKR 100.0 Mn

RMU is involved in validating all the Individually significant impaired facilities prior to finalization of the quarterly financials on an ongoing basis. Accordingly, individually significant impairments are done with the concurrence of Risk Management Unit.

The Bank has developed an Expected Credit Loss (ECL) Model in line with the requirements of SLFRS 9 Financial Instruments for the Collective impairment assessment. The key components of the ECL model is as follows;

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)
- Discount Factor (DF)

The Bank obtained the services of an external consultant to validate the ECL models as well as for capacity building to carryout SLFRS 9 model validations internally going forward.

The Risk Management Unit is also involved in identifying and recommending the Risk Elevated Industries for Management overlay under SLFRS9 Impairment Provisioning through the concurrence of the ECRMC and BCC.

## 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 ECRMC 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 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.

### **RISKS AND OPPORTUNITIES**

For the year 2023, the Credit Risk Review Unit has performed a total of 482 reviews to the value of LKR 185.331 Bn which covers 34.58% 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.

Definition of Past due and Impaired Based on CBSL Guidelines

A Non-Performing Loan is any loan that is for more than 90 days past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- Loans renegotiated before 91 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 during the watch period 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. The impaired loan category may include loans, which, while impaired, are still performing. 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 is determined on a portfolio basis and assigned an 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 1, 2 and 3 of the portfolios and such disclosures are explained in Note 25 of Financial Statements.

#### **Credit Concentration Risk**

Credit concentration risk may arise where a number of counter-parties 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, Subsidiaries, 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 geographical areas.

#### Credit Risk Management Outlook for 2024

- The Bank has obtained professional expertise in validating the Internal customer rating models/ scorecards. In 2024, the Bank will
  develop/ revamp the internal customer rating models/ scorecards incorporating the proposed changes so that these models stands
  up to date with the market conditions.
- The Bank will be procuring a Delinquency Management System (DMS) to facilitate and streamline the Collection & Recovery
  process of the Bank. This DMS will be having an in-built Machine Learning Capability and Early Warning Indicators (EWIs) as well.
  This robust EWI system will help the Bank to proactively identify the problematic customers to initiate action plan to nurse the
  customers.
- The Credit Risk Review unit will incorporate an automation mechanism within the Loan Origination System for the following; identification of high value exposures for timely reviews & approval process (already implemented) and comprehensive data capturing.
- Make arrangements to bring the work flow of the Provision Calculations on Individually Significant Loans within the Bank's Loan Origination System (which is now the Bank's de facto Digital Approval System) to further streamline the related process.

#### **Managing Market Risk**

Market Risk is the risk 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 takes place when the value of portfolios, 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 diligently.

#### Policy and Responsibility

The Board of Directors defines the overall policies / limits for the market risk exposures. The limits on market risk are defined giving due consideration of the risk they imply and how they match the Bank's strategic plan. On behalf of the Board, the Risk Committees; EMORMC and ALCO are responsible for managing the market risk in the Bank's major business areas especially the Treasury. In the first line of defence; the Treasury is responsible in monitoring and managing the Bank's market risk and trading exposures. 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 risk to ALCO on a monthly basis. RMU also reports to EMORMC monthly and to BIRMC on a quarterly basis. The timely reporting to the Corporate Management enables quick and sound decision making and required

actions to be taken to manage market risk proactively.

#### **Treasury Middle Office**

The 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 in treasury operations on a daily basis.

Some of the monitoring tools set by the Management and Board which enables TMO to adopt a stringent monitoring mechanism includes but is not limited to;

- A set of limits to ensure that risktakers 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.
- Accountability for the support and maintenance of the Treasury Management System reports and the design and delivery of value adding new reports
- A process for assessing the risk of new products.
- Independent Monitoring of Call Records in Treasury Operations

#### **Interest Rate Risk**

## 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 impact 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 deteriorating economic conditions continued during the current financial year where the financial industry had to face many challenges to manage interest rate risk in portfolios to optimal levels. The interest rates, which escalated during the previous year, remained at these levels at the beginning of the financial year. However, with monetary policy decisions, the market saw an easing in interest rates, which settled down at around a level of 12% -13% at the close of the financial year. In the same manner inflationary pressure also eased to a greater extent which contributed towards a downward push in interest rates.

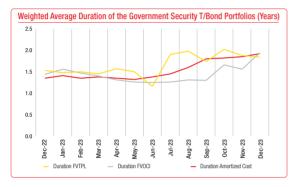
At Seylan Bank PLC these challenges were faced with a positive outlook, ensuring the interest rate risk faced by the Bank did not weigh down sustainable growth prospects as well as to manage the re-pricing risk using the behavioral patterns of the asset and liability portfolios'.

### **RISKS AND OPPORTUNITIES**

#### 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. Therefore, the Bank holds a substantial portion of Government Security Treasury Bills and Bonds as well as a minor portion of ISBs. As a result, the Bank is exposed to the Interest Rate Risk in these portfolios which is strategically managed and close monitoring takes place to avoid adverse impact to Capital and Earnings.

The following graph represent the weighted average duration of the Government Security Treasury Bond portfolios during 2023:



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.

#### **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 major currencies.

Currency exposures are managed applying individual currency limits and the overall exposure is managed within the Net Open Position (NOP) limit defined by the regulator. Individual and cumulative intra-day limits, daylight limits and overnight limits are defined for the treasury to operate within these boundaries to mitigate the risk stemming through these exposures. The foreign exchange risk limits are agreed and approved by the Board of Directors.

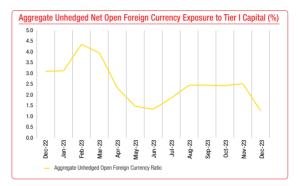
The Bank's exchange rate risk mainly stems from:

- Customer loans/deposits in foreign currency and
- Treasury's positions in foreign currency

The foreign exchange risk is monitored and reported to the respective Heads of the Management daily, and is discussed at the ALCO on a monthly basis or more frequently, when a need arises due to the prevailing volatile market conditions.

The Sri Lankan Rupee appreciated during the year from a 360 level to a level of 320 as at the close of the year 2023. The Bank's strategy was to maintain the Net Open Exposure at manageable levels. As a result, the Net Open Exposure was maintained at a Net Long Position throughout the year. The NOP remained quite static during the latter part of the year and closed at a minute level of USD 1.993 Mn (long) at the close of the year. This exposure is measured and managed against the Bank's Tier I Capital and has been at very negligible levels.

The following graph presents the NOP as a percentage of the Tier 1 Capital during the year 2023:

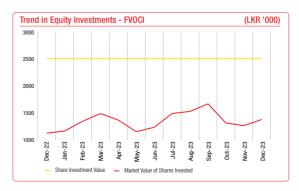


#### Share Investment Risk

The Bank's investment policy and the risk policy restricts equity positions to listed shares; invested for trading purposes and invested for strategic reasons. The Bank also holds unlisted shares made for reasons such as investments in 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 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 during the year 2023:



#### GOVERNANCE

#### Managing Liquidity Risk

Liquidity risk is the risk that the Bank either does not hold sufficient financial resources 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 foreign currencies and to be in a position to meet obligations as they fall due. The Bank manages 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 as and when 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 oversees the Bank's liquidity management policies.

The Treasury receives authority from ALCO, which is responsible in managing the liquidity positions of the Bank. Liquidity is managed within the pre-defined liquidity limits approved by the Board and in compliance with internal liquidity policies and practices, as well as and external regulatory requirements. The Treasury proposes strategies in managing liquidity risk, while RMU is instrumental in setting up and overseeing the implementation of policies and other controls relating to liquidity risk.

During the current financial year, the Bank was able to manage liquidity at very sound levels, mainly due to the ability to divest the Bank's funding mostly in government securities which in turn enabled the Bank to hold high quality liquid assets and to drive the liquidity indicators to healthy levels.

The Bank was also able to maintain high liquidity buffers during the year. Hence the Bank was able to successfully maintain healthy liquidity positions to meet the banking needs as well as regulatory requirements.

#### **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.

To mitigate uncertainties in the customer behavioural patterns, the customer deposit base is diversified by type and maturity levels. In addition, the Bank has in place a contingency funding plan 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.

## Measurement and Management of Liquidity Risk

The Bank's liquidity strategy, including policies and procedures for measuring, managing and controlling liquidity, helps to fulfil the objectives of maintaining sufficient sources of liquid funds to meet funding obligations when they are due. The strategy, policies and processes are designed to ensure that the Bank is in a position to fund all obligations across planned time horizons, during both normal operations and under stress situations.

The policies and procedures outline appropriate early warning indicators to alert the Bank to a pending liquidity issue through a number of prudential ratios and funding concentration levels. Measuring liquidity risk is key to ensuring liquidity issues are identified timely. In terms of measuring liquidity, Basel III introduced two minimum standards for measuring adequate funding and liquidity in stressed situations. The Bank ensures to measure and manage liquidity risk as per these Basel III standards and requirements.

The Liquidity Coverage Ratio (LCR), shown in the table on page 139 under Basel III computation of liquidity coverage ratio enables the Bank to measure the short-term resilience of the Bank's liquidity risk profile by ensuring that the Bank has sufficient High-Quality Liquid Assets (HQLA) to survive a stress scenario lasting 30 days. The Net Stable Funding Ratio (NSFR), shown in the table on page 139 under Key Regulatory Ratios also enables to reduce the funding risk over a one year time horizon by requiring the Bank to fund activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

As envisaged in the ALM policy, while the Liquidity Risk is managed through the stock approach, liquidity risk is also managed through the traditional flow 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. In addition to the contractual maturity mismatches the Bank mostly concentrates on the behavioural patterns of the assets and liabilities which give a more realistic scenario to the asset and liability mismatches.

#### MARKET RISK AND LIQUIDITY RISK OUTLOOK FOR 2024

- The Bank is currently making preliminary arrangements to replace the existing Treasury Management System with an updated version of a new fully fledged Treasury Management System to further strengthen the Treasury Front Office activities which will also enhance the Market Risk management and controls of the Treasury Middle Office.
- Enhance Managing Interest Rate Risk through efficient measurement tools.

### **RISKS AND OPPORTUNITIES**

#### The Maturity Gap Based on Behavioural Analysis is depicted in the following table

|                                                                                                           | Up to 3<br>Months<br>LKR '000 | 3 to 12<br>Months<br>LKR '000 | 1 to 3<br>Years<br>LKR '000 | 3 to 5<br>Years<br>LKR '000 | More Than<br>5 Years<br>LKR '000 | Total as at<br>31.12.2023<br>LKR '000 |
|-----------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| Interest Earning Assets                                                                                   |                               |                               |                             |                             |                                  |                                       |
| Loans and Advances                                                                                        | 167,428,886                   | 98,888,630                    | 85,300,611                  | 42,456,980                  | 43,457,363                       | 437,532,470                           |
| Placements with Banks and Finance<br>Companies                                                            | 22,064,672                    | -                             | -                           | -                           | -                                | 22,064,672                            |
| Government of Sri Lanka Treasury Bills/<br>Bonds,Development and Sovereign Bonds<br>and US Treasury Bills | 71,228,765                    | 39,777,357                    | 33,706,146                  | 14,379,520                  | 9,694,161                        | 168,785,949                           |
| Investments in Debentures                                                                                 | 19,509                        | 33,250                        | 266,231                     | 66,500                      | 365,644                          | 751,134                               |
| Securities Purchased under Resale<br>Agreements                                                           | 817,150                       | -                             | -                           | -                           | -                                | 817,150                               |
| Balances with Banks                                                                                       | 31,815,850                    | 580,788                       | -                           | -                           | -                                | 32,396,638                            |
| Total Interest Earning Assets                                                                             | 293,374,832                   | 139,280,025                   | 119,272,988                 | 56,903,000                  | 53,517,168                       | 662,348,013                           |

| Non Interest Earning Assets                                          |             |             |             |            |            |             |
|----------------------------------------------------------------------|-------------|-------------|-------------|------------|------------|-------------|
| Cash In Hand                                                         | 12,296,717  | -           | -           | -          | -          | 12,296,717  |
| Balances with Central Bank of Sri Lanka                              | 1,512,542   | 1,731,050   | 1,153,304   | 944,736    | 1,686,649  | 7,028,281   |
| Balances with Banks                                                  | 4,157,788   | -           | -           | -          | -          | 4,157,788   |
| Investments in Equities                                              | -           | 1,802,855   | -           | -          | 1,153,602  | 2,956,457   |
| Group Balances Receivable                                            | -           | 500         | -           | -          | 40,000     | 40,500      |
| Property, Plant & Equipment/Intangible<br>Assets/Right of Use Assets | -           | -           | -           | -          | 9,526,157  | 9,526,157   |
| Deferred Tax Assets                                                  | -           | 3,171,806   | -           | -          | -          | 3,171,806   |
| Derivative Financial Instruments                                     | 88,022      | -           | -           | -          | -          | 88,022      |
| Other Assets                                                         | 16,370,157  | 60          | 2           | 204        | 1,271      | 16,371,694  |
| Total Non Interest Earning Assets                                    | 34,425,226  | 6,706,271   | 1,153,306   | 944,940    | 12,407,679 | 55,637,422  |
| Total Assets                                                         | 327,800,058 | 145,986,296 | 120,426,294 | 57,847,940 | 65,924,847 | 717,985,435 |

#### Liabilities & Equity

|                                                                        | Up to 3<br>Months<br>LKR '000 | 3 to 12<br>Months | 1 to 3<br>Years<br>LKR '000 | 3 to 5<br>Years<br>LKR '000 | More Than<br>5 Years | Total as at<br>31.12.2023 |
|------------------------------------------------------------------------|-------------------------------|-------------------|-----------------------------|-----------------------------|----------------------|---------------------------|
| Interest Bearing Liabilities                                           | LKK UUU                       | LKR '000          |                             |                             | LKR '000             | LKR '000                  |
| Financial Liabilities at Amortised Cost due to Depositors              | 122,877,452                   | 133,397,353       | 90,442,997                  | 71,270,325                  | 132,463,980          | 550,452,107               |
| Financial Liabilities at Amortised Cost due to Debt Securities Holders | 6,841,827                     | 21,171            | -                           | -                           | -                    | 6,862,998                 |
| Due to Banks and Other Borrowings                                      | 1,162,539                     | 4,896,175         | 6,054,193                   | -                           | -                    | 12,112,907                |
| Debt Securities Issued                                                 | 563,789                       | 6,079,912         | 6,715,000                   | 6,609,000                   | -                    | 19,967,701                |
| Group Balances Payable                                                 | 86,548                        | 29,000            | -                           | -                           | -                    | 115,548                   |
| Lease Liabilities                                                      | 79,167                        | 206,354           | 529,336                     | 548,522                     | 4,046,039            | 5,409,418                 |
| Total Interest Bearing Liabilities                                     | 131,611,322                   | 144,629,965       | 103,741,526                 | 78,427,847                  | 136,510,019          | 594,920,679               |
| Non Interest Bearing Liabilities                                       |                               |                   |                             |                             |                      |                           |
| Demand Deposits                                                        | 21,437,930                    | 7,000,775         | 3,039,440                   | 4,384,039                   | 4,384,039            | 40,246,223                |
| Other Liabilities                                                      | 19,572,405                    | -                 | -                           | -                           | -                    | 19,572,405                |
| Derivative Financial Instruments                                       | 21,193                        | 11,076            | -                           | -                           | -                    | 32,269                    |
| Current Tax Liabilities                                                | 2,688,253                     | -                 | -                           | -                           | -                    | 2,688,253                 |
| Dividend Payable                                                       | 18,750                        | -                 | -                           | -                           | -                    | 18,750                    |
| Group Balances Payable                                                 | 275                           | -                 | -                           | -                           | -                    | 275                       |
| Equity                                                                 | -                             | -                 | -                           | -                           | 60,506,581           | 60,506,581                |
| Total Non Interest Bearing Liabilities                                 | 43,738,806                    | 7,011,851         | 3,039,440                   | 4,384,039                   | 64,890,620           | 123,064,756               |
| Total Liabilities and Equity                                           | 175,350,128                   | 151,641,816       | 106,780,966                 | 82,811,886                  | 201,400,639          | 717,985,435               |

#### **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 the comprehensive internal stress tests scenarios reflecting the outcome in the annual ICAAP risk assessment, the Bank also performs regular/quarterly stress test exercises taking into consideration external and internal stress test scenarios for management insight and timely decision making. 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 minimize Earnings at Risk remains. The stress test results are reported to the respective management committees such as ALCO/ECRMC/EMORMC for decision

making and subsequently to BIRMC on a quarterly basis.

The Bank possesses a comprehensive Stress Testing Policy which outlines various scenarios to measure the stress levels of exposures of credit risk, credit concentration risk, operational risk, liquidity risk, Interest Rate Risk and FX risk.

In addition to the stress tests discussed in this section, a plausible Debt Restructuring was also considered in performing stress tests during 2023. The Bank carried out stress tests using multiple scenarios measuring the impact on capital and liquidity to ensure the stress levels did not have any implications on these indicators.

| No | Particulars                                                   | Stress Scenarios                                                                                                                                                                                                                                                                                                      |
|----|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | Credit Risk                                                   |                                                                                                                                                                                                                                                                                                                       |
|    | Increase in NPL                                               | NPL is forecasted based on macro-economic model and a crisis factor is applied to factor in<br>the economic downturn.                                                                                                                                                                                                 |
|    | Increase in NPL of top 5 Industries                           | Deals with the increase in the NPL based on a industry wise classification of facilities and<br>resultant increase in respective provisioning                                                                                                                                                                         |
|    | Large Borrower Default                                        | Default of the largest borrowers by classifying the credit granted as non-performing                                                                                                                                                                                                                                  |
| 2  | Credit Concentration Risk                                     | % increase in Herfindahl-Hirschman Index (HHI) under stress                                                                                                                                                                                                                                                           |
| 3  | Interest Rate Risk in the Banking Book<br>(IRRBB) EAR and EVE | To assess the long-term impact of changes in interest rates on Bank's Economic Value of<br>Equity (EVE) through changes in the economic value of its assets and liabilities and to assess<br>the immediate impact of changes in interest rates on Bank's earnings through changes in its<br>Net Interest Income (NII) |
| 4  | Forex Risk                                                    | Change in the value of foreign currency in adverse direction                                                                                                                                                                                                                                                          |
| 5  | Equity Investment Risk (FVOCI)                                | Fall in the value of Equity in Available For Sale book                                                                                                                                                                                                                                                                |
| 6  | Liquidity Risk – Systemic & Bank specific                     | <ol> <li>Withdrawal of x% of the deposits from the bank within a period</li> <li>Rollover of loans to a period greater than three months</li> <li>Decrease in rollover of interbank borrowings</li> </ol>                                                                                                             |
| 7  | Operational Risk                                              | % increase in total loss incidents                                                                                                                                                                                                                                                                                    |

#### **Counter-party Credit Risk**

Counter-party credit risk is the risk arising from the possibility that the counter-party 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.

Counter-party 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 counter-party credit risk. The TMO monitors on a realtime basis the utilisation of each counterparty against the stipulated limit and a daily reporting is carried out to apprise 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 embargoes. 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.

#### **Recovery Plan**

The Bank has established a policy framework to implement the Recovery Planning (RCP) for financial institutions, in line with the CBSL Banking Act Direction No. 09 of 2021 on the Recovery Plans for Licensed Commercial Banks and Licensed Specialised Banks.

The RCP framework seeks to put in place an effective and efficient process to enhance supervisability, recoverability and resolvability of the Bank, by incorporating essential elements and key attributes given in the regulatory framework.

### **RISKS AND OPPORTUNITIES**

The RCP framework aims to -

- facilitate the preparation and maintenance of a robust recovery plan by the Bank which serve as a strategic planning tool that;
- Integrates with the risk appetite framework and reinforces risk management functions and
- Strengthens the Bank to establish arrangements to recover from a wide range of stress events.

The RCP is developed in harmony with the ICAAP, Contingency Funding Plan (CFP) and the BCP of the Bank.

#### Managing Operational Risk

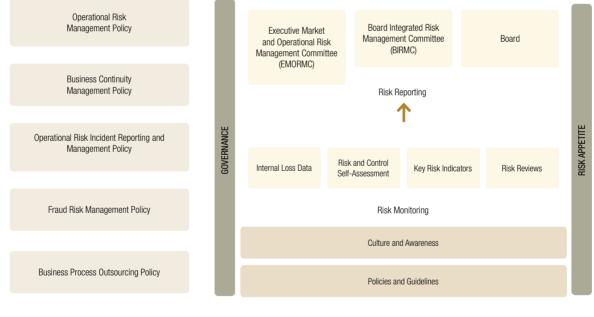
Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events such as natural disasters, social or political events that may impact the Bank. Operational risk includes legal risk but excludes strategic and reputational risks.



The Bank has a well-established Operational Risk Management Policy developed in line with 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, Risk Management Unit (RMU) has established the Operational Risk Management Unit (ORMU) with the objective of implementing and enforcing 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.

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.



| Technique                                  | Management/Mitigation                                                                                                                                                                                                                                                                                                                                                                |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk and Control Self-Assessment<br>(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 EMORMC and 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.                       |

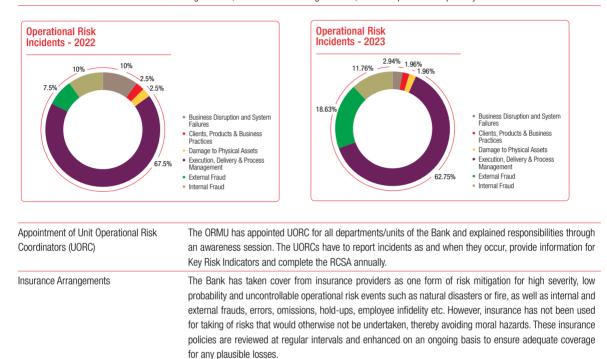
#### Technique

Collecting, Analysing and Reporting

**Operational Risk Incidents** 

#### Management/Mitigation

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 members. Furthermore, monthly reminders on reporting incidents are circulated among the Unit Operational Risk Coordinators (UORC) and branches. Regular trainings are conducted to UORCs and branch staff in order to enhance the awareness on incident reporting. All incidents reported by respective departments and branches 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. Incidents reported are presented to EMORMC and BIRMC periodically to obtain further guidance/advise and to enforce implementation of further controls where necessary. As per CBSL guidelines. Joss events exceeding LKR 500.000 are reported on a guarterly basis to the CBSL.



| Reviewing New Products/Services/<br>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. |
|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Review of existing Products/Services/<br>Processes | ORMU carries out reviews of existing business Products/Services/Processes and recommends further improvements/controls where necessary to EMORMC and BIRMC for ratification/advise and implementation. This contributes towards closing possible gaps in the existing business processes and mitigate potential operational losses.                                                          |
| Reviewing information risk integrity and           | The Bank is positioned to identify and respond to suspicious information flows and intruder attacks while                                                                                                                                                                                                                                                                                    |

Reviewing information risk, integrity and The Bank is positioned to identify and respond to suspicious information flows and intruder attacks while availability observing system readiness through its information risk management practices which use tools and techniques such as firewall technologies, intruder detection and hacking prevention systems. The Bank has introduced a sound Data Leakage Prevention (DLP) solution, Data classification software, Security Information and Event Management (SIEM), Web Application Firewall system and Internal Firewall system. Data centre infrastructure was completely refurbished with modern physical security controls and a virtual patch management solution has been introduced for critical servers in the data centre.

#### Effectiveness Business Continuity Plan The BCP ensures the resilience to business disruption that may arise from internal or external events and (BCP) and Disaster Recovery (DR) 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 Centres (DROC) carry out DR drills for critical systems including the core banking system in order to verify the readiness of business continuity related issues. The relevant Executive Committees and regulators are updated on outcomes of the BCP and DR drills with the appropriate actions. Managing Outsourcing activities The Bank has developed and implemented a comprehensive policy on outsourcing in line with CBSL Direction

No. 02 of 2012. 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.

### **RISKS AND OPPORTUNITIES**

#### **OPERATIONAL RISK OUTLOOK FOR 2024**

The Risk Management Unit is making arrangements to automate the incident reporting mechanism and Risk & Control Self Assessment (RCSA) exercise during the year 2024.

#### Information Security Management System

The well-established Information Security Management System (ISMS) based on the Baseline Security Standard provides a methodical approach to managing the Bank's information security risk. It ensures compliance with regulatory requirements and alignment with business objectives. Continuous Risk assessments are carried out to all critical information assets. Information Security Risk related KRIs are regularly monitored and reported. Continuous vulnerability assessments are conducted and comprehensive information security user awareness programmes and E-Certification are implemented The Bank is in the process of implementing the CBSL Direction No16 of 2021 on Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks within the timelines specified in the direction. Accordingly Technology Risk Management Unit was established in order to implement the provisions outlined in the direction with regard to Risk Management Unit.

Simultaneously, the Bank has appointed an Acting CISO, reporting to Director/CEO. Further a third party subject specialist is assisting the Bank in establishing all the requirements specified in the said CBSL guideline before the deadlines. The Bank has initiated action to obtain ISO 27001: Information security management systems (ISMS) and ISO 22301: Business Continuity Management (BCM) Certificates as required by the above mentioned Banking Act Direction.

#### **Managing Capital Risk**

## Basel III minimum capital requirements and buffers

Every licensed bank needs to maintain, at all times, the minimum capital ratios prescribed in the table below and needs to ensure compliance with Schedule I of the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.

| Components of Capital                                      | Capital Adequacy<br>Ratio to be maintained<br>by Non-D-SIBs | Capital Adequacy<br>Ratio to be maintained<br>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.

The Internal Capital Adequacy Assessment Process (ICAAP) of the Bank is established based on the CBSL regulations in order to determine the level of capital to be maintained against all risks and to ensure that banks have adequate capital to support all risks. In order to assess the future capital requirements, the bank additionaly prepares the Capital Augmentation Plan by considering the budget and financial forecast.

The Bank has adopted the Standardised Approach (SA) for credit risk capital calculation under Pillar 1. By nature of Bank's operations the capital charge for the credit risk remains high.

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.

The Bank received the approval from Central Bank of Sri Lanka to move into Alternate Standardized Approach (ASA) for quantifying the capital charge under operational risk.

Under Pillar II, 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 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 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

|                                        | Minimum<br>Requirement | Reporting Period<br>31.12.2023 | Previous Reporting Period<br>31.12.2022 |
|----------------------------------------|------------------------|--------------------------------|-----------------------------------------|
| Regulatory Capital (LKR'000)           |                        |                                | -                                       |
| Common Equity Tier 1 Capital           |                        | 55,447,660                     | 49,920,169                              |
| Tier 1 Capital                         |                        | 55,447,660                     | 49,920,169                              |
| Total Capital                          |                        | 70,147,267                     | 63,477,151                              |
| Regulatory Capital Ratios (%)          |                        |                                |                                         |
| Common Equity Tier 1 Capital Ratio     | 7.00%                  | 12.52%                         | 10.69%                                  |
| Tier 1 Capital Ratio                   | 8.50%                  | 12.52%                         | 10.69%                                  |
| Fotal Capital Ratio                    | 12.50%                 | 15.84%                         | 13.59%                                  |
| everage Ratio                          | 3.00%                  | 7.30%                          | 7.25%                                   |
| let Ctable Funding Datio               | 2023-100%              | 129.67%                        | 117.62%                                 |
| Net Stable Funding Ratio               | 2022-90%               |                                |                                         |
| Regulatory Liquidity                   |                        |                                |                                         |
| Statutory Liquid Assets                |                        | 235,624,142                    | 149,336,157                             |
| Statutory Liquid Assets Overall        |                        |                                |                                         |
| Domestic Banking Unit (LKR 000)        |                        | 233,637,929                    | 144,094,083                             |
| Off-Shore Banking Unit (USD 000)       |                        | 23,584                         | 35,226                                  |
| Statutory Liquid Assets Ratio          |                        |                                |                                         |
| Statutory Liquid Assets Overall        | 20.00%                 | 38.04%                         | 25.51%                                  |
| Domestic Banking Unit                  | 20.00%                 | 38.51%                         | 25.16%                                  |
| Off-Shore Banking Unit                 | 20.00%                 | 23.28%                         | 25.02%                                  |
| iquidity Coverage Ratio - Rupee        | 2023-100%              | 355.16%                        | 280.14%                                 |
|                                        | 2022-90%               |                                |                                         |
| iquidity Coverege Detie All Currency   | 2023-100%              | 338.42%                        | 175.10%                                 |
| iquidity Coverage Ratio - All Currency | 2022-90%               |                                |                                         |

### **RISKS AND OPPORTUNITIES**

#### **Basel III Computation of Capital Ratios**

|                                                                                                                           | Amount (LKR'000)                  |                                            |  |
|---------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------|--|
|                                                                                                                           | Reporting<br>Period<br>31.12.2023 | Previous<br>Reporting Period<br>31.12.2022 |  |
| Common Equity Tier I (CETI) Capital after Adjustments                                                                     | 55,447,660                        | 49,920,169                                 |  |
| Common Equity Tier I (CET1) Capital                                                                                       | 59,239,357                        | 53,765,745                                 |  |
| Equity Capital (Stated Capital)/Assigned Capital                                                                          | 20,908,673                        | 19,926,453                                 |  |
| Reserve Fund                                                                                                              | 2,880,973                         | 2,568,162                                  |  |
| Published Retained Earnings/(Accumulated Retained Losses)                                                                 | 34,361,921                        | 30,579,775                                 |  |
| Published Accumulated Other Comprehensive Income (OCI)                                                                    | 387,215                           | (9,220)                                    |  |
| General and Other Disclosed Reserves                                                                                      | 700,575                           | 700,575                                    |  |
| Total Adjustments to CET1 Capital                                                                                         | 3,791,697                         | 3,845,576                                  |  |
| Intangible Assets (Net)                                                                                                   | 536,989                           | 510,146                                    |  |
| Others                                                                                                                    | 3,254,708                         | 3,335,430                                  |  |
| Additional Tier 1 (AT1) Capital after Adjustments                                                                         | -                                 | -                                          |  |
| Total Additional Tier 1 (AT1) Capital                                                                                     | -                                 | -                                          |  |
| Qualifying Additional Tier 1 Capital Instruments                                                                          | -                                 | -                                          |  |
| Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties               | -                                 | -                                          |  |
| Total Adjustments to AT1 Capital                                                                                          | -                                 | -                                          |  |
| nvestment in Own Shares                                                                                                   | -                                 | -                                          |  |
| Dthers                                                                                                                    | -                                 | -                                          |  |
| Tier 2 Capital after Adjustments                                                                                          | 14,699,607                        | 13,556,982                                 |  |
| Fotal Tier 2 Capital                                                                                                      | 14,699,607                        | 13,556,982                                 |  |
| Qualifying Tier 2 Capital Instruments                                                                                     | 8,996,400                         | 7,603,825                                  |  |
| Revaluation Gains                                                                                                         | 698,403                           | 698,403                                    |  |
| Loan Loss Provisions (General Provision)                                                                                  | 5,004,804                         | 5,254,754                                  |  |
| nstruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties                | -                                 | -                                          |  |
| Total Adjustments to Tier 2                                                                                               | -                                 | -                                          |  |
| nvestment in Own Shares                                                                                                   | -                                 | -                                          |  |
| Others                                                                                                                    | -                                 | -                                          |  |
| Fotal Tier 1 Capital                                                                                                      | 55,447,660                        | 49,920,169                                 |  |
| Fotal Capital                                                                                                             | 70,147,267                        | 63,477,151                                 |  |
| Fotal Risk Weighted Assets (RWA)                                                                                          | 442,785,741                       | 467,105,338                                |  |
| RWAs for Credit Risk                                                                                                      | 400,384,298                       | 420,380,297                                |  |
| RWAs for Market Risk                                                                                                      | 4,033,608                         | 4,116,017                                  |  |
| RWAs for Operational Risk                                                                                                 | 38,367,835                        | 42,609,024                                 |  |
| CET1 Capital Ratio (including Capital Conservation Buffer, Counter Cyclical Capital Buffer<br>& Surcharge on D-SIBs) (%)  | 12.52%                            | 10.69%                                     |  |
| of which: Capital Conservation Buffer (%)                                                                                 | 2.50%                             | 2.50%                                      |  |
| Total Tier 1 Capital Ratio (%)                                                                                            | 12.52%                            | 10.69%                                     |  |
| Total Capital Ratio (including Capital Conservation Buffer, Counter Cyclical Capital Buffer<br>& Surcharge on D-SIBs) (%) | 15.84%                            | 13.59%                                     |  |
| of which: Capital Conservation Buffer (%)                                                                                 | 2.50%                             | 2.50%                                      |  |
|                                                                                                                           |                                   |                                            |  |

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories - Bank Only

|                                                                               | as at 31 December 2023                                                       |                                                                 |                                        |                                        | Amount (LKR'000)                                                                        |  |  |
|-------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------|--|--|
|                                                                               | a b c                                                                        |                                                                 | d                                      | e                                      |                                                                                         |  |  |
|                                                                               | Carrying<br>Values as<br>Reported<br>in Published<br>Financial<br>Statements | Carrying<br>Values under<br>Scope of<br>Regulatory<br>Reporting | Subject to<br>Credit Risk<br>Framework | Subject to<br>Market Risk<br>Framework | Not subject<br>to Capital<br>Requirements<br>or Subject to<br>Deduction<br>from Capital |  |  |
| Assets                                                                        | 717,985,435                                                                  | 717,985,435                                                     | 721,389,372                            | 28,966,507                             | 5,816,712                                                                               |  |  |
| Cash and Cash Equivalents                                                     | 48,851,143                                                                   | 48,851,143                                                      | 48,851,143                             |                                        |                                                                                         |  |  |
| Balances with Central Bank                                                    | 7,028,281                                                                    | 7,028,281                                                       | 7,028,281                              |                                        |                                                                                         |  |  |
| Placements with Banks                                                         | 22,064,672                                                                   | 22,064,672                                                      | 22,064,672                             |                                        |                                                                                         |  |  |
| Derivative Financial Instruments                                              | 88,022                                                                       | 88,022                                                          | 88,022                                 |                                        |                                                                                         |  |  |
| Financial Assets recognised through Profit and Loss                           | 27,753,867                                                                   | 27,753,867                                                      | 27,753,867                             | 27,753,867                             |                                                                                         |  |  |
| Securities Purchased under Resale Agreements                                  | 817,150                                                                      | 817,150                                                         | 817,150                                |                                        |                                                                                         |  |  |
| Loans and Receivables - Banks                                                 | -                                                                            | 2,807,623                                                       | 2,807,623                              |                                        |                                                                                         |  |  |
| Loans and Receivables - Other Customers *                                     | 437,532,470                                                                  | 434,724,847                                                     | 441,837,579                            |                                        | 2,107,922                                                                               |  |  |
| Financial Assets measured at Fair Value through<br>Other Comprehensive Income | 40,048,711                                                                   | 40,048,711                                                      | 40,048,711                             | 1,212,640                              |                                                                                         |  |  |
| Other Financial Investments at Amortized Cost                                 | 103,537,360                                                                  | 103,537,360                                                     | 103,537,360                            |                                        |                                                                                         |  |  |
| Investments in Subsidiaries                                                   | 1,153,602                                                                    | 1,153,602                                                       | 1,153,602                              |                                        |                                                                                         |  |  |
| Property, Plant and Equipment                                                 | 3,874,650                                                                    | 3,874,650                                                       | 3,874,650                              |                                        |                                                                                         |  |  |
| Goodwill and Intangible Assets                                                | 536,989                                                                      | 536,989                                                         |                                        |                                        | 536,989                                                                                 |  |  |
| Deferred Tax Assets                                                           | 3,171,806                                                                    | 3,171,806                                                       |                                        |                                        | 3,171,806                                                                               |  |  |
| Other Assets                                                                  | 21,526,712                                                                   | 21,526,712                                                      | 21,526,712                             |                                        |                                                                                         |  |  |
| Liabilities                                                                   | 657,478,854                                                                  | 657,478,854                                                     | -                                      | -                                      | -                                                                                       |  |  |
| Due to Banks                                                                  | 12,096,756                                                                   | 12,096,756                                                      |                                        |                                        |                                                                                         |  |  |
| Derivative Financial Instruments                                              | 32,269                                                                       | 32,269                                                          |                                        |                                        |                                                                                         |  |  |
| Due to Other Customers                                                        | 590,698,330                                                                  | 590,698,330                                                     |                                        |                                        |                                                                                         |  |  |
| Other Borrowings                                                              | 16,151                                                                       | 16,151                                                          |                                        |                                        |                                                                                         |  |  |
| Debt Securities Issued                                                        | 6,862,998                                                                    | 6,862,998                                                       |                                        |                                        |                                                                                         |  |  |
| Current Tax Liabilities                                                       | 2,688,253                                                                    | 2,688,253                                                       |                                        |                                        |                                                                                         |  |  |
| Other Liabilities                                                             | 25,000,573                                                                   | 25,000,573                                                      |                                        |                                        |                                                                                         |  |  |
| Due to Subsidiaries                                                           | 115,823                                                                      | 115,823                                                         |                                        |                                        |                                                                                         |  |  |
| Subordinated Term Debts                                                       | 19,967,701                                                                   | 19,967,701                                                      |                                        |                                        |                                                                                         |  |  |
| Off-Balance Sheet Liabilities                                                 | 184,715,853                                                                  | 184,715,853                                                     | -                                      | -                                      | -                                                                                       |  |  |
| Guarantees                                                                    | 55,805,472                                                                   | 55,805,472                                                      |                                        |                                        |                                                                                         |  |  |
| Letters of Credit                                                             | 7,245,749                                                                    | 7,245,749                                                       |                                        |                                        |                                                                                         |  |  |
| Foreign Exchange Contracts                                                    | 18,928,740                                                                   | 18,928,740                                                      |                                        |                                        |                                                                                         |  |  |
| Other Contingent Items                                                        | 13,010,975                                                                   | 13,010,975                                                      |                                        |                                        |                                                                                         |  |  |
| Undrawn Loan Commitments                                                      | 89,057,981                                                                   | 89,057,981                                                      |                                        |                                        |                                                                                         |  |  |
| Other Commitments                                                             | 666,936                                                                      | 666,936                                                         |                                        |                                        |                                                                                         |  |  |
| Shareholders' Equity                                                          |                                                                              |                                                                 |                                        |                                        |                                                                                         |  |  |
| Equity Capital (Stated Capital)/Assigned Capital                              |                                                                              |                                                                 |                                        |                                        |                                                                                         |  |  |
| of which Amount Eligible for CET1                                             | 20,908,673                                                                   | 20,908,673                                                      |                                        |                                        |                                                                                         |  |  |
| Retained Earnings                                                             | 34,846,141                                                                   | 34,846,141                                                      |                                        |                                        |                                                                                         |  |  |
| Accumulated Other Comprehensive Income                                        | (203,999)                                                                    | (203,999)                                                       |                                        |                                        |                                                                                         |  |  |
| Other Reserves Total Shareholders' Equity                                     | 4,955,766<br><b>60,506,581</b>                                               | 4,955,766<br><b>60,506,581</b>                                  |                                        | -                                      | -                                                                                       |  |  |

\* Loans and Receivables to Other Customers in subject to Credit Risk Framework (C) is reported as the gross of Stage 1 and 2 ECL Provision (LKR 7.1 Bn) and of which LKR 2.1 Bn excluded from Tier II Capital.

### **RISKS AND OPPORTUNITIES**

The following regulatory risk measurement approaches are applied for purposes of capital adequacy:

- 1. Credit risk: The Standardised Approach (SA)
- 2. Operational risk: The alternative Standardised Approach (ASA)
- 3. Market risk: The Standardised Measurement Approach (SMA)

### Credit Risk under Standardised Approach

#### Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

|                                                                   |                                                               |                                | as at 31 December 2023        |                                |             | Amount (LKR'000)           |                     |
|-------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------|-------------------------------|--------------------------------|-------------|----------------------------|---------------------|
|                                                                   | Exposures before Credit<br>Conversion Factor (CCF) and<br>CRM |                                | Exposures post CCF and CRM    |                                |             | RWA and RWA<br>Density (%) |                     |
|                                                                   | On-Balance<br>Sheet<br>Amount                                 | Off-Balance<br>Sheet<br>Amount | On-Balance<br>Sheet<br>Amount | Off-Balance<br>Sheet<br>Amount | Total       | RWA                        | RWA Density<br>(ii) |
| Claims on Central Government and CBSL                             | 166,960,429                                                   | -                              | 166,960,429                   | -                              | 166,960,429 | 1,161,112                  | 0.70%               |
| Claims on Foreign Sovereigns and their Central Banks              | 9,670,956                                                     | -                              | 9,670,956                     | -                              | 9,670,956   | -                          | 0.00%               |
| Claims on Public Sector Entities                                  | 3,391,648                                                     | -                              | 3,391,648                     | -                              | 3,391,648   | 3,391,648                  | 100.00%             |
| Claims on Official Entities and<br>Multilateral Development Banks | -                                                             | -                              | -                             | -                              | -           | -                          | -                   |
| Claims on Banks Exposures                                         | 61,437,644                                                    | -                              | 61,437,644                    | -                              | 61,437,644  | 22,993,229                 | 37.43%              |
| Claims on Financial Institutions                                  | 14,816,411                                                    | 3,775,000                      | 14,816,411                    | 755,000                        | 15,571,411  | 7,844,760                  | 50.38%              |
| Claims on Corporates                                              | 212,715,460                                                   | 156,335,428                    | 202,038,012                   | 29,210,457                     | 231,248,468 | 220,407,921                | 95.31%              |
| Retail Claims                                                     | 171,225,860                                                   | 14,829,659                     | 137,065,335                   | 6,666,339                      | 143,731,674 | 84,041,880                 | 58.47%              |
| Claims Secured by Residential<br>Property                         | 17,130,821                                                    | -                              | 17,130,821                    | -                              | 17,130,821  | 7,581,556                  | 44.26%              |
| Claims Secured by Commercial<br>Real Estate                       | -                                                             | -                              | -                             | -                              | -           | -                          | 0.00%               |
| Non-Performing Assets (NPAs) (i)                                  | 22,550,005                                                    |                                | 22,550,005                    | -                              | 22,550,005  | 23,770,605                 | 105.41%             |
| Higher-Risk Categories                                            | -                                                             | -                              | -                             | -                              | -           | -                          | -                   |
| Cash Items and Other Assets                                       | 41,490,138                                                    | -                              | 41,490,138                    | -                              | 41,490,138  | 29,191,587                 | 70.36%              |
| Total                                                             | 721,389,372                                                   | 174,940,087                    | 676,551,399                   | 36,631,796                     | 713,183,194 | 400,384,298                | 56.14%              |

(i) As per applicable CBSL Directions

(ii) RWA Density- Total RWA/Exposures post CCF and CRM

#### Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

| Risk Weight                                                       |             | as at 31 December 2023 (Post CCF& CRM) |            |            |            | Amount (LKR'000) |             |           |                                     |
|-------------------------------------------------------------------|-------------|----------------------------------------|------------|------------|------------|------------------|-------------|-----------|-------------------------------------|
| Asset Classes                                                     | 0%          | 20%                                    | 35%        | 50%        | 60%        | 75%              | 100%        | 150%      | Credit<br>Exposures<br>>150% Amount |
| Claims on Central Government<br>and CBSL                          | 161,154,868 | 5,805,561                              | -          | -          | -          | Ē                | -           |           | 166,960,429                         |
| Claims on Foreign Sovereigns and their Central Banks              | 9,670,956   |                                        |            |            |            |                  |             |           | 9,670,956                           |
| Claims on Public Sector Entities                                  |             |                                        |            |            |            |                  | 3,391,648   |           | 3,391,648                           |
| Claims on Official Entities and<br>Multilateral Development Banks |             |                                        |            |            |            |                  |             |           | -                                   |
| Claims on Banks Exposures                                         |             | 37,422,675                             |            | 17,097,299 |            |                  | 6,832,921   | 84,749    | 61,437,644                          |
| Claims on Financial Institutions                                  |             |                                        |            | 15,453,301 |            |                  | 118,110     |           | 15,571,411                          |
| Claims on Corporates                                              |             | 3,292,922                              |            | 16,486,290 |            |                  | 211,395,390 | 73,866    | 231,248,468                         |
| Retail Claims                                                     |             |                                        |            |            | 10,847,083 | 94,379,760       | 5,473,435   |           | 110,700,278                         |
| Claims Secured by Gold                                            | 26,654,522  | 6,376,874                              |            |            |            |                  |             |           | 33,031,396                          |
| Claims Secured by Residential<br>Property                         |             |                                        | 14,691,176 |            |            |                  | 2,439,645   |           | 17,130,821                          |
| Non-Performing Assets                                             |             |                                        |            | 566,998    |            |                  | 18,974,808  | 3,008,199 | 22,550,005                          |
| Higher-Risk Categories                                            |             |                                        |            |            |            |                  |             |           | -                                   |
| Cash Items and Other Assets                                       | 12,298,551  |                                        |            |            |            |                  | 29,191,587  |           | 41,490,138                          |
| Total                                                             | 209,778,897 | 52,898,032                             | 14,691,176 | 49,603,888 | 10,847,083 | 94,379,760       | 277,817,544 | 3,166,814 | 713,183,194                         |

#### Operational Risk Under The Alternative Standardized Approach

| Business Lines                                          |                          |                 |             | as at 31 December 2023 Gross Income (LKR'000) |           |           |  |
|---------------------------------------------------------|--------------------------|-----------------|-------------|-----------------------------------------------|-----------|-----------|--|
|                                                         | Capital Charge<br>Factor | Fixed<br>Factor |             | 1st Year                                      | 2nd Year  | 3rd Year  |  |
| Trading and Sales                                       | 18%                      |                 |             | 294,847                                       | 2,012,892 | 6,194,145 |  |
| Payment and Settlement                                  | 18%                      |                 |             | 6,125,274                                     | 8,166,981 | 8,947,338 |  |
| Retail Banking                                          | 12%                      | 0.035           | 238,252,422 |                                               |           |           |  |
| Commercial Banking                                      | 15%                      | 0.035           | 360,158,193 |                                               |           |           |  |
| Capital Charges for Operational Risk<br>(LKR '000)      | 4,795,979                |                 |             |                                               |           |           |  |
| Risk-Weighted Amount for operational Risk<br>(LKR '000) | 38,367,835               |                 |             |                                               |           |           |  |

#### Market Risk

#### Market Risk under Standardized Measurement Method

|                                                             | RWA Amount (LKR'000)<br>as at 31st December 2023 |
|-------------------------------------------------------------|--------------------------------------------------|
| Capital Charge for Market Risk                              | 504,201                                          |
| (a) Capital Charge Interest Rate Risk                       | 119,861                                          |
| General Interest Rate Risk                                  | 119,861                                          |
| (i) Net Long or Short Position                              | 119,861                                          |
| (b) Capital Charge for Equity                               | 312,023                                          |
| (i) General Equity Risk                                     | 158,327                                          |
| (ii) Specific Equity Risk                                   | 153,696                                          |
| (c) Capital Charge for Foreign Exchange & Gold              | 72,317                                           |
| Total Risk Weighted Assets on Market Risk [(a)+(b)+(c)]*CAR | 4,033,608                                        |

144

### **RISKS AND OPPORTUNITIES**

#### **Computation of Leverage Ratio**

|                                                                                                                | Reporting Period<br>31.12.2023 | Previous<br>Reporting Period<br>31.12.2022 |
|----------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------------------|
| Tier 1 Capital                                                                                                 | 55,447,660                     | 49,920,169                                 |
| Total Exposures                                                                                                | 759,275,565                    | 688,763,290                                |
| On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral) | 721,389,372                    | 641,140,258                                |
| Derivative Exposures                                                                                           | 437,246                        | 1,282,614                                  |
| Securities Financing Transaction Exposures                                                                     | 817,150                        | 3,628,549                                  |
| Other Off-Balance Sheet Exposures                                                                              | 36,631,796                     | 42,711,868                                 |
| Basel III Leverage Ratio (%) (Tier 1/Total Exposure) (Minimum Requirement-3%)                                  | 7.30%                          | 7.25%                                      |

#### 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 that sufficient high quality liquid assets are available to survive a significant stress scenario lasting 30 calendar days.

|                                                                                                                                                                                             |                                |                     |                            |                                        |            | Amount (LKR '000)          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|---------------------|----------------------------|----------------------------------------|------------|----------------------------|
|                                                                                                                                                                                             | Repo                           | rting Period - 31.1 | 2.2023                     | Previous Reporting Period - 31.12.2022 |            |                            |
|                                                                                                                                                                                             | Total<br>Un- weighted<br>Value | Factor (%)          | Total<br>Weighted<br>Value | Total<br>Un- weighted<br>Value         | Factor (%) | Total<br>Weighted<br>Value |
| Total Stock of High-Quality Liquid<br>Assets (HQLA)                                                                                                                                         |                                | -                   | 174,012,142                |                                        |            | 110,443,939                |
| Total Adjusted Level 1A Assets                                                                                                                                                              | 161,568,029                    | 100%                | 161,568,029                | 104,920,453                            | 100%       | 104,920,453                |
| Total Adjusted Level 2A Assets                                                                                                                                                              | 14,329,118                     | 85%                 | 12,179,752                 | 6,255,243                              | 85%        | 5,316,957                  |
| Total Adjusted Level 2B Assets                                                                                                                                                              | 168,362                        | 50%                 | 84,181                     | 147,379                                | 50%        | 73,689                     |
| Total Cash Outflows                                                                                                                                                                         |                                |                     | 124,505,114                |                                        |            | 113,258,279                |
| Deposits                                                                                                                                                                                    | 438,412,337                    | 10%                 | 43,841,234                 | 413,448,212                            | 10%        | 41,344,821                 |
| Unsecured Wholesale Funding                                                                                                                                                                 | 132,933,478                    | 25% -100%           | 62,661,680                 | 117,367,882                            | 25% -100%  | 60,199,428                 |
| Undrawn Portion of Committed<br>(Irrevocable) Facilities and Other<br>Contingent Funding Obligations                                                                                        | 160,329,986                    | 0% -100%            | 9,885,507                  | 162,286,926                            | 0% -100%   | 7,767,676                  |
| Additional Requirements                                                                                                                                                                     | 8,116,694                      | 100%                | 8,116,694                  | 3,946,354                              | 100%       | 3,946,354                  |
| Total Cash Inflows                                                                                                                                                                          |                                |                     | 73,086,374                 |                                        |            | 50,182,738                 |
| Other Inflows by Counterparty which are<br>Maturing within 30 Days                                                                                                                          | 112,842,328                    | 50%-100%            | 72,109,665                 | 92,421,761                             | 50%-100%   | 48,772,625                 |
| Operational Deposits                                                                                                                                                                        | 36,032,439                     | 0%                  | -                          | 28,939,964                             | 0%         | -                          |
| Other Cash Inflows                                                                                                                                                                          | 1,879,815                      | 50% -100%           | 976,709                    | 2,312,148                              | 50% -100%  | 1,410,113                  |
| Liquidity Coverage Ratio (%) (Stock<br>of High Quality Liquid Assets/Total<br>Net Cash Outflows over the Next<br>30 Calendar Days)*100 -(Minimum<br>Requirement 2023 -100% /<br>2022 - 90%) |                                |                     | 338.42                     |                                        |            | 175.10                     |

#### Main Features of Regulatory Capital Instruments

| Description of the Capital<br>Instrument                                           | Ordinary Voting Shares                                                                                                                                                                                                                             | Ordinary Non- Voting<br>Shares                                                                                                                                                                                                                      | Debenture Isssue - 2018<br>(7 years & 10 years)                                                                                                                                                                                                                                                | Debenture Isssue -<br>2019 (5 years)                                                                                                                                                                                                                                                              | Debenture Isssue -<br>2021 (5 years)                                                                                                                                                                                                                                                              | Debenture Isssue -<br>2023 (5 years)                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| lssuer                                                                             | Seylan Bank PLC                                                                                                                                                                                                                                    | Seylan Bank PLC                                                                                                                                                                                                                                     | Seylan Bank PLC                                                                                                                                                                                                                                                                                | Seylan Bank PLC                                                                                                                                                                                                                                                                                   | Seylan Bank PLC                                                                                                                                                                                                                                                                                   | Seylan Bank PLC                                                                                                                                                                                                                                                                                                             |
| Unique Identifier (e., ISIN<br>or Bloombers Identifier for<br>Private Placement)   | LK0182N00002                                                                                                                                                                                                                                       | LK0182X00001                                                                                                                                                                                                                                        | LK0182D23963                                                                                                                                                                                                                                                                                   | LK0182D24219                                                                                                                                                                                                                                                                                      | LK0182D24722                                                                                                                                                                                                                                                                                      | LK0182D25133                                                                                                                                                                                                                                                                                                                |
|                                                                                    |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                     | LK0182D23971                                                                                                                                                                                                                                                                                   | LK0182D24227                                                                                                                                                                                                                                                                                      | LK0182D24730                                                                                                                                                                                                                                                                                      | LK0182D25125                                                                                                                                                                                                                                                                                                                |
| Governing Law (s) of the<br>Instrument                                             | Provisions of the<br>Banking Act, Rules<br>of the Colombo<br>Stock Exchange and<br>the Securities and<br>Exchange Commission<br>of Sn Lanka, Provisions<br>of the Companies Act<br>No. 7 of 2007 and the<br>Articles of Association<br>of the Bank | Provisions of the<br>Banking Act, Rules<br>of the Colombo<br>Stock Exchange and<br>the Securities and<br>Exchange Commission<br>of Sri Lanka, Provisions<br>of the Companies Act<br>No. 7 of 2007 and the<br>Articles of Association<br>of the Bank | Rules of the Colombo<br>Stock Exchange and the<br>Securities and Exchange<br>Commission of Sri<br>Lanka, Provisions of<br>the Companies Act No.<br>7 of 2007, the Articles<br>of Association of the<br>Bank, Prospectus of the<br>Debenture Issue and the<br>Trust Deed                        | Rules of the Colombo<br>Stock Exchange and the<br>Securities and Exchange<br>Commission of Sri<br>Lanka, Provisions of<br>the Companies Act No.<br>7 of 2007, the Articles<br>of Association of the<br>Bank, Prospectus of the<br>Debenture Issue and the<br>Trust Deed                           | Rules of the Colombo<br>Stock Exchange and the<br>Securities and Exchange<br>Commission of Sri<br>Lanka, Provisions of<br>the Companies Act No.<br>7 of 2007, the Articles<br>of Association of the<br>Bank, Prospectus of the<br>Debenture Issue and the<br>Trust Deed                           | Rules of the Colombo<br>Stock Exchange and the<br>Securities and Exchange<br>Commission of Sri<br>Lanka, Provisions of<br>the Companies Act No.<br>7 of 2007, the Articles<br>of Association of the<br>Bank, Prospectus of the<br>Debenture Issue and the<br>Trust Deed                                                     |
| Original Date of Issuance                                                          | April 1988                                                                                                                                                                                                                                         | September 2003                                                                                                                                                                                                                                      | 29th March 2018                                                                                                                                                                                                                                                                                | 18th April 2019                                                                                                                                                                                                                                                                                   | 12th April 2021                                                                                                                                                                                                                                                                                   | 02nd May 2023                                                                                                                                                                                                                                                                                                               |
| Par Value of Instrument                                                            | N/A                                                                                                                                                                                                                                                | N/A                                                                                                                                                                                                                                                 | LKR 100/- each                                                                                                                                                                                                                                                                                 | LKR 100/- each                                                                                                                                                                                                                                                                                    | LKR 100/- each                                                                                                                                                                                                                                                                                    | LKR 100/- each                                                                                                                                                                                                                                                                                                              |
| Prepetual or Dated                                                                 | N/A                                                                                                                                                                                                                                                | N/A                                                                                                                                                                                                                                                 | dated                                                                                                                                                                                                                                                                                          | dated                                                                                                                                                                                                                                                                                             | dated                                                                                                                                                                                                                                                                                             | dated                                                                                                                                                                                                                                                                                                                       |
| Driginal Maturity Date, If<br>Applicable                                           | N/A                                                                                                                                                                                                                                                | N/A                                                                                                                                                                                                                                                 | 29th March 2025 and<br>29th March 2028                                                                                                                                                                                                                                                         | 18th April 2024                                                                                                                                                                                                                                                                                   | 12th April 2026                                                                                                                                                                                                                                                                                   | 02nd May 2028                                                                                                                                                                                                                                                                                                               |
| Amount Recognized in<br>Regulatory Capital (in '000<br>as at the Reporting Date)   | 12,794,664                                                                                                                                                                                                                                         | 8,114,009                                                                                                                                                                                                                                           | 1,546,400                                                                                                                                                                                                                                                                                      | 250,000                                                                                                                                                                                                                                                                                           | 2,700,000                                                                                                                                                                                                                                                                                         | 4,500,000                                                                                                                                                                                                                                                                                                                   |
| Accounting Classification<br>(Equity /Liability)                                   | Equity                                                                                                                                                                                                                                             | Equity                                                                                                                                                                                                                                              | Liability                                                                                                                                                                                                                                                                                      | Liability                                                                                                                                                                                                                                                                                         | Liability                                                                                                                                                                                                                                                                                         | Liability                                                                                                                                                                                                                                                                                                                   |
| ssuer call subject to prior<br>Supervisory Approval                                |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                             |
| Optional Call Date,<br>Contingent Call Dates and<br>Redemption Amount (LKR<br>000) | N/A                                                                                                                                                                                                                                                | N/A                                                                                                                                                                                                                                                 | N/A                                                                                                                                                                                                                                                                                            | N/A                                                                                                                                                                                                                                                                                               | N/A                                                                                                                                                                                                                                                                                               | N/A                                                                                                                                                                                                                                                                                                                         |
| Subsequent Call Dates, If<br>Applicable                                            | N/A                                                                                                                                                                                                                                                | N/A                                                                                                                                                                                                                                                 | N/A                                                                                                                                                                                                                                                                                            | N/A                                                                                                                                                                                                                                                                                               | N/A                                                                                                                                                                                                                                                                                               | N/A                                                                                                                                                                                                                                                                                                                         |
| Coupons/Dividends                                                                  |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                             |
| Fixed or Floating Dividend /<br>Coupon                                             | Dividend as decided by the Board annually                                                                                                                                                                                                          | Dividend as decided by the Board annually                                                                                                                                                                                                           | Fixed interest rate                                                                                                                                                                                                                                                                            | Fixed interest rate                                                                                                                                                                                                                                                                               | Fixed interest rate                                                                                                                                                                                                                                                                               | Fixed interest rate                                                                                                                                                                                                                                                                                                         |
| Coupon Rate and any<br>Related Index                                               | As decided by the Board                                                                                                                                                                                                                            | As decided by the Board                                                                                                                                                                                                                             | Semi-Annual Interest -<br>13.20% (for 7 years),<br>Semi-Annual Interest -<br>13.50% p.a. (for 10 years)                                                                                                                                                                                        | Semi-Annual Interest<br>- 14.5% p.a., Annual<br>Interest - 15.0% p.a.                                                                                                                                                                                                                             | Annual Interest - 9.75%<br>p.a., Quarterly Interest -<br>9.25% p.a.                                                                                                                                                                                                                               | Annual Interest - 28.00%<br>p.a., Quarterly Interest -<br>25.00% p.a.                                                                                                                                                                                                                                                       |
| Non-Cumulative or<br>Cumulative                                                    | Non-cumulative                                                                                                                                                                                                                                     | Non-cumulative                                                                                                                                                                                                                                      | Non-cumulative                                                                                                                                                                                                                                                                                 | Non-cumulative                                                                                                                                                                                                                                                                                    | Non-cumulative                                                                                                                                                                                                                                                                                    | Non-cumulative                                                                                                                                                                                                                                                                                                              |
| Convertible or Non-<br>Convertible                                                 | Non-Convertible                                                                                                                                                                                                                                    | Non-Convertible                                                                                                                                                                                                                                     | Convertible                                                                                                                                                                                                                                                                                    | Convertible                                                                                                                                                                                                                                                                                       | Convertible                                                                                                                                                                                                                                                                                       | Convertible                                                                                                                                                                                                                                                                                                                 |
| f Convertible, Conversion<br>Trigger (s)                                           |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                     | Convertible in the event<br>of a 'Trigger Event" in<br>terms of the Banking Act<br>Direction No.1 of 2016                                                                                                                                                                                      | Convertible in the event<br>of a "Trigger Event" in<br>terms of the Banking Act<br>Direction No.1 of 2016                                                                                                                                                                                         | Convertible in the event<br>of a 'Trigger Event" in<br>terms of the Banking Act<br>Direction No.1 of 2016                                                                                                                                                                                         | Convertible in the event<br>of a "Trigger Event" in<br>terms of the Banking Act<br>Direction No.1 of 2016                                                                                                                                                                                                                   |
| f Convertible, Fully or<br>Partially                                               |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                     | when determined a<br>'Trigger Event' at the sole<br>discretion of the Monetary<br>Board of the Central Bank<br>of Sri Lanka                                                                                                                                                                    | when determined a<br>'Trigger Event' at the<br>sole discretion of the<br>Monetary Board of the<br>Central Bank of Sri<br>Lanka                                                                                                                                                                    | when determined a<br>'Trigger Event' at the<br>sole discretion of the<br>Monetary Board of the<br>Central Bank of Sri<br>Lanka                                                                                                                                                                    | when determined a<br>'Trigger Event' at the sole<br>discretion of the Monetar<br>Board of the Central Bank<br>of Sri Lanka                                                                                                                                                                                                  |
| f Convertible, Mandatory or<br>Optional                                            |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                     | Mandatory in the event of<br>a 'Trigger Event'                                                                                                                                                                                                                                                 | Mandatory in the event<br>of a 'Trigger Event'                                                                                                                                                                                                                                                    | Mandatory in the event<br>of a 'Trigger Event'                                                                                                                                                                                                                                                    | Mandatory in the event of<br>a 'Trigger Event'                                                                                                                                                                                                                                                                              |
| f Convertible, Conversion<br>Rate                                                  |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                     | Simple average of the daily<br>Volume Weighted Average<br>Price of an Ordinary Voting<br>Share of the Bank (as<br>published by the Colombo<br>Stock Exchange) during the<br>three (03) months period<br>immediately preceding<br>the Trigger Event, as<br>determined by the<br>Monetary Board. | Simple average of the<br>daily Volume Weighted<br>Average Price of an<br>Ordinary Volung Share of<br>the Bank (as published<br>by the Colombo Stock<br>Exchange) during the<br>three (03) months<br>period immediately<br>preceding the Trigger<br>Event, as determined by<br>the Monetary Board. | Simple average of the<br>daily Volume Weighted<br>Average Price of an<br>Ordinary Volung Share of<br>the Bank (as published<br>by the Colombo Stock<br>Exchange) during the<br>three (03) months<br>period immediately<br>preceding the Trigger<br>Event, as determined by<br>the Monetary Board. | Simple average of the<br>daily Volume Weighted<br>Average Price of an<br>Ordinary Voluting Share of<br>the Bank (as published<br>by the Colombo Stock<br>Exchange) during the<br>Exchange) during the<br>three (03) months period<br>immediately preceding<br>the Trigger Event, as<br>determined by the<br>Monetary Board. |

146

### **RISKS AND OPPORTUNITIES**

#### **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:

- Legal and Regulatory Compliance
- Anti-Money Laundering/ Financial Crime Compliance
- 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 the 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 an 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, allocated systems for efficient operations of business lines / banking activities and enhanced employee capabilities through training and development and recognition programmes to ensure better 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.

# Environmental and Social Risk (E & S Risk)

E & S Risks entail as a result of unmanaged E & S Risks if any prevalent in the corporate and SME entities or bodies to which the Bank has availed finance without carrying out proper environmental and social impact assessment and exercising appropriate E & S due diligence whereby such E & S risks may trigger impact to the bank by way of credit, collateral, reputational, legal and other related risks which can adversely impact earnings, quality of assets, capital position and brand equity. The Bank has developed an ESMS Policy and Procedures together with checklists amalgamated with the Credit Policy and other relevant policies of the Bank in line with the lending guidelines all of which are reviewed from time-to time as means of ensuring transparency, compliance and Environmental and Social Governance frameworks.

# REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

The Board of Directors of Seylan Bank PLC ('the Board' or 'the Directors') presents its Report on the State of Affairs of Seylan Bank PLC ('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 2023. This Report hereinafter will also be referred to as 'the Report' or 'Report of the Directors' or 'Report of the Board of Directors'.

This Report together with the Financial Statements (as aforementioned) which are published in the Annual Report of the Bank for the year ended 31 December 2023 (hereinafter referred to as 'the Annual Report') were reviewed and approved by the Board of Directors on 20 February 2024. A softcopy of this Annual Report of the Bank will be hosted/published on the website of the Bank, www.seylan.lk and also on the website of the Colombo Stock Exchange ('CSE'), www.cse.lk.

The disclosures in this Report conform to the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Directions issued by the Monetary Board under the Banking Act, the Listing Rules of the CSE and the recommended best practices on Corporate Governance.

In compliance with the requirements under Section 168 of the Companies Act No. 07 of 2007, information and disclosures in respect of the financial year ended 31 December 2023 have been published on the pages/sections of this Report and/or the pages/ sections of the Annual Report where relevant.

#### 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 under the provisions of the Companies Act No. 07 of 2007 on 30 May 2007 (Company Registration No. PQ 9). 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 CSE on 05 January 1989. The Bank's ordinary shares (both voting and non-voting) and its Unsecured, Subordinated, Redeemable Debentures issued in the years 2018, 2019, 2021 and 2023 were listed in the CSE.

Fitch downgraded the Bank's National Long-Term Rating on 12 January 2023 to A-(lka), from A(lka), following the national scale recalibration and maintained the rating on RWN (Rating Watch Negative). Later in October 2023, Fitch has affirmed the National Long-Term Ratings of the Bank and removed RWN and assigned Stable Outlook. The rating of the outstanding Sri Lankan Rupee denominated Basel III Subordinated Debt of the Bank is BBB(lka).

#### 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 principal activities 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 recognized 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 recognized 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 CSE. The principal activities of SDP are property development and management. The Bank held a 70.51% stake in SDP as at 31 December 2023. Please refer Section 29 of this Report for information on the Board of Directors of SDP.

The Bank received a dividend of LKR 125,198,534.40 paid by the subsidiary during the year under review.

#### **5. BRANCH NETWORK**

As at 31 December 2023, the Bank's branch network comprised 171 banking centres and 100 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 2023 AND FUTURE DEVELOPMENT PLANS

The Chairman's Message, the Chief Executive Officer's Review and the reports that are published in this Annual Report provide an overall assessment and review of the operations and financial performance of the Bank during the year 2023 aligned to the information in the audited financial statements of the Bank for the year ended 31 December 2023. They also about the Bank's future development plans. Such development proposals have been laid out in the Bank's Strategic Plan for 2021 to 2023, which was later extended up to 2024 and approved by the Board. Implementation of the Strategic Plan was being monitored by the Board Strategic Plan Committee.

### REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

#### 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 vear ended 31 December 2023 were certified by the Chief Financial Officer and the Director/Chief Executive Officer and signed by two Directors in terms of Section 151, 152 and 168(1)(b) of the Companies

Act No. 07 of 2007 ('Companies Act'). They are published in this Annual Report and form an integral part of this Report. Some of the salient financial information have been disclosed under the relevant headings in 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. 07 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 CSE.

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 2023 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 2023 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:

2022

|                                         | Bank<br>LKR' 000 | Group<br>LKR' 000 | Bank<br>LKR' 000 | Group<br>LKR' 000 |
|-----------------------------------------|------------------|-------------------|------------------|-------------------|
| Gross Income                            | 116,773,303      | 116,835,833       | 96,817,975       | 96,834,024        |
| Operating Income                        | 49,477,021       | 49,845,047        | 51,056,208       | 51,378,952        |
| Profit before Income Tax                | 10,080,086       | 10,269,451        | 6,628,860        | 6,796,658         |
| Less : Income Tax                       | 3,823,872        | 3,868,829         | 1,916,597        | 2,218,888         |
| Profit after Income Tax                 | 6,256,214        | 6,400,622         | 4,712,263        | 4,577,770         |
| Other Comprehensive Income net of Tax   | (26,598)         | 56,454            | (2,724,398)      | (2,746,463)       |
| Total Comprehensive Income for the year | 6,229,616        | 6,457,076         | 1,987,865        | 1,831,307         |

2023

#### **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.

|                                                     | Bank             |                  | Group            |                  |  |
|-----------------------------------------------------|------------------|------------------|------------------|------------------|--|
|                                                     | 2023<br>LKR '000 | 2022<br>LKR '000 | 2023<br>LKR '000 | 2022<br>LKR '000 |  |
| Property, Plant and Equipment and Intangible Assets | 966,121          | 295,579          | 969,165          | 299,762          |  |
| Net book value of freehold properties               | 2,213,635        | 2,233,294        | 4,927,146        | 4,864,651        |  |

All freehold land and buildings of the Bank were valued in 2021 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 30.4 to the Financial Statements.

Capital Expenditure approved and contracted for after the year ended 31 December 2023 is given in Note 50 to the Financial Statements.

#### 13. DONATIONS

During the year, the Bank made donations amounting to LKR 5,560,000.00 (Donations made in 2022 amounted to LKR 573,800.00).

#### 14. DIVIDEND AND SOLVENCY **CERTIFICATION**

The Directors have recommended a First and Final Ordinary Dividend of LKR 2.50 per share (both ordinary voting and ordinary non-voting) for the year ended 31 December 2023. The dividend of LKR 2.50 per share

will consist of LKR 1.00 per share in the form of cash dividend and LKR 1.50 per share 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 28 March 2024. Please refer the 'Circular to Shareholders' for further details.

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. 07 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 in the form of a scrip dividend in respect of the financial year ended 31 December 2022.

#### 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:

| Ba            | nk            | Gro          | pup          |
|---------------|---------------|--------------|--------------|
| 2023 LKR '000 | 2022 LKR '000 | 2023 LKR'000 | 2022 LKR'000 |
| 39,597,908    | 34,523,845    | 41,473,133   | 36,275,608   |

#### **16. STATED CAPITAL**

The Stated Capital of the Bank as at 31 December 2023 was LKR 20,908,672,750.61 (Stated Capital as at 31 December 2022 was LKR 19,926,453,430.01).

The number of shares issued by the Bank during the year increased due to the issue of scrip dividends (which resulted in the increase in the Stated Capital) were as follows:

| As at 31 December          | 2023        | 2022        | 2023         | 2022        |
|----------------------------|-------------|-------------|--------------|-------------|
| Class of Shares            | Number      | of Shares   | Number of Sh | nareholders |
| Ordinary voting shares     | 296,716,366 | 282,704,760 | 10,175       | 10,078      |
| Ordinary non-voting shares | 318,732,692 | 295,071,313 | 7,131        | 7,309       |

#### **17. INVESTOR INFORMATION**

Information including earnings, profitability, dividend, net assets and market value per share is given in the Financial Highlights page in the Annual Report. Information pertaining to share prices and debenture prices is given on pages 276 to 279 in the Annual Report.

#### 17.1 Minimum Public Holding Requirement (Voting & Non-Voting)

The Bank was compliant with Section 7.13.1 of the Listing Rules of the CSE in respect of the above as at 31 December 2023 as described below.

| Criteria                             | 31 Decem          | nber 2023         |
|--------------------------------------|-------------------|-------------------|
|                                      | Voting            | Non-Voting        |
| Float adjusted market capitalization | LKR 7,147 Million | LKR 5,370 Million |
| Public Holding Percentage            | 54.87%            | 47.46%            |
| Number of public shareholders        | 10,154            | 7,125             |
| 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 per the requirement of the Listing Rules of the CSE have been published under Investor Information section of this Annual Report.

#### **18. DEBENTURES**

#### 18.1 Debentures in Issue

| Value of Debentures as at 01 January 2023        | LKR 20,506,280,000.00 |
|--------------------------------------------------|-----------------------|
| Allotment of new Debentures during 2023          | LKR 5,000,000,000.00  |
| Redemption of Debentures during 2023             | LKR 7,182,280,000.00  |
| Total value of Debentures as at 31 December 2023 | LKR 18,324,000,000.00 |

Further information on the debentures issued are provided under Investor Information section of this Annual Report.

#### 18.2 Debenture Issue in 2023

The Board of Directors of the Bank declared the issuance of a maximum of One Hundred and Twenty Million (120,000,000) BASEL III compliant, Tier II, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non-Viability Conversion of Rupees One Hundred (LKR 100.00) each, to raise a maximum sum of Rupees Twelve Billion (LKR 12,000,000,000.00) in one or more issuances until 31 December 2023 and obtained the approval of the Shareholders therefore at an Extraordinary General Meeting held on 14 March 2023.

Based on approvals received, Fifty Million (50,000,000) BASEL III compliant, Tier II, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non-Viability Conversion of Rupees One Hundred (LKR 100.00) each, were allotted to Qualified Investors on 02 May 2023, following the basis of Preferential Allotments, maximum up to 75% of said Fifty Million (50,000,000) Debentures in accordance with the provisions of the Prospectus issued. Said Debentures were listed on 12 May 2023.

#### 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 forums adopted 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. Shareholder Communication Policy as adopted by the Board is published on its corporate website, the objective of which is to enhance long term shareholder value through regular communication with shareholders.

### REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

#### **20. DIRECTORATE**

# 20.1 Directors who held office as at 31 December 2023

| Name of Director       | Status of<br>Directorship                                                                         |
|------------------------|---------------------------------------------------------------------------------------------------|
| Mr W M R S Dias        | Non-Executive<br>Director/Chairman                                                                |
| Mr Ramesh              | Director/Chief                                                                                    |
| Jayasekara             | Executive Officer                                                                                 |
| Mr S Viran Corea       | Non-Executive<br>Director                                                                         |
| Ms Sandya K<br>Salgado | Independent, Non-<br>Executive Director/<br>Senior Director<br>('Senior Independent<br>Director') |
| Mr D M D Krishan       | Non-Executive                                                                                     |
| Thilakaratne           | Director                                                                                          |
| Mr D M Rupasinghe      | Independent, Non-<br>Executive Director                                                           |
| Mr L H A Lakshman      | Independent, Non-                                                                                 |
| Silva                  | Executive Director                                                                                |
| Ms V G S Sunjeevani    | Non-Executive                                                                                     |
| Kotakadeniya           | Director                                                                                          |
| Ms Averil A            | Independent, Non-                                                                                 |
| Ludowyke               | Executive Director                                                                                |

The profiles of the Board of Directors as at the date of this Report including their membership/s in Board Subcommittees are given on pages 80 to 83 of the Annual Report.

None of the Directors on the Board exceeded 70 years of age, during the period under review and until this report is published.

#### 20.2 Change of Directorate

- Retirement of Mr Kapila Ariyaratne, former Director/Chief Executive Officer on 30 April 2023.
- Appointment of Mr Ramesh Jayasekara as the Director/Chief Executive Officer w.e.f. 01 May 2023. Mr Ramesh Jayasekara is a Non-Independent/Executive Director on the Board.
- Resignation of Independent, Non-Executive Director/ Senior Director, Mr
   A S Wijesinha from the Board w.e.f
   21 September 2023.
- Demise of Mr D R Abeysuriya, Independent, Non-Executive Director on 25 October 2023.
- Appointment of Ms Sandya K Salgado,

Independent, Non-Executive Director as the Senior Independent Director w.e.f. 06 November 2023.

#### 20.3 Declarations by Directors – Independent/Non-independent Status and Declaration of Relevant Relationships

All Independent Directors have submitted signed declarations confirming their independent status in compliance with Rule 9.8.5 (a) of the CSE Rules on Corporate Governance (revised in October 2023). All Non-Executive Directors have submitted their declarations in terms of Section 3(2) (iv) of the Banking Act Direction No.11 of 2007. Director/CEO submitted declaration in terms of Section 3(5)(iii) 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 2023 were submitted to the Director, Bank Supervision, Central Bank of Sri Lanka. The Central Bank approved the continuation of office of those Directors.

Affidavits in terms of applicable Guidelines issued by the Securities and Exchange Commission of Sri Lanka on Fitness and Propriety, are obtained from the Directors, as and when required.

In addition, declarations in relation to the assessment of fitness and propriety of Directors as set out under Section 9.7.4 of the Listing Rules of the CSE (revised) were obtained from all Directors and having reviewed the same the Board noted that those Directors were fit and proper persons to hold said positions.

### 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 2023 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.

#### 20.6 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. As a progressive governance step, Evaluation of Performance of the Chairman of the Board, was initiated.

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.

#### 21. RE-ELECTION/ELECTION OF DIRECTORS

In terms of Article 82 of the Articles of Association, Non-Executive Director, Mr D M D Krishan Thilakaratne and Independent Non-Executive Director/Senior Independent Director, Ms Sandya K Salgado retire by rotation at the forthcoming Annual General Meeting ('AGM') of the Bank and offer themselves for re-election. The Board Nomination Committee and the Board having evaluated and satisfied that said Directors were fit and proper persons for reelection, recommended the said re-election for shareholder approval.

# 22. MEETINGS OF THE BOARD OF DIRECTORS

Twelve regular monthly meetings and four special meetings of the Board of Directors were held during the year. The special meetings were held primarily to review and approve quarterly financial statements of the Bank before the release of the same to the CSE and the public, in addition to any important and urgent issues that were dealt thereat, which included the appointment of Senior Independent Director of the Bank.

A schedule of Directors' attendance at Board meetings and a schedule of Directors' attendance at Board Subcommittee meetings have been disclosed in the Corporate Governance Report published in this 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. 07 of 2007. 151

The Directors submitted their declarations to the Board through the Company Secretary disclosing their interests from time to time in accordance with Section 192(2) of the Companies Act No. 07 of 2007 for purposes of identification of their interest in contracts/ transactions that the Bank enters into. 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 authorized representatives as required under Section 119(1) (d) of the Companies Act No.07 of 2007.

Where relevant, in Board and Board Subcommittee meetings which dealt with matters concerning related party interest or directorship interest, respective Directors abstained and did not vote on such matters.

The Bank maintained a Register of Directors and Secretaries as required under Section 223(1) of the Companies Act during the period of review.

#### 24. DIRECTORS' INTEREST IN SHARES AND DEBENTURES OF THE BANK

Directors' holdings in Shares and Debentures of the Bank as at 31 December 2023 and the comparative figures of the previous year are given below:

| Name of Director                 | 31.12.2023     | 31.12.2022        | Shares /Debentures                                   |
|----------------------------------|----------------|-------------------|------------------------------------------------------|
| Mr W M R S Dias                  | Nil<br>100,000 | 50,000<br>100,000 | Debenture Issue 2018<br>Debenture Issue 2021         |
| Mr Ramesh Jayasekara             | 708<br>33,931  | *N/A<br>*N/A      | Ordinary Voting shares<br>Ordinary Non-voting shares |
| Mr S Viran Corea                 | 113            | 108               | Ordinary Voting Shares                               |
| Ms Sandya K Salgado              | Nil            | Nil               |                                                      |
| Mr D M D Krishan Thilakaratne    | Nil            | Nil               |                                                      |
| Mr D M Rupasinghe                | Nil            | Nil               |                                                      |
| Mr L H A Lakshman Silva          | 50,000         | 50,000            | Debenture Issue 2021                                 |
| Ms V G S Sunjeevani Kotakadeniya | Nil            | Nil               |                                                      |
| Ms Averil A Ludowyke             | Nil            | Nil               |                                                      |

\*Was not a Board Member as at 31 December 2022

#### Percentage Shareholdings of Directors:

| Type of shares             | % as at 31.12.2023 | % as at 31.12.2022 |
|----------------------------|--------------------|--------------------|
| Ordinary voting shares     | 0.0002%            | 0.025%             |
| Ordinary non-voting shares | 0.0106%            | 0.08%              |

There were no changes to the above information on Directors' interest in Shares and Debentures from 01 January 2024 and until the date of this Report of the Board of Directors.

#### 25. DIRECTORS' REMUNERATION

Details of Directors' emoluments paid in respect of the Bank and the Group for the year 2023 are given as a note to the Financial Statements in the Annual Report.

#### 26. INSURANCE AND INDEMNITY

As authorized 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 2023/2024.

#### 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 specified in the respective Terms of Reference. The following Board Subcommittees were functional as at 31 December 2023. The respective scope, objective and composition of these Subcommittees have been provided in the Corporate Governance Report published in the Annual Report.

- 1) Board Audit Committee
- 2) Board Human Resources and Remuneration Committee
- 3) Board Nomination Committee
- 4) Board Integrated Risk Management Committee
- 5) Related Party Transactions Review Committee
- 6) Board Credit Committee
- 7) Board Marketing and Product Development Committee
- 8) Board Sustainability Committee
- 9) Board Governance and Compliance Committee
- 10) Board Strategic Plan Committee
- 11) Board Information Technology Committee
- Board Procurement and Capital Expenditure Supervisory Committee (\*Regulatory Committee established in terms of Banking Act Direction No. 01 of 2023 dated 02 February 2023)

\* The Bank had a separate Board Governance and Compliance Committee in addition to the Board Nomination Committee and both were in existence as at 01 October 2023 when the revised Listing Rules of the CSE came into effect. The Bank decided to continue with both Committees in compliance with the Corporate Governance requirements of the CSE, having considered their respective functional scopes that are recognized in terms of respective Terms of Reference of the Committees.

### REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

#### 28. RELATED PARTY TRANSACTIONS

During the year, the Bank did not carry out any recurrent or non-recurrent related party transaction which required disclosure and/ or shareholder approval as described in sections 9.14.7 and 9.14.8 of the revised CSE Rules (and as stated in section 9 of the previous CSE Rules which were effective before the revised CSE Rules came into effect).

### 29. DIRECTORATE OF THE SUBSIDIARY, SEYLAN DEVELOPMENTS PLC

The Board of the Bank's Subsidiary, Seylan Developments PLC comprised the following as at 31 December 2023, all of whom continued to be on the Board of the Subsidiary as at the date of this Report:

- Mr Ramesh Jayasekara Chairman
- Mr Somadasa Palihawadana Deputy Chairman / Independent, Non-Executive Director
- Mr Piyal Hennayake Independent, Non-Executive Director
- Mr Sunil De Silva Senior Independent, Non-Executive Director
- Ms Champika Dodanwela Non-Executive Director

(Mr Ramesh Jayasekara who had been a Non-Executive Director of the Bank's subsidiary, was appointed as the Chairman of its Board with effect from 01 May 2023. Ms Champika Dodanwela who is the Chief Financial Officer of the Bank was appointed as a Non-Executive Director with effect from 01 May 2023).

#### **30. HUMAN RESOURCES**

During the first quarter of the year 2023, the Board Human Resources and Remuneration Committee ('BHRRC') and the management in consultation with the Board of Directors effectively implemented the Board approved Succession Plan on the appointment of the new Director /Chief Executive Officer of the Bank. During the transition period, BHRRC closely worked with the newly appointed Chief Executive Officer to assist in taking over the overall management of the Bank, ensuring no interruptions to the banking operation and effective execution of the business/operational strategies.

The management was guided to focus on the projects, and initiatives captured in the

Human Resources Strategic Plan and to implement them in expanding the human resources value proposition and improving the operational excellence. More importantly, leadership development was prioritized and initiatives were rolled out in strengthening the talent pools objectively, thus ensuring the requirements of the organizational structure are fulfilled in order to address a new set of challenges in banking products, services and the market conditions.

In guiding the Human Resources Management pillar of the Bank, the BHRRC constantly monitored the progress of the collective bargaining process with the Staff Unions and ensured successful conclusion in extending rewards and benefits to staff members effective January 2024. The other key initiatives that were adding value during the year were restructuring of Employment Benefits, Competency Development, Learning Culture, Employee Engagement, Talent acquisition and Employee Retention.

#### **31. CORPORATE GOVERNANCE**

The year 2023 too continued to be a challenging year for the Bank as much as for the industry and other businesses due to the macroeconomic conditions which prevailed in the country. The Board of Directors played an active role in ensuring that the interests of its various stakeholders, namely 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 applicable regulatory directions, rules and 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 ensured the implementation of a sound Risk Management Framework by means of an ongoing process to identify, evaluate and manage the risks that are 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 recognizes that upholding of a robust and effective Internal Control Framework is indispensable due to the resultant positive impact on the Bank's performance and good governance. Internal control 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 organizational structures; policies; effectively designed, documented and periodically reviewed business processes with inbuilt control mechanisms, instructions and guidelines and duly approved delegated authority levels. An effective Internal Control Framework 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 Annual Report and have been consistently reviewed. The Directors' Statement on Internal Control over Financial Reporting is given on pages 157-158 of this Annual Report.

# 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 various laws and regulations and their confirmations were reported to the Board on a monthly basis by the Compliance Officer during the year.

#### **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. 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.

#### **36. 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.

### 37. 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 51 to the Financial Statements.

#### **38. GOING CONCERN**

The Directors having made appropriate enquiries on the business plans, review of corporate strategy and budget for the ensuing year, stable regulatory and profitability ratios, future prospects and cash flows, potential implications of uncertainties associated with the prevailing economic conditions and any other matters which are required to be addressed in terms of applicable Corporate Governance regulations and standards is of the view that the Bank and its subsidiary have adequate resources to continue their operations in the foreseeable future, hence financial statements of the Bank and the subsidiary are prepared based on going concern basis.

#### **39. AUDITORS**

The Bank's Auditors during the period under review were M/s KPMG, Chartered Accountants. 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 authorize the Directors to fix their remuneration will be proposed at the Annual General Meeting.

#### **40. 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 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.

# 41. NOTICE OF ANNUAL GENERAL MEETING

Notice of Meeting relating to the Thirty Seventh (37th) Annual General Meeting of the Bank scheduled to be held on Thursday, 28 March 2024 at 11.00 a.m. at 'Samudra Ballroom', Taj Samudra Hotel, No 25, Galle Face Centre Road, Colombo 03, together with the relevant circulars/forms will be dispatched to the shareholders which will be uploaded on the websites of the CSE (www.cse.lk) and that of the Bank (www. seylan.lk) together with the Annual Report of the Bank. Hard copies of the Annual Report will be issued by the Company Secretary to any securities holder 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 20 day of February 2024.

W M R S Dias Chairman

Ramesh Jayasekara Director/Chief Executive Officer



(Ms) Saraswathie Poulraj 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 2023

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 52 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 2023 are disclosed below.

#### Mr W M R S Dias (Non-Executive Director/Chairman)

| Ent  | ity                                          | Directorships<br>(Executive/Non- Executive status) | Substantial Shareholding % (if any) |
|------|----------------------------------------------|----------------------------------------------------|-------------------------------------|
| List | ed Entities                                  |                                                    |                                     |
| 1.   | Carson Cumberbatch PLC                       | Independent Non-Executive Director                 | -                                   |
| 2.   | Tokyo Cement Co (Lanka) PLC                  | Independent Non-Executive Director                 | -                                   |
| Unl  | isted Entities                               |                                                    |                                     |
| 3.   | Ceylon Tea Marketing (Pvt) Ltd               | Independent Non-Executive Chairman                 | -                                   |
| 4.   | Superfine Teas (Pvt) Ltd                     | Non-Executive Chairman                             | -                                   |
| 5.   | Jay-Cey-Tea (Pvt) Ltd                        | Non-Executive Chairman                             | -                                   |
| 6.   | Tokyo Super Cement Company Lanka (Pvt) Ltd   | Non-Executive Director                             | -                                   |
| 7.   | Tokyo Cement Power Lanka (Pvt) Ltd           | Non-Executive Director                             | -                                   |
| 8.   | Tokyo Eastern Cement Company (Pvt) Ltd       | Non-Executive Director                             | -                                   |
| 9.   | Tokyo Supermix (Pvt) Ltd                     | Non-Executive Director                             | -                                   |
| 10.  | United States-Sri Lanka Fulbright Commission | Director                                           | -                                   |

#### Mr Ramesh Jayasekara (Director/Chief Executive Officer)

| Enti | ty                                  | Directorships<br>(Executive/ Non-Executive status) | Substantial Shareholding % (if any) |
|------|-------------------------------------|----------------------------------------------------|-------------------------------------|
| List | ed Entities                         |                                                    |                                     |
| 1.   | Seylan Developments PLC             | Non-Executive Chairman                             | -                                   |
| Unli | sted Entities                       |                                                    |                                     |
| 2.   | Esots (Pvt) Ltd                     | Non-Executive Chairman                             | -                                   |
| 3.   | Sesot (Pvt) Ltd                     | Non-Executive Chairman                             | -                                   |
| 4.   | Seyshop (Pvt) Ltd                   | Non-Executive Chairman                             | -                                   |
| 5.   | Seybest (Pvt) Ltd                   | Non-Executive Chairman                             | -                                   |
| 6.   | Seyfest (Pvt) Ltd                   | Non-Executive Chairman                             | -                                   |
| 7.   | Sotse (Pvt) Ltd                     | Non-Executive Chairman                             | -                                   |
| 8.   | Lanka Financial Services Bureau Ltd | Non-Executive Director                             | -                                   |
| 9.   | LankaPay (Pvt) Ltd                  | Non-Executive Director                             | -                                   |
| 10.  | Sri Lanka Banks' Association        | Director                                           | -                                   |

#### Ms Sandya K Salgado (Independent Director/ Senior Independent Director)

| Entity                            | Directorships<br>(Executive/Non- Executive status) | Substantial Shareholding % (if any) |
|-----------------------------------|----------------------------------------------------|-------------------------------------|
| Unlisted Entities                 |                                                    |                                     |
| 1. WAD International (Pvt) Ltd    | Non-Executive Director                             | 25% (indirect)                      |
| 2. Film Island (Pvt) Ltd          | Non-Executive Director                             | 55%                                 |
| 3. Jigsaw International (Pvt) Ltd | Executive Director                                 | 50%                                 |
| 4. Carnival Movies Lanka Ltd      | Executive Director                                 | -                                   |
| 5. The Drug Shop                  | Partner                                            | 50% partnership                     |

#### Mr D M D Krishan Thilakaratne (Non-Executive Director)

| Listed Entities         1. LOLC Finance PLC       Director/CEO       -         2. Commercial Factors PLC       Non-Executive Director       -         Unlisted Entities       -       -         3. Commercial Insurance Brokers (Pvt) Ltd       Non-Executive Director       -         4. LOLC Myanmar Micro Finance Company Limited       Non-Executive Director       - | Entity                                          | Directorships<br>(Executive/Non- Executive status) | Substantial Shareholding % (if any) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------|-------------------------------------|
| 2. Commercial Factors PLC     Non-Executive Director     -       Unlisted Entities     -       3. Commercial Insurance Brokers (Pvt) Ltd     Non-Executive Director     -                                                                                                                                                                                                 | Listed Entities                                 |                                                    |                                     |
| Unlisted Entities                                                                                                                                                                                                                                                                                                                                                         | 1. LOLC Finance PLC                             | Director/CE0                                       | -                                   |
| 3. Commercial Insurance Brokers (Pvt) Ltd Non-Executive Director -                                                                                                                                                                                                                                                                                                        | 2. Commercial Factors PLC                       | Non-Executive Director                             | -                                   |
|                                                                                                                                                                                                                                                                                                                                                                           | Unlisted Entities                               |                                                    |                                     |
| 4. LOLC Myanmar Micro Finance Company Limited Non-Executive Director -                                                                                                                                                                                                                                                                                                    | 3. Commercial Insurance Brokers (Pvt) Ltd       | Non-Executive Director                             | -                                   |
|                                                                                                                                                                                                                                                                                                                                                                           | 4. LOLC Myanmar Micro Finance Company Limited   | Non-Executive Director                             | -                                   |
| 5. Fazo S Micro Deposit Organization-Tajikistan Non-Executive Director -                                                                                                                                                                                                                                                                                                  | 5. Fazo S Micro Deposit Organization-Tajikistan | Non-Executive Director                             | -                                   |
| 6. OJSC Micro finance Company "ABN" Kyrgyzstan Non-Executive Director -                                                                                                                                                                                                                                                                                                   | 6. OJSC Micro finance Company "ABN" Kyrgyzstan  | Non-Executive Director                             | -                                   |

#### Mr L H A Lakshman Silva (Independent Director)

| Directorships<br>(Executive/Non- Executive status) | Substantial Shareholding % (if any) |
|----------------------------------------------------|-------------------------------------|
|                                                    |                                     |
| Independent Non - Executive Chairman               | -                                   |
|                                                    |                                     |
| Non - Executive Chairman                           | -                                   |
| Non-Executive Chairman                             | -                                   |
| Non-Executive Chairman                             | -                                   |
| Non-Executive Chairman                             | -                                   |
| Non-Executive Chairman                             | -                                   |
| Non-Executive Chairman                             | -                                   |
| Independent Director                               | -                                   |
|                                                    | (Executive/Non- Executive status)   |

# ANNEXURE TO THE REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

#### Ms V G S Sunjeevani Kotakadeniya (Non-Executive Director)

| Entity                                                                                                          | Directorships<br>(Executive/Non- Executive status) | Substantial Shareholding % (if any) |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------------------------------|
| Listed Entities                                                                                                 |                                                    |                                     |
| 1. LOLC General Insurance PLC                                                                                   | Non-Executive Director                             | -                                   |
| 2. Serendib Microinsurance PLC - Cambodia                                                                       | Non-Executive Director                             | -                                   |
| 3. Sierra Cables PLC                                                                                            | Non-Executive Director                             | -                                   |
| 4. Udapussellawa Plantations PLC                                                                                | Non-Executive Director                             | -                                   |
| 5. Hapugastenna Plantations PLC                                                                                 | Non-Executive Director                             | -                                   |
| 6. Agstar PLC                                                                                                   | Non-Executive Director                             | -                                   |
| Unlisted Entities                                                                                               |                                                    |                                     |
| 7. Browns Hotels & Resorts Ltd                                                                                  | Non-Executive Director                             | -                                   |
| 3. NPH Investment (Pvt) Ltd , Maldives                                                                          | Non-Executive Director                             | -                                   |
| 9. Browns Metal & Sands (Pvt) Ltd                                                                               | Non-Executive Director                             | -                                   |
| 10. Browns Engineering & Construction (Pvt) Ltd                                                                 | Non-Executive Director                             | -                                   |
| 11. BI Commodities and Logistics (Pvt) Ltd                                                                      | Non-Executive Director                             | -                                   |
| 12. Gurind Accor (Pvt) Ltd                                                                                      | Non-Executive Director                             | -                                   |
| 13. Samudra Beach Resorts (Pvt) Ltd                                                                             | Non-Executive Director                             | -                                   |
| 14. Iconic Trust (Pvt) Ltd                                                                                      | Non-Executive Director                             | -                                   |
| 15. Tropical Island Commodities (Pvt) Ltd                                                                       | Non-Executive Director                             | -                                   |
| <ol> <li>LOLC Microfinance Bank Ltd (formerly known as Pak<br/>Oman Microfinance Bank Ltd, Pakistan)</li> </ol> | Non-Executive Director                             | -                                   |
| 17. LOLC Life Insurance Limited, Zambia                                                                         | Non-Executive Director                             | -                                   |
| 8. Maturata Plantations Ltd                                                                                     | Executive Director                                 | -                                   |

#### Ms Averil A Ludowyke (Independent Director)

| Entity                      | Directorships<br>(Executive/Non- Executive status) | Substantial Shareholding % (if any) |
|-----------------------------|----------------------------------------------------|-------------------------------------|
| Listed Entities             |                                                    |                                     |
| Bogala Graphite PLC         | Independent Non-Executive Director                 | -                                   |
| Unlisted Entities           |                                                    |                                     |
| Ceylinco Life Insurance Ltd | Independent Non-Executive Director                 | -                                   |

Non-Executive Director, Mr S V Corea and Independent Director, Mr D M Rupasinghe did not hold any directorships or substantial shareholdings in other entities as at 31 December 2023.

# DIRECTORS' STATEMENT ON INTERNAL CONTROLS

#### 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 implementation of its policies and procedures on risk and controls 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 the relevant accounting principles and regulatory requirements.

#### 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 Board Sub 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 (BAC) 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 BAC meetings are tabled at Board meetings of the Bank on a periodic basis. Activities undertaken by the BAC are set out in the Audit Committee Report on pages 116-117.
- The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal risk areas of the Bank. Executive Risk Management Committees assist the Board through BIRMC on implementation of policies approved by the Board.
- Management/ operational committees have also been established with an appropriate level of empowerment to ensure effective management and supervision of the core areas of the Bank's business operations.
- 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 based on a risk based annual planning mechanism. Frequency and the scope of audits are determined by the level of risk assessed. The key objective 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.
- The existing models were further refined this year to validate the appropriateness of the underlying assumptions, incorporate the potential implications of the macroeconomic conditions prevailing in the country through post model adjustments, based on stress testing the exposures to risk elevated sectors and adjustments made to economic factors. Considering the complexity involved in the computation of ECL from Loans and Advances, the Bank will continue to strengthen the process with system-supported procedures in order to minimize the manual intervention.
- 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

### **DIRECTORS' STATEMENT ON** INTERNAL CONTROLS

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 based on a risk based approach.

Recommendations made by the External Auditors with regard to the internal control system in the financial year ended 31st December 2022 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 31st December 2023 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 31st December 2023 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 159 of this Annual Report.

By order of the Board of Directors of Seylan Bank PLC

W M R S Dias Chairman

Ramesh Jayasekara Director/ Chief Executive Officer

douple

(Ms) Averil Ludowyke Chairperson-Board Audit Committee

20 February 2024 Colombo

# INDEPENDENT ASSURANCE REPORT

159

Assurance Engagements SLSAE 3050

(revised). Assurance Report for Banks on

Directors' Statement on Internal Control,

This standard requires that we plan and

assurance about whether Management

has prepared, in all material respects, the

For purposes of this engagement, we are

not responsible for updating or reissuing

any reports, nor have we, in the course of

this engagement, performed and audit or

Our engagement has been conducted to

supported by the documentation prepared by or for the Directors and appropriately

adopted in reviewing the system of internal

evidence has been obtained by performing

Enquired the Directors to obtain an

understanding of the process defined by the Board of Directors for their

review of the design and effectiveness

of internal control and compared their

understanding to the Statement made

Reviewed the documentation prepared

by the Directors to support their

Related the Statement made by the

Bank obtained during the audit of the

Reviewed the minutes of the meetings

Committee at which the annual report,

Control is considered and approved for submission to the Board of Directors.

including the Statement on Internal

of the Board of Directors and of

Attended meetings of the Audit

relevant Board Committees.

Directors to our knowledge of the

Statement made.

financial statements.

by the Directors in the annual report.

assess whether the Statement is both

reflects the process the Directors have

To achieve this objective, appropriate

control for the Bank.

the following procedures:

(a)

(b)

(C)

(d)

(e)

review of the financial information.

Summary of work performed

perform procedures to obtain limited

Statement on Internal Control.

issued by the Institute of Chartered

Accountants of Sri Lanka.



KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha, P 0 Box 186 Colombo 00300, Sri Lanka.

Tel Fax Internet +94 - 11 542 6426 +94 - 11 244 5872 +94 - 11 244 6058 www.kpmg.com/lk

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

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

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

#### **Our conclusion**

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 157 to 158 of this annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

ФXIV

CHARTERED ACCOUNTANTS Colombo

20 February 2024

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG (internetional Limited, a private English company limited by guarantee. All rights reserved.

C. P. Jayatilake FCA Ms. S. Josoph FCA G. A. U. Karunaratine FCA R. H. Rejen FCA A.M.R.P. Alahakoon ACA

T. J. S. Rajakarier FCA W. K. D. C. Abeyrathne FCA R.M.D.B. Rejepakse FCA M.N.M. Shameel FCA Me. P.M.K. Sumanasekara FCA W. W. J. C. Perera FCA S. T. D. L. Perera FCA Ms. B.K.D.T.N. Rodrigo FCA Ms. C.T.K.N. Perers ACA R.W.M.O.W.D.B. Rathnadiwa es FCA

Principals: S.R.L Parera FCMA(UK), LLB, Attorney-at-Law, H.S. Goone ardene ACA, Ms. F.R Ziyard FCMA (UK), FTB

THE BOARD OF DIRECTORS OF SEYLAN BANK PLC.

#### Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of Seylan Bank PLC ("Bank") to provide assurance on the Director's Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2023.

#### Management's responsibility

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

#### **Our Independence and Quality Control**

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

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

#### **Our Responsibilities**

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

We conducted our engagement in accordance with Sri Lanka Standard on

# Committed to purpose-led growth

SUSTAINABLE RESULTS

Our multi-capital integrated approach defines our decision-making and disclosure practices. Communicating our business objectives using this approach helps our stakeholders to identify the most significant levers for value creation and preservation.

#### FINANCIAL CALENDAR - 2023 Released to the Colombo Stock Exchange (CSE) Interim Financial Statements (Audited) for the 4<sup>th</sup> Quarter/ 23 February 2023 Year ended 31 December 2022 Final Audited Financial Statements for the Year ended 03 March 2023 31 December 2022 and Annual Report – 2022 1<sup>st</sup> Quarter/Three months ended 31 March 2023 28 April 2023 2<sup>nd</sup> Quarter/Six months ended 30 June 2023 10 August 2023 3rd Quarter/Nine months ended 30 September 2023 31 October 2023 36th Annual General Meeting (AGM) Held on Thursday, 30 March 2023 at 10.30 a.m. at the "Bougainvillea Hall", Galadari Hotel, No. 64, Lotus Road, Colombo 01. First and Final Ordinary Dividend for the year ended Scrip dividend of LKR 2.00 per share

31 December 2022

The Interim Financial Statements were also published in the newspapers as per the requirements of the Central Bank of Sri Lanka.

#### PROPOSED FINANCIAL CALENDAR - 2024

|                                                                                                     |                                                                                                                                                                                                   | Proposed Date                               |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| Interim Financial Statements for the 4th<br>Quarter/Year ended 31 December 2023                     | To be released to the Colombo Stock Exchange (CSE)                                                                                                                                                | In February 2024                            |
| Final Audited Financial Statements for<br>the Year ended 31 December 2023 and<br>Annual Report 2023 | To be released to the CSE                                                                                                                                                                         | Before 5 March 2024                         |
| 37 <sup>th</sup> Annual General Meeting (AGM)                                                       | Scheduled to be held at Samudra Ballroom<br>Taj Samudra Colombo, No. 25, Galleface Center<br>Road, Colombo 3                                                                                      | On Thursday, 28 March 2024 at<br>11.00 a.m. |
| First and Final Ordinary Dividend For the year ended 31 December 2023                               | Subject to the approval of the shareholders at the AGM                                                                                                                                            | In April 2024 (as per the Rules of the CSE) |
| Interim (unaudited or audited) Financial<br>Statements                                              | Statements in respect of the four quarters of 2024 will be released 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

162

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 169 to 272 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 2023;
- The Financial Statements for the year ended 31 December 2023 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 published by the Institute of Chartered Accountants of Sri Lanka;
- In preparing the Financial Statements for the year ended 31 December 2023, 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; The Directors have also taken into consideration the implications of the current economic conditions, Governments' Debt Optimization completed in August 2023, and the future outcome of negotiations of Sri

Lanka International Sovereign Bonds on the Groups' business operations, financial performance and future capital requirements.

 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 20 February 2024.

# 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 164 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 the 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 157 to 158 and Bank's Independent Auditors' Report on our assessment of Bank's internal controls over financial reporting is published on page 159 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 subsidiary or where relevant provided for.

#### Going concern

The Directors having made appropriate enquiries on the business plans, review of corporate strategy and budget for ensuing year, stable regulatory and profitability ratios, future prospects and cash flows and any other matters which required to be addressed in terms of applicable corporate governance regulations and standards is of the view that the Bank and its Subsidiary have adequate resources to continue their operations in the foreseeable future, hence financial statements of the Bank and the Subsidiary are prepared based on 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

(Mrs) Saraswathie Poulraj Company Secretary

20 February 2024 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 2023 are prepared in compliance with the below requirements.

- Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 07 of 2007 and amendments thereto
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Banking Act No. 30 of 1988 and amendments thereto
- Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL)
- The Listing Rules of the Colombo Stock
   Exchange
- The Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka

The formats used in the Financial Statements and disclosures are in conformity with the specified formats prescribed by the CBSL, which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements).

The significant Accounting Policies and Estimates that involved a high degree of judgment and complexity were discussed with the External Auditors and the Board Audit Committee.

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 a true and fair manner, the form and substance of transactions and reasonably present the Bank'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. We continue to adopt the 'Going Concern' basis in preparing the Financial Statements, based on the assessment carried out taking into consideration the changes in the economic conditions prevail in the country, the associated uncertainties and the potential implication on the business environment and are of view that there are reasonable grounds to believe that the Group has adequate resources to continue in operation.

The Financial Statements of the Bank and the Group were audited by Messrs. KPMG. Chartered Accountants, and their report is given on pages 164 to 168 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.

Taxes, duties, levies and all statutory payments payable by the Bank and its Subsidiary as at 31 December 2023 have been paid, or where relevant provided for.

NOG

Mr Ramesh Jayasekara Director/ Chief Executive Officer

lun

Ms Champika Dodanwela Chief Financial Officer

20 February 2024 Colombo

# **INDEPENDENT AUDITOR'S REPORT**



KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha, P. 0. Box 186, Colombo 00300, Sri Lanka.

# 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 subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2023, 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 material accounting policies as set out on pages 169 to 272 of this Annual Report. 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 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

164

#### **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 for Professional Accountants issued by CA Sri Lanka ("Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with +94 - 11 542 6426 +94 - 11 244 5872 +94 - 11 244 6058 www.kpmg.com/lk

Tel

Fax

Internet

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

Refer to Note 3 (Use of Estimates & Judgements), Note 13 (Impairment Charges) and Note 25 (Financial assets measured at amortized cost - Loans and advances), to these financial statements.

| Risk Description                                                                                                                                                                                                                                                                                                                                           | Our Responses                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| As disclosed in Note 25 and 13 to these financial                                                                                                                                                                                                                                                                                                          | Our audit procedures to assess the allowances for ECL included the following:                                                                                                                |
| statements, the Bank has recorded financial assets measured at amortized cost against loans and                                                                                                                                                                                                                                                            | Testing key controls of the Bank in relation to:                                                                                                                                             |
| advances to customers, of LKR 497,205 Mn as at 31 December 2023. High degree of complexity and                                                                                                                                                                                                                                                             | • The ECL model governance and validation processes which involved assessment of model performance.                                                                                          |
| judgment are involved in estimating Expected Credit<br>Loss (ECL) - Bank LKR 59,672 Mn, as at the reporting<br>date.                                                                                                                                                                                                                                       | <ul> <li>The assessment and approval of the forward-looking macroeconomic assumptions<br/>and scenario weightings through challenge applied by internal governance<br/>processes.</li> </ul> |
| Allowance for expected credit losses (ECL) is a key<br>audit matter due to the significance of the loans and<br>receivables balance to the financial statements and                                                                                                                                                                                        | • Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems.                                             |
| the inherent complexity of the ECL models used by the Bank to measure ECL allowances.                                                                                                                                                                                                                                                                      | <ul> <li>IT system controls which record loans days past due, and non-performing loan<br/>classification.</li> </ul>                                                                         |
| These models are reliant on data and estimates<br>including multiple economic scenarios and key<br>assumptions such as defining a significant increase<br>in credit risk (SICR). SICR identification is a key<br>judgement within the ECL methodology, as this<br>criterion determines if a forward-looking 12 month or<br>lifetime allowance is recorded. |                                                                                                                                                                                              |
| KPMG, a Sri Lankan partnership and a member fim                                                                                                                                                                                                                                                                                                            | n of the C. P. Jayatilake FCA T. J. S. Rejakarier FCA W. W. J. C. Perera FCA                                                                                                                 |

KPMG, a ST Lankan partnership and a member firm of the KPMG global organization of Independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. C. P. Jayatilake FCA Mis. S. Josoph FCA G. A. U. Karunaratne FCA R. H. Rejan FCA A.M.R.P. Alahakoon ACA 
 T. J. S. Rejakarier FCA
 W

 W. K. D. C. Abeyrathons FCA
 S

 R.M.D.B. Rejeparkse FCA
 M

 M.N.M. Shameel FCA
 M

 Me. P.M.K. Sumpnissekara FCA
 R

W. W. J. C. Perera FCA S. T. D. L. Perera FCA Ms. B.K.D.T.N. Rodrigo FCA Ms. C.T.K.N. Perera ACA R.W.M.O.W.D.B. Rathnadiwakara FCA

Principals: S.R.L Perera FCMA(UK), LLB. Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Zyard FCMA (UK), FTB



#### **Allowances for Expected Credit Losses**

Refer to Note 3 (Use of Estimates & Judgements), Note 13 (Impairment Charges) and Note 25 (Financial assets measured at amortized cost - Loans and advances), to these financial statements.

#### **Risk Description**

#### **Our Responses**

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 considered to address known ECL model limitations or emerging trends in the loan portfolios. Additional subjectivity and judgement are required due to the heightened uncertainty associated with the impact of the economic outlook and its impact on customers, increasing our audit effort thereon.

Additionally, allowances for individually assessed loans exceeding specific thresholds are assessed. Challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held in respect of the loans by the Bank up in respect of the loans.

The disclosures regarding the Bank's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.

Selecting a sample of larger customers (based on quantitative threshold set by the Bank for ISL 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,

Assessing adequacy of impairment for individually significant customers (ISL)

Obtaining management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions, or lack of, were appropriate.

or in areas of emerging risk (assessed against external market conditions and in

particular considering the potential implications of prevailing economic conditions).

This included the following procedures.

- Evaluating management's assessment of recoverability of the forecasted cash flows by comparing them to the historical performance of the customers, their financial position 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, forecasted timing of future cash flows in the context of underlying valuations and approved business plans and challenging key assumptions in the valuations.
- 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 evaluating the key assumptions in
  the valuations.
- Testing the implementation of the Bank's SICR methodology by re-performing the staging calculation for a sample of loans.
- For a sample of customer loans which were not identified as displaying indicators of impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and form our own view whether any impairment indicators were present.

Assessing the adequacy of collectively assessed impairment.

We tested key controls of the Bank by:

- Obtaining an understanding of the processes to determine ECL allowances of the Bank, evaluating the ECL model methodologies of the Bank and against established market practices and criteria in the accounting standards.
- 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 assessed the reasonableness of the considerations of the uncertainty relating to key economic indicators used by the Bank.
- By working with our Financial Risk Management (FRM) specialist we carried out the following procedures.
  - Challenging the Bank's forward-looking macro-economic assumptions and scenarios incorporated in the ECL models by comparing the economic factors used to relevant publicly available macro-economic information, to identify contradictory indicators.

166

### **INDEPENDENT AUDITOR'S REPORT**



#### **Allowances for Expected Credit Losses**

Refer to Note 3 (Use of Estimates & Judgements), Note 13 (Impairment Charges) and Note 25 (Financial assets measured at amortized cost - Loans and advances), to these financial statements.

| Risk Description | Our Responses                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |  |  |  |  |  |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|--|--|
|                  | Evaluating and challenging the key assumptions in the components of the<br>Bank's post-model adjustments to the ECL allowance balance. This included<br>assessing the requirement for additional allowances considering the Group's<br>ECL model and data limitations identified by Bank's ECL model validation<br>processes, particularly in light of the extreme volatility in economic scenarios<br>caused by the prevailing economic conditions; |  |  |  |  |  |  |
|                  | <ul> <li>Assessing the ongoing effectiveness of the SICR criteria and independently<br/>calculating the loans' stage to determine whether a SICR event had occurred;</li> </ul>                                                                                                                                                                                                                                                                      |  |  |  |  |  |  |
|                  | <ul> <li>Assessing the completeness of additional allowance overlays by checking the<br/>consistency of risks we identified in the loan portfolios against the assessment of<br/>the Bank;</li> </ul>                                                                                                                                                                                                                                                |  |  |  |  |  |  |
|                  | <ul> <li>Evaluating the approach taken by the management in identifying the risk elevated<br/>sectors and assessing the current market conditions and specific risks in the loan<br/>portfolios of the Bank due to exposure to risk elevated sectors;</li> </ul>                                                                                                                                                                                     |  |  |  |  |  |  |
|                  | Assessing the adequacy of post model adjustments                                                                                                                                                                                                                                                                                                                                                                                                     |  |  |  |  |  |  |
|                  | We challenged key assumptions in the components of the Bank's post-model<br>adjustments to the ECL allowance balance. This included:                                                                                                                                                                                                                                                                                                                 |  |  |  |  |  |  |
|                  | <ul> <li>Assessing post-model adjustments against the ECL model of the Bank and data<br/>deficiencies identified in the ECL model validation processes, particularly in light o<br/>the significant volatility in economic scenarios;</li> </ul>                                                                                                                                                                                                     |  |  |  |  |  |  |
|                  | <ul> <li>Comparing underlying data used in concentration risk and economic cycle<br/>allowances to underlying loan portfolio characteristics of recent loss experience,<br/>current market conditions and specific risks (including exposure to risk elevated<br/>sectors) in the loan portfolios of the Bank;</li> </ul>                                                                                                                            |  |  |  |  |  |  |
|                  | <ul> <li>Assessing certain post-model adjustments identified by the Bank against internal<br/>and external information;</li> </ul>                                                                                                                                                                                                                                                                                                                   |  |  |  |  |  |  |
|                  | <ul> <li>Assessing the completeness of post-model adjustments by checking the<br/>consistency of risks we identified in the loan portfolios against the Bank's<br/>assessment.</li> </ul>                                                                                                                                                                                                                                                            |  |  |  |  |  |  |
|                  | Assessing the adequacy of impairment for financial assets                                                                                                                                                                                                                                                                                                                                                                                            |  |  |  |  |  |  |
|                  | By working with our Financial Risk Management (FRM) specialist we carried out the following procedures.                                                                                                                                                                                                                                                                                                                                              |  |  |  |  |  |  |
|                  | <ul> <li>Challenging the underlying assumptions used and the methodology adopted by th<br/>Bank to compute the impairment provision; and</li> </ul>                                                                                                                                                                                                                                                                                                  |  |  |  |  |  |  |
|                  | <ul> <li>Assessing the reasonableness of key inputs and assumptions using comparable<br/>data in the market and available alternatives.</li> </ul>                                                                                                                                                                                                                                                                                                   |  |  |  |  |  |  |
|                  | We also assessed the appropriateness of the related disclosures in the financial statements using our understanding obtained from our testing and against the requirements of Sri Lanka Accounting Standards.                                                                                                                                                                                                                                        |  |  |  |  |  |  |



| IT systems and co | ontrols over | financial | reporting |
|-------------------|--------------|-----------|-----------|
|-------------------|--------------|-----------|-----------|

| Risk Description                                                                                                                                                                                                                                                       | Our Responses                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Bank businesses utilize many complexes,<br>interdependent Information Technology (IT) systems<br>to process and record a high volume of transactions.<br>The controls over access, changes to and operation<br>of IT systems are key to the recording of financial | We worked with our internal 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 tester automated controls embedded within these systems which link the technology-enabled business processes. |
| information and the preparation of financial statements which provide a true and fair view of the Bank financial                                                                                                                                                       | Our further audit procedures included:                                                                                                                                                                                                                                                                                                                              |
| position and performance.                                                                                                                                                                                                                                              | General IT controls design, observation and operation                                                                                                                                                                                                                                                                                                               |
| The IT systems and controls, as they impact the<br>recording and reporting of financial transactions,<br>is a key audit matter as our audit approach could                                                                                                             | <ul> <li>Assessing the governance and higher-level controls in place across the IT<br/>Environment, including those regarding policy design, policy review and<br/>awareness, and IT Risk Management practices.</li> </ul>                                                                                                                                          |
| significantly differ depending on the effective operation of the Bank IT controls.                                                                                                                                                                                     | <ul> <li>Obtaining an understanding and testing operating effectiveness of 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, monitor system integrity, program development and computer operations;</li> </ul>                  |
|                                                                                                                                                                                                                                                                        | • Data integrity of critical system reporting used by us in our audit to select sample<br>and analyze data used by management to generate Financial statements.                                                                                                                                                                                                     |
|                                                                                                                                                                                                                                                                        | Application controls                                                                                                                                                                                                                                                                                                                                                |
|                                                                                                                                                                                                                                                                        | Design and operating effectiveness testing of key automated business process controls including those relating to enforcing segregation of duties to avoid conflicts from inappropriate role combinations within IT applications.                                                                                                                                   |
|                                                                                                                                                                                                                                                                        | • On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger.                                                                                                                                                                                                                         |
|                                                                                                                                                                                                                                                                        | User access controls operation                                                                                                                                                                                                                                                                                                                                      |
|                                                                                                                                                                                                                                                                        | Design and operating effectiveness testing of key controls across the user access management                                                                                                                                                                                                                                                                        |
|                                                                                                                                                                                                                                                                        | <ul> <li>Assessing the management's evaluation of access rights granted to applications<br/>relevant to financial accounting and reporting systems and;</li> </ul>                                                                                                                                                                                                  |
|                                                                                                                                                                                                                                                                        | Evaluate the design and operating effectiveness of IT controls, including those                                                                                                                                                                                                                                                                                     |

- Evaluate the design and operating effectiveness of IT controls, including those related to user access and change management.
- Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.

Where our testing identified design and operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures, including consideration of mitigating controls.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

### INDEPENDENT AUDITOR'S REPORT



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.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

 Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank 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 relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 2294.

aven

Chartered Accountants Colombo, Sri Lanka

20 February 2024

# **INCOME STATEMENT**

|                                                       |      |             | Bank       |         |             | Group      |          |
|-------------------------------------------------------|------|-------------|------------|---------|-------------|------------|----------|
| For the Year ended 31 December                        |      | 2023        | 2022       | Change  | 2023        | 2022       | Change   |
|                                                       | Note | LKR '000    | LKR '000   | %       | LKR '000    | LKR '000   | %        |
| Gross Income                                          | 7    | 116,773,303 | 96,817,975 | 20.61   | 116,835,833 | 96,834,024 | 20.66    |
| Interest Income                                       |      | 107,078,561 | 86,068,611 | 24.41   | 107,168,402 | 86,106,337 | 24.46    |
| Less: Interest Expenses                               |      | 67,025,296  | 45,526,649 | 47.22   | 66,716,549  | 45,219,220 | 47.54    |
| Net Interest Income                                   | 8    | 40,053,265  | 40,541,962 | (1.21)  | 40,451,853  | 40,887,117 | (1.06)   |
| Fee and Commission Income                             |      | 7,751,163   | 6,697,136  | 15.74   | 7,751,002   | 6,697,059  | 15.74    |
| Less : Fee and Commission Expenses                    |      | 270,986     | 235,118    | 15.26   | 274,237     | 235,852    | 16.28    |
| Net Fee and Commission Income                         | 9    | 7,480,177   | 6,462,018  | 15.76   | 7,476,765   | 6,461,207  | 15.72    |
| Net Gains/(Losses) from Trading                       | 10   | 818,206     | (446,958)  | 283.06  | 818,206     | (446,958)  | 283.06   |
| Net Gains from Derecognition of<br>Financial Assets   | 11   | 150,289     | 34,149     | 340.10  | 150,289     | 34,149     | 340.10   |
| Net Other Operating Income                            | 12   | 975,084     | 4,465,037  | (78.16) | 947,934     | 4,443,437  | (78.67)  |
| Total Operating Income                                |      | 49,477,021  | 51,056,208 | (3.09)  | 49,845,047  | 51,378,952 | (2.99)   |
| Less : Impairment Charges                             | 13   | 17,004,946  | 26,433,076 | (35.67) | 17,004,937  | 26,433,076 | (35.67)  |
| Net Operating Income                                  |      | 32,472,075  | 24,623,132 | 31.88   | 32,840,110  | 24,945,876 | 31.65    |
| Less : Operating Expenses                             | 14   |             |            |         |             |            |          |
| Personnel Expenses                                    | 15   | 9,149,800   | 7,964,096  | 14.89   | 9,194,317   | 8,007,403  | 14.82    |
| Depreciation and Amortisation Expenses                |      | 1,285,284   | 1,357,915  | (5.35)  | 1,348,040   | 1,416,379  | (4.82)   |
| Other Expenses                                        |      | 8,021,586   | 5,898,226  | 36.00   | 8,092,983   | 5,951,401  | 35.98    |
| Total Operating Expenses                              |      | 18,456,670  | 15,220,237 | 21.26   | 18,635,340  | 15,375,183 | 21.20    |
| Operating Profit before Taxes                         |      | 14,015,405  | 9,402,895  | 49.05   | 14,204,770  | 9,570,693  | 48.42    |
| Less : Value Added Tax on Financial<br>Services       |      | 3,454,762   | 2,646,792  | 30.53   | 3,454,762   | 2,646,792  | 30.53    |
| Less : Social Security Contribution Levy              |      | 480,557     | 127,243    | 277.67  | 480,557     | 127,243    | 277.67   |
| Profit before Income Tax                              |      | 10,080,086  | 6,628,860  | 52.06   | 10,269,451  | 6,796,658  | 51.10    |
| Less : Income Tax Expense                             | 16   | 3,823,872   | 1,916,597  | 99.51   | 3,868,829   | 2,218,888  | 74.36    |
| Profit for the Year                                   |      | 6,256,214   | 4,712,263  | 32.76   | 6,400,622   | 4,577,770  | 39.82    |
| Profit Attributable to:<br>Equity Holders of the Bank |      | 6,256,214   | 4,712,263  | 32.76   | 6,321,116   | 4,574,359  | 38.19    |
| Non-controlling Interest                              |      | -           | -          | -       | 79,506      | 3,411      | 2,230.87 |
| Profit for the Year                                   |      | 6,256,214   | 4,712,263  | 32.76   | 6,400,622   | 4,577,770  | 39.82    |
| Basic/Diluted Earnings per Share (LKR )               | 17   | 10.17       | 7.66       | 32.77   | 10.27       | 7.43       | 38.22    |

Notes on pages 178 to 272 form an integral part of these Financial Statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|                                                                                                                                  |        |             | Bank        |          |             | Group       |          |
|----------------------------------------------------------------------------------------------------------------------------------|--------|-------------|-------------|----------|-------------|-------------|----------|
| For the year ended 31 December                                                                                                   |        | 2023        | 2022        | Change   | 2023        | 2022        | Change   |
|                                                                                                                                  | Note   | LKR '000    | LKR '000    | %        | LKR '000    | LKR '000    | %        |
| Profit for the Year                                                                                                              |        | 6,256,214   | 4,712,263   | 32.76    | 6,400,622   | 4,577,770   | 39.82    |
| Other Comprehensive Income, net of Tax                                                                                           |        |             |             |          |             |             |          |
| Items that are or may be reclassified to Income Statement in Subsequent Periods                                                  |        |             |             |          |             |             |          |
| Net Movement of Cash Flow Hedge<br>Reserve                                                                                       | 46.5   | -           | 84,246      | (100.00) | -           | 84,246      | (100.00) |
| Net Gains/(Losses) on Investments in<br>Debt Instruments measured at Fair<br>Value through Other Comprehensive                   | 46.4   | 097 554     | (1 600 614) | 160.45   | 002 470     | (1 644 590) | 160.41   |
| Income<br>Deferred Tax effect Relating to Items                                                                                  | 40.4   | 987,554     | (1,633,614) | 160.45   | 993,479     | (1,644,580) | 160.41   |
| that are or may be reclassified to<br>Income Statement                                                                           | 34     | (296,267)   | 392,856     | (175.41) | (298,047)   | 394,591     | (175.53) |
| Items that will never be reclassified to Income Statement in Subsequent Periods                                                  |        |             |             |          |             |             |          |
| Net Change in Fair Value on Investments<br>in Equity Instruments measured at Fair<br>Value through Other Comprehensive<br>Income | 46.4   | 302,235     | (1,220,234) | 124.77   | 302,235     | (1,220,234) | 124.77   |
| Revaluation of Property, Plant and Equipment                                                                                     | 46.2   | -           | -           | -        | 120,850     | (20,148)    | 699.81   |
| Actuarial Losses on Defined Benefit<br>Obligations                                                                               | 43.1.8 | (1,005,704) | (222,236)   | (352.54) | (1,011,392) | (220,656)   | (358.36) |
| Deferred Tax Effect Relating to Items<br>that will never be reclassified to Income<br>Statement                                  | 34     | (14,416)    | (125,416)   | 88.51    | (50,671)    | (119,682)   | 57.66    |
| Other Comprehensive Income for the Year, net of Tax                                                                              |        | (26,598)    | (2,724,398) | 99.02    | 56,454      | (2,746,463) | 102.06   |
| Total Comprehensive Income for the Year                                                                                          |        | 6,229,616   | 1,987,865   | 213.38   | 6,457,076   | 1,831,307   | 252.59   |
| Total Comprehensive Income<br>Attributable to:                                                                                   |        |             |             |          |             |             |          |
| Equity Holders of the Bank                                                                                                       |        | 6,229,616   | 1,987,865   | 213.38   | 6,353,078   | 1,834,403   | 246.33   |
| Non-controlling Interest                                                                                                         |        | -           | -           | -        | 103,998     | (3,096)     | 3,459.11 |
| Total Comprehensive Income for the Year                                                                                          |        | 6,229,616   | 1,987,865   | 213.38   | 6,457,076   | 1,831,307   | 252.59   |

Notes on pages 178 to 272 form an integral part of these Financial Statements.

# **STATEMENT OF FINANCIAL POSITION**

|                                                                               |      |                         | Bank                    |          |                         | Group                   |                 |
|-------------------------------------------------------------------------------|------|-------------------------|-------------------------|----------|-------------------------|-------------------------|-----------------|
| As at 31 December                                                             |      | 2023                    | 2022                    | Change   | 2023                    | 2022                    | Change          |
|                                                                               | Note | LKR '000                | LKR '000                | %        | LKR '000                | LKR '000                | %               |
| Assets                                                                        |      |                         |                         |          |                         |                         |                 |
| Cash and Cash Equivalents                                                     | 20   | 48,851,143              | 40,254,514              | 21.36    | 48,851,183              | 40,254,554              | 21.36           |
| Balances with Central Bank of Sri Lanka                                       | 21   | 7,028,281               | 16,784,172              | (58.13)  | 7,028,281               | 16,784,172              | (58.13)         |
| Placements with Banks and Finance Companies                                   | 22   | 22,064,672              | 1,819,036               | 1,112.99 | 22,064,672              | 1,819,036               | 1,112.99        |
| Derivative Financial Instruments                                              | 23   | 88,022                  | 519,189                 | (83.05)  | 88,022                  | 519,189                 | (83.05)         |
| Financial Assets recognised through Profit or Loss                            |      |                         |                         |          |                         |                         |                 |
| - Measured at Fair Value                                                      | 24   | 27,753,867              | 17,781,867              | 56.08    | 27,753,867              | 17,781,867              | 56.08           |
| - Designated at Fair Value                                                    |      | -                       | -                       | -        | -                       | -                       | -               |
| Financial Assets at Amortised Cost                                            |      |                         |                         |          |                         |                         |                 |
| - Loans and Advances                                                          | 25   | 437,532,470             | 444,219,508             | (1.51)   | 437,532,470             | 444,219,508             | (1.51)          |
| - Debt and Other Instruments                                                  | 26   | 104,354,510             | 106,158,878             | (1.70)   | 104,625,662             | 106,429,752             | (1.70)          |
| Financial Assets measured at Fair Value through Other<br>Comprehensive Income | 27   | 40,048,711              | 17,136,286              | 133.71   | 40,286,865              | 17,186,183              | 134.41          |
| Investment in Subsidiary                                                      | 28   | 1,153,602               | 1,153,602               | -        | -                       | -                       | -               |
| Group Balances Receivable                                                     | 29   | 40,500                  | 64,435                  | (37.15)  | -                       | -                       | -               |
| Property, Plant & Equipment                                                   | 30   | 3,874,650               | 3,770,541               | 2.76     | 6,627,167               | 6,462,909               | 2.54            |
| Right-of-Use Assets                                                           | 31   | 5,114,518               | 4,882,318               | 4.76     | 2,735,963               | 2,722,569               | 0.49            |
| Investment Properties                                                         | 32   | -                       | -                       | -        | 884,219                 | 886,680                 | (0.28)          |
| Intangible Assets                                                             | 33   | 536,989                 | 510,146                 | 5.26     | 536,989                 | 510,146                 | 5.26            |
| Deferred Tax Assets                                                           | 34   | 3,171,806               | 3,242,641               | (2.18)   | 2,571,168               | 2,684,538               | (4.22)          |
| Other Assets                                                                  | 35   | 16,371,694              | 14,508,511              | 12.84    | 16,406,762              | 14,574,073              | 12.57           |
| Total Assets                                                                  |      | 717,985,435             | 672,805,644             | 6.72     | 717,993,290             | 672,835,176             | 6.71            |
| Liabilities                                                                   |      |                         |                         |          |                         |                         |                 |
| Due to Banks                                                                  | 36   | 12,096,756              | 12,158,030              | (0.50)   | 12,096,756              | 12,158,030              | (0.50)          |
| Derivative Financial Instruments                                              | 23   | 32,269                  | 906,813                 | (96.44)  | 32,269                  | 906.813                 | (96.44)         |
| Financial Liabilities at Amortised Cost                                       | 20   | 02,200                  | 000,010                 | (00.11)  | 02,200                  | 000,010                 | (00.11)         |
| - Due to Depositors                                                           | 37   | 590,698,330             | 547,315,755             | 7.93     | 590,698,330             | 547,315,755             | 7.93            |
| - Due to Depositors                                                           | 38   | 6,862,998               | 11,944,370              | (42.54)  | 6,862,998               | 11,944,370              | (42.54)         |
| - Due to Other Borrowers                                                      | 39   | 16,151                  | 7,483                   | 115.84   | 16,151                  | 7,483                   | 115.84          |
| Group Balances Payable                                                        | 40   | 115,823                 | 202,382                 | (42.77)  | 10,131                  | 7,405                   | 113.04          |
| Debt Securities Issued                                                        | 40   | 19,967,701              | 21,617,455              | (42.77)  | 19,967,701              | 21,617,455              | (7.63)          |
| Current Tax Liabilities                                                       | 41   | 2,688,253               | 5,128,484               | (47.58)  | 2,719,843               | 5,179,000               | (47.48)         |
| Lease Liabilities                                                             | 31   |                         |                         | 6.04     |                         |                         |                 |
| Other Liabilities                                                             | 43   | 5,409,418<br>19,591,155 | 5,101,247<br>13,973,327 | 40.20    | 2,245,420<br>19,655,972 | 2,254,558<br>13,985,243 | (0.41)<br>40.55 |
| Total Liabilities                                                             | 43   | 657,478,854             | 618,355,346             | 6.33     | 654,295,440             | 615,368,707             | 6.33            |
|                                                                               |      | 057,478,054             | 010,333,340             | 0.55     | 054,295,440             | 010,000,707             | 0.33            |
| Equity                                                                        |      |                         |                         |          |                         |                         |                 |
| Stated Capital                                                                | 44   | 20,908,673              | 19,926,453              | 4.93     | 20,908,673              | 19,926,453              | 4.93            |
| Statutory Reserve Fund                                                        | 45   | 2,880,973               | 2,568,162               | 12.18    | 2,880,973               | 2,568,162               | 12.18           |
| Retained Earnings                                                             |      | 34,846,140              | 31,063,994              | 12.18    | 35,540,973              | 31,697,936              | 12.12           |
| Other Reserves                                                                | 46   | 1,870,795               | 891,689                 | 109.80   | 3,051,187               | 2,009,510               | 51.84           |
| Total Equity Attributable to Equity Holders of<br>the Bank                    |      | 60,506,581              | 54,450,298              | 11.12    | 62,381,806              | 56,202,061              | 11.00           |
| Non-controlling Interest                                                      | 28.1 | -                       | -                       | -        | 1,316,044               | 1,264,408               | 4.08            |
| Total Equity                                                                  |      | 60,506,581              | 54,450,298              | 11.12    | 63,697,850              | 57,466,469              | 10.84           |
| Total Equity and Liabilities                                                  |      | 717,985,435             | 672,805,644             | 6.72     | 717,993,290             | 672,835,176             | 6.71            |
| Contingent Liabilities and Commitments                                        | 47   | 165,840,804             | 167,641,150             | (1.07)   | 165,859,420             | 167,642,941             | (1.06)          |
| Net Asset Value per Share (LKR)                                               |      | 98.31                   | 94.24                   | 4.32     | 101.36                  | 97.27                   | 4.20            |
| Memorandum Information                                                        |      |                         |                         |          |                         |                         |                 |
| No. of Employees                                                              |      | 3,077                   | 3,156                   | (2.50)   | 3,095                   | 3,175                   | (2.52)          |
| No. of Banking Centres                                                        |      | 171                     | 171                     | -        | 171                     | 171                     | ()              |

Notes on pages 178 to 272 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.

allan-

Champika Dodanwela (Ms.) Chief Financial Officer

¥ W M R S Dias Chairman

Approved and signed for and on behalf of the Board.

NAG

Ramesh Jayasekara Director/Chief Executive Officer

20 February 2024 Colombo

# STATEMENT OF CHANGES IN EQUITY

172

#### Bank

For the Year ended 31 December

| - |                                                                                                                           |
|---|---------------------------------------------------------------------------------------------------------------------------|
| 1 | Balance as at 01 January 2022                                                                                             |
| _ | Surcharge Tax                                                                                                             |
| 2 | Restated Balance as at 01 January 2022                                                                                    |
| _ | Total Comprehensive Income for the Year                                                                                   |
|   | Profit for the Year                                                                                                       |
|   | Other Comprehensive Income (net of tax)                                                                                   |
|   | - Actuarial Losses on Defined Benefit Obligations                                                                         |
|   | - Net Losses on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income                 |
|   | - Net Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income |
|   | - Net Movement of Cash Flow Hedge Reserve                                                                                 |
|   | - Deferred Tax Impact on Tax Rate Change                                                                                  |
| 3 | Total Comprehensive Income for the Year                                                                                   |
|   | Transactions with Equity Holders, Recognised Directly In Equity                                                           |
|   | Scrip Dividend to Equity Holders                                                                                          |
|   | Unclaimed Dividend Absorbed/(Dividend Paid) in respect of Previous Years                                                  |
|   | Transferred to Statutory Reserve Fund*                                                                                    |
|   | Transferred from Investment Fund Reserve                                                                                  |
|   | Net Gains on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income                     |
|   | Reclassification of Debt Instruments measured at Fair Value through Other Comprehensive Income                            |
| 4 | Total Transactions with Equity Holders                                                                                    |
|   | Balance as at 31 December 2022 (2 + 3 + 4)                                                                                |
| 1 | Balance as at 01 January 2023                                                                                             |
|   | Total Comprehensive Income for the Year                                                                                   |
|   | Profit for the Year                                                                                                       |
|   | Other Comprehensive Income (net of tax)                                                                                   |
|   | - Actuarial Losses on Defined Benefit Obligations                                                                         |
|   | - Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income                  |
|   | - Net Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income |
| 2 | Total Comprehensive Income for the Year                                                                                   |
|   | Transactions with Equity Holders , Recognised Directly In Equity                                                          |
| _ | Scrip Dividend to Equity Holders                                                                                          |
|   | Transferred to Statutory Reserve Fund*                                                                                    |
| 3 | Total Transactions with Equity Holders                                                                                    |
|   | Balance as at 31 December 2023 (1+ 2 + 3)                                                                                 |
| _ |                                                                                                                           |

\* 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 178 to 272 form an integral part of these Financial Statements.

|        | Stated                         | Capital                            | Statutory            |                      | 0                      | Other Reserves      |                   |             |
|--------|--------------------------------|------------------------------------|----------------------|----------------------|------------------------|---------------------|-------------------|-------------|
|        | Ordinary<br>Shares -<br>Voting | Ordinary<br>Shares -<br>Non Voting | Reserve<br>Fund<br>* | Retained<br>Earnings | Revaluation<br>Reserve | FVOCI<br>Reserve ** | Other<br>Reserves |             |
| Note   | LKR '000                       | LKR '000                           | LKR '000             | LKR '000             | LKR '000               | LKR '000            | LKR '000          | LKR '000    |
|        | 11,521,263                     | 6,802,619                          | 2,332,549            | 29,196,617           | 1,468,822              | (245,179)           | 976,318           | 52,053,009  |
|        | -                              | -                                  | -                    | (1,168,335)          | -                      | -                   | -                 | (1,168,335) |
|        | 11,521,263                     | 6,802,619                          | 2,332,549            | 28,028,282           | 1,468,822              | (245,179)           | 976,318           | 50,884,674  |
|        | -                              | -                                  | -                    | 4,712,263            | -                      | -                   | -                 | 4,712,263   |
| 43.1.8 | -                              | -                                  | -                    | (222,236)            |                        | -                   | -                 | (222,236)   |
| 46.4   | _                              |                                    | _                    |                      | _                      | (1,240,758)         | _                 | (1,240,758) |
| 46.4   | -                              | -                                  | -                    | -                    | -                      | (1,251,047)         | -                 | (1,251,047) |
| 46.5   | -                              | -                                  | -                    | -                    | -                      | -                   | 84,246            | 84,246      |
| 46.2   | -                              | -                                  | -                    | -                    | (94,603)               | -                   | -                 | (94,603)    |
|        | -                              | -                                  | -                    | 4,490,027            | (94,603)               | (2,491,805)         | 84,246            | 1,987,865   |
| <br>18 | 792,802                        | 809,769                            | -                    | (1,602,571)          |                        | -                   | -                 |             |
|        | -                              | -                                  | -                    | 14,484               | -                      | -                   | -                 | 14,484      |
| 45     | -                              | -                                  | 235,613              | (235,613)            | -                      | -                   | -                 | -           |
| 46.6   | -                              | -                                  | -                    | 359,989              | -                      | -                   | (359,989)         | -           |
| 46.4   | -                              | -                                  | -                    | 9,396                | -                      | (9,396)             | -                 | -           |
| 46.4   | -                              | -                                  | -                    | -                    | -                      | 1,563,275           | -                 | 1,563,275   |
|        | 792,802                        | 809,769                            | 235,613              | (1,454,315)          | -                      | 1,553,879           | (359,989)         | 1,577,759   |
|        | 12,314,065                     | 7,612,388                          | 2,568,162            | 31,063,994           | 1,374,219              | (1,183,105)         | 700,575           | 54,450,298  |
|        | 12,314,065                     | 7,612,388                          | 2,568,162            | 31,063,994           | 1,374,219              | (1,183,105)         | 700,575           | 54,450,298  |
|        | -                              | -                                  | -                    | 6,256,214            | -                      | -                   | -                 | 6,256,214   |
| 43.1.8 | -                              |                                    | -                    | (1,005,704)          |                        | -                   | -                 | (1,005,704) |
| 46.4   | -                              | -                                  | -                    | -                    | -                      | 691,287             | -                 | 691,287     |
| 46.4   | -                              | -                                  | -                    | -                    | -                      | 287,819             | -                 | 287,819     |
|        | -                              | -                                  | -                    | 5,250,510            | -                      | 979,106             | -                 | 6,229,616   |
| 18     | 480,599                        | 501,621                            | -                    | (1,155,553)          | -                      |                     |                   | (173,333)   |
| 45     |                                | -                                  | 312,811              | (312,811)            |                        |                     |                   |             |
| UT     | 480,599                        | 501,621                            | 312,811              | (1,468,364)          |                        |                     |                   | (173,333)   |
| <br>   | 12,794,664                     | 8,114,009                          | 2,880,973            | 34,846,140           | 1,374,219              | (203,999)           | 700,575           | 60,506,581  |

# STATEMENT OF CHANGES IN EQUITY

174

#### Group

| For the Year ended 31 December                                                                                                  |        | Stated                         | Capital                            |  |
|---------------------------------------------------------------------------------------------------------------------------------|--------|--------------------------------|------------------------------------|--|
|                                                                                                                                 |        | Ordinary<br>Shares -<br>Voting | Ordinary<br>Shares -<br>Non Voting |  |
|                                                                                                                                 | Note   | LKR '000                       | LKR '000                           |  |
| 1 Balance as at 01 January 2022                                                                                                 |        | 11,521,263                     | 6,802,619                          |  |
| Surcharge Tax                                                                                                                   |        | -                              | -                                  |  |
| 2 Restated Balance as at 01 January 2022                                                                                        |        | 11,521,263                     | 6,802,619                          |  |
| Total Comprehensive Income for the Year                                                                                         |        |                                |                                    |  |
| Profit for the Year                                                                                                             |        | -                              | -                                  |  |
| Other Comprehensive Income (net of tax)                                                                                         |        |                                |                                    |  |
| - Revaluation of Property, Plant and Equipment                                                                                  | 46.2   | -                              | -                                  |  |
| - Actuarial Losses on Defined Benefit Obligations                                                                               | 43.1.8 | -                              | -                                  |  |
| <ul> <li>Net Losses on Investments in Debt Instruments measured at Fair Value through Other<br/>Comprehensive Income</li> </ul> | 46.4   | -                              | -                                  |  |
| - Net 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   | -                              | -                                  |  |
| - Deferred Tax Impact on Tax Rate Change                                                                                        | 46.2   | -                              | -                                  |  |
| 3 Total Comprehensive Income for the Year                                                                                       |        | -                              | -                                  |  |
| Transactions with Equity Holders, Recognised Directly In Equity                                                                 |        |                                |                                    |  |
| Cash/Scrip Dividend                                                                                                             | 18     | 792,802                        | 809,769                            |  |
| Unclaimed Dividend Absorbed/(Dividend Paid) in respect of Previous Years                                                        |        | -                              | -                                  |  |
| Transferred to Statutory Reserve Fund*                                                                                          | 45     | -                              | -                                  |  |
| Transferred from Investment Fund Reserve                                                                                        | 46.6   | -                              | -                                  |  |
| Net Gains on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income                           | 46.4   | -                              | -                                  |  |
| Reclassification of Debt Instruments measured at Fair Value through Other Comprehensive<br>Income                               | 46.4   | -                              | -                                  |  |
| 4 Total Transactions with Equity Holders                                                                                        |        | 792,802                        | 809,769                            |  |
| Balance as at 31 December 2022 (2+3+4)                                                                                          |        | 12,314,065                     | 7,612,388                          |  |
| 1 Balance as at 01 January 2023                                                                                                 |        | 12,314,065                     | 7,612,388                          |  |
| Total Comprehensive Income for the Year                                                                                         |        |                                |                                    |  |
| Profit for the Year                                                                                                             |        | -                              | -                                  |  |
| Other Comprehensive Income (net of tax)                                                                                         |        |                                |                                    |  |
| - Revaluation of Property, Plant and Equipment                                                                                  | 46.2   | · ·                            | -                                  |  |
| - Actuarial Losses on Defined Benefit Obligations                                                                               | 43.1.8 | -                              | -                                  |  |
| - Net Gains on Investments in Debt Instruments measured at Fair Value through Other<br>Comprehensive Income                     | 46.4   | -                              | -                                  |  |
| - Net Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income       | 46.4   | -                              | -                                  |  |
| 2 Total Comprehensive Income for the Year                                                                                       |        |                                | -                                  |  |
| Transactions with Equity Holders, Recognised Directly In Equity                                                                 |        |                                |                                    |  |
| Cash/Scrip Dividend                                                                                                             | 18     | 480,599                        | 501,621                            |  |
|                                                                                                                                 |        |                                |                                    |  |
| Transferred to Statutory Reserve Fund*                                                                                          | 45     | -                              | -                                  |  |
|                                                                                                                                 |        | -<br>480,599<br>12,794,664     | -<br>501,621<br>8,114,009          |  |

\* 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 178 to 272 form an integral part of these Financial Statements.

| Statutory            |             | (                      | Other Reserves      |                   | Total       | Non-                    | Total       |
|----------------------|-------------|------------------------|---------------------|-------------------|-------------|-------------------------|-------------|
| Reserve<br>Fund<br>* | Earnings    | Revaluation<br>Reserve | FVOCI<br>Reserve ** | Other<br>Reserves |             | Controlling<br>Interest | Equity      |
| LKR '000             | LKR '000    | LKR '000               | LKR '000            | LKR '000          | LKR '000    | LKR '000                | LKR '000    |
| 2,332,549            | 29,967,349  | 2,374,135              | (271,212)           | 1,231,531         | 53,958,234  | 1,328,593               | 55,286,827  |
| -                    | (1,168,335) | -                      | -                   | -                 | (1,168,335) | -                       | (1,168,335) |
| 2,332,549            | 28,799,014  | 2,374,135              | (271,212)           | 1,231,531         | 52,789,899  | 1,328,593               | 54,118,492  |
|                      |             |                        |                     |                   |             |                         |             |
| -                    | 4,574,359   | -                      | -                   | -                 | 4,574,359   | 3,411                   | 4,577,770   |
|                      |             |                        |                     |                   |             |                         |             |
| -                    | -           | (9,945)                | -                   | -                 | (9,945)     | (4,159)                 | (14,104)    |
| -                    | (221,122)   | -                      | -                   | -                 | (221,122)   | 466                     | (220,656)   |
| -                    | -           | -                      | (1,247,267)         | -                 | (1,247,267) | (2,722)                 | (1,249,989) |
| -                    | -           | -                      | (1,251,047)         | -                 | (1,251,047) | -                       | (1,251,047) |
| -                    | -           | -                      | -                   | 84,246            | 84,246      | -                       | 84,246      |
| _                    | -           | (94,821)               | -                   | -                 | (94,821)    | (92)                    | (94,913)    |
| -                    | 4,353,237   | (104,766)              | (2,498,314)         | 84,246            | 1,834,403   | (3,096)                 | 1,831,307   |
| <br>                 | .,,         | (101,100)              | (_,:::;::)          | 0.1,2.10          | .,          | (0,000)                 | .,          |
| -                    | (1,602,571) | _                      | -                   | -                 | -           | (61,089)                | (61,089)    |
| _                    | 14,484      | _                      | -                   | -                 | 14,484      | -                       | 14,484      |
| 235,613              | (235,613)   | _                      | -                   | -                 | -           | -                       | -           |
| -                    | 359,989     | -                      | -                   | (359,989)         | -           | -                       | -           |
| -                    | 9,396       | -                      | (9,396)             | -                 | -           | -                       | -           |
| -                    | -           | -                      | 1,563,275           | -                 | 1,563,275   | -                       | 1,563,275   |
| 235,613              | (1,454,315) | -                      | 1,553,879           | (359,989)         | 1,577,759   | (61,089)                | 1,516,670   |
| 2,568,162            | 31,697,936  | 2,269,369              | (1,215,647)         | 955,788           | 56,202,061  | 1,264,408               | 57,466,469  |
| 2,568,162            | 31,697,936  | 2,269,369              | (1,215,647)         | 955,788           | 56,202,061  | 1,264,408               | 57,466,469  |
|                      |             |                        |                     |                   |             |                         |             |
| -                    | 6,321,116   | -                      | -                   | -                 | 6,321,116   | 79,506                  | 6,400,622   |
|                      |             |                        |                     |                   |             |                         |             |
| -                    | -           | 59,648                 | -                   | -                 | 59,648      | 24,947                  | 84,595      |
| -                    | (1,009,715) | -                      | -                   | -                 | (1,009,715) | (1,677)                 | (1,011,392) |
| -                    | -           | -                      | 694,210             | -                 | 694,210     | 1,222                   | 695,432     |
| -                    | -           | -                      | 287,819             | -                 | 287,819     | -                       | 287,819     |
| -                    | 5,311,401   | 59,648                 | 982,029             | -                 | 6,353,078   | 103,998                 | 6,457,076   |
|                      |             |                        |                     |                   |             |                         |             |
| -                    | (1,155,553) | -                      | -                   | -                 | (173,333)   | (52,362)                | (225,695)   |
| 312,811              | (312,811)   | -                      | -                   | -                 | -           | -                       | -           |
| 312,811              | (1,468,364) | -                      | -                   | -                 | (173,333)   | (52,362)                | (225,695)   |
| 2,880,973            | 35,540,973  | 2,329,017              | (233,618)           | 955,788           | 62,381,806  | 1,316,044               | 63,697,850  |
|                      |             |                        |                     |                   |             |                         |             |

\_

# **STATEMENT OF CASH FLOWS**

|                                                                                                                            |        | Bar          | nk I         | Group        |              |  |
|----------------------------------------------------------------------------------------------------------------------------|--------|--------------|--------------|--------------|--------------|--|
| For the year ended 31 December                                                                                             |        | 2023         | 2022         | 2023         | 2022         |  |
|                                                                                                                            | Note   | LKR '000     | LKR '000     | LKR '000     | LKR '000     |  |
| Cash Flows from Operating Activities                                                                                       |        |              |              |              |              |  |
| Interest Receipts                                                                                                          |        | 110,559,524  | 78,479,079   | 110,649,365  | 78,516,805   |  |
| Interest Payments                                                                                                          |        | (61,187,798) | (33,232,226) | (61,175,851) | (33,219,943) |  |
| Net fee and Commission Receipts                                                                                            | 9      | 7,480,177    | 6,462,018    | 7,476,765    | 6,461,207    |  |
| Trading Income                                                                                                             | 10     | 243,836      | 196,078      | 243,836      | 196,078      |  |
| Payments to Employees                                                                                                      |        | (7,582,118)  | (7,583,372)  | (7,621,765)  | (7,626,699)  |  |
| VAT and SSCL on Financial Services Paid                                                                                    |        | (3,829,697)  | (2,548,404)  | (3,829,697)  | (2,548,404)  |  |
| Receipts from Other Operating Activities                                                                                   |        | 1,186,759    | 15,234,119   | 1,284,808    | 15,358,584   |  |
| Payments on Other Operating Activities                                                                                     |        | (6,983,425)  | (5,861,384)  | (7,044,218)  | (5,914,487)  |  |
| Operating Profit before Changes in Operating Assets and                                                                    |        |              |              |              |              |  |
| Liabilities [ Note (a)]                                                                                                    |        | 39,887,258   | 51,145,908   | 39,983,243   | 51,223,141   |  |
| (Increase)/Decrease in Operating Assets :                                                                                  |        |              |              |              |              |  |
| Balances with Central Bank of Sri Lanka                                                                                    | 21     | 9,755,891    | (8,058,338)  | 9,755,891    | (8,058,338)  |  |
| Financial Assets at Amortized Cost - Loans and Advances                                                                    |        | (10,693,387) | (19,115,338) | (10,693,648) | (19,115,466) |  |
| Other Assets                                                                                                               |        | (1,658,330)  | (5,063,032)  | (1,432,965)  | (5,106,545)  |  |
| Increase/(Decrease) in Operating Liabilities :                                                                             |        |              |              |              |              |  |
| Financial Liabilities at Amortized Cost - Due to Depositors                                                                |        | 40,755,818   | 49,236,984   | 40,755,818   | 49,236,984   |  |
| Financial Liabilities at Amortized Cost - Due to Debt Securities                                                           |        |              |              |              |              |  |
| Holders                                                                                                                    |        | (5,045,727)  | 9,238,188    | (5,045,727)  | 9,238,188    |  |
| Financial Liabilities at Amortized Cost - Due to Other Borrowers                                                           | 39     | 8,668        | 188          | 8,668        | 188          |  |
| Other Liabilities                                                                                                          |        | 1,443,681    | (7,677,735)  | 1,138,781    | (7,653,888)  |  |
| Due to Banks                                                                                                               | 36     | (61,274)     | (12,346,357) | (61,274)     | (12,346,357) |  |
| Cash Generated from Operating Activities before Income                                                                     |        | 74 000 500   | 57.000.400   | 74 400 707   | 57 447 007   |  |
| Tax                                                                                                                        |        | 74,392,598   | 57,360,468   | 74,408,787   | 57,417,907   |  |
| Income Tax Paid                                                                                                            | 42     | (6,493,992)  | (2,138,520)  | (6,520,672)  | (2,138,520)  |  |
| Surcharge Tax Paid                                                                                                         |        | -            | (1,168,335)  | -            | (1,168,335)  |  |
| Net Cash Generated from Operating Activities                                                                               |        | 67,898,606   | 54,053,613   | 67,888,115   | 54,111,052   |  |
| Cash Flows from Investing Activities                                                                                       | 00     | (755.007)    | (100.007)    | (750.054)    | (107.000)    |  |
| Purchase of Property, Plant and Equipment                                                                                  | 30     | (755,207)    | (192,907)    | (758,251)    | (197,090)    |  |
| Improvements in Investment Properties                                                                                      | 32     | -            | -            | (31,213)     | (43,087)     |  |
| Proceeds from Sale of Property, Plant and Equipment                                                                        |        | 7,681        | 2,359        | 7,681        | 2,359        |  |
| Net Proceeds from Sale, Maturity and Purchase of Financial<br>Investments of Government of Sri Lanka Treasury Bills/Bonds, |        |              |              |              |              |  |
| Development Bonds, International Sovereign Bonds and United                                                                |        |              |              |              |              |  |
| States Treasury Bills Maturing after Three Months [Note (b)]                                                               |        | (1,701,728)  | (11,411,748) | (1,623,810)  | (11,489,675) |  |
| Net Proceeds From Sale, Maturity and Purchase of Financial                                                                 |        |              |              |              |              |  |
| Investments of Shares and Debentures                                                                                       |        | 108,509      | 47,606       | 158,406      | 58,572       |  |
| Reverse Repurchase Agreements Maturing after Three Months                                                                  |        | -            | -            | -            | -            |  |
| Net Purchase of Intangible Assets                                                                                          | 33     | (210,914)    | (102,672)    | (210,914)    | (102,672)    |  |
| Net Cash Flow from Acquisition of Investment in Subsidiaries                                                               |        | -            | -            | -            | -            |  |
| Net Cash Flow from Disposal of Subsidiaries                                                                                |        | -            | -            | -            | -            |  |
| Dividend Received from Investment in Subsidiaries                                                                          |        | 106,419      | 146,065      | -            | -            |  |
| Dividend Received from Other Investments                                                                                   |        | 16,296       | 16,446       | 16,296       | 16,446       |  |
| Net Cash Used in Investing Activities                                                                                      |        | (2,428,944)  | (11,494,851) | (2,441,805)  | (11,755,147) |  |
| Cash Flows from Financing Activities                                                                                       |        |              |              |              |              |  |
| Net Proceeds from the Issue of Ordinary Share Capital                                                                      |        | -            | -            | -            | -            |  |
| Net Proceeds from the Issue of Other Equity Instruments                                                                    |        | -            | -            | -            | -            |  |
| Net Proceeds from the Issue of Subordinated Debt                                                                           | 41     | 5,000,000    | -            | 5,000,000    | -            |  |
| Repayment of Subordinated Debt                                                                                             | 41     | (7,182,280)  | -            | (7,082,280)  | _            |  |
| Interest Paid on Subordinated Debt                                                                                         |        | (2,494,469)  | (2,589,596)  | (2,490,131)  | (2,578,780)  |  |
| Interest Paid on Subordinated Debt                                                                                         |        | (2,404,400)  | (2,000,000)  | (2,400,101)  | (2,010,100)  |  |
| Dividend Paid to Non-Controlling Interest                                                                                  |        | _            |              | (49,744)     | (57,343)     |  |
| Dividend Paid to Shareholders of the Bank                                                                                  |        | (8)          | (886)        | (49,744)     | (37,343)     |  |
| Dividend Paid to Shareholders of Other Equity Instruments                                                                  |        | (0)          | (000)        | (0)          | (000)        |  |
| Repayment of Principal Portion of Lease Liabilities                                                                        | 31.1.1 | (792,238)    | (752,565)    | (507,121)    | (474,202)    |  |
| Net Cash Used In Financing Activities                                                                                      | 01.1.1 | (5,468,995)  | (3,343,047)  | (5,129,284)  | (3,111,211)  |  |
| אפר סמאו טשבע זוו דווומוונוווץ אנוועווופא                                                                                  |        | (0,400,990)  | (3,343,047)  | (3,123,204)  | (3,111,211)  |  |

| For the year ended 31 December                                                                                                                                     |      | Bank        |            | Group       |            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------------|------------|-------------|------------|
|                                                                                                                                                                    |      | 2023        | 2022       | 2023        | 2022       |
|                                                                                                                                                                    | Note | LKR '000    | LKR '000   | LKR '000    | LKR '000   |
| Net Increase in Cash and Cash Equivalents                                                                                                                          |      | 60,000,667  | 39,215,715 | 60,317,026  | 39,244,694 |
| Cash and Cash Equivalents at Beginning of the Year                                                                                                                 |      | 83,255,632  | 44,039,917 | 83,449,117  | 44,204,423 |
| Cash and Cash Equivalents at End of the Year                                                                                                                       |      | 143,256,299 | 83,255,632 | 143,766,143 | 83,449,117 |
| Reconciliation of Cash and Cash Equivalents                                                                                                                        |      |             |            |             |            |
| Cash and Cash Equivalents                                                                                                                                          | 20   | 49,034,834  | 40,402,164 | 49,034,874  | 40,402,204 |
| Placements with Banks and Finance Companies                                                                                                                        | 22   | 22,175,550  | 1,828,177  | 22,176,048  | 1,828,675  |
| Government of Sri Lanka Treasury Bills/Bonds, Development<br>Bonds, International Sovereign Bonds and United States<br>Treasury Bills maturing within Three Months |      | 71,228,765  | 37,396,742 | 71,738,071  | 37,589,689 |
| Securities Purchased Under Resale Agreements maturing                                                                                                              |      | ,====,:===  | 01,000,112 | ,           | 01,000,000 |
| within Three Months                                                                                                                                                |      | 817,150     | 3,628,549  | 817,150     | 3,628,549  |
|                                                                                                                                                                    |      | 143,256,299 | 83,255,632 | 143,766,143 | 83,449,117 |

#### Note (a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

|                                                                     |      | Bank       |             | Group      |             |
|---------------------------------------------------------------------|------|------------|-------------|------------|-------------|
| For the year ended 31 December                                      |      | 2023       | 2022        | 2023       | 2022        |
|                                                                     | Note | LKR '000   | LKR '000    | LKR '000   | LKR '000    |
| Profit before Income Tax                                            |      | 10,080,086 | 6,628,860   | 10,269,451 | 6,796,658   |
| Accrual for Interest Income                                         |      | 3,480,963  | (7,589,532) | 3,480,963  | (7,589,532) |
| Accrual for Interest Expenses                                       |      | 3,343,028  | 9,704,827   | 3,050,567  | 9,420,498   |
| Fair Value Adjustment on Derivative Financial Instruments           | 10   | (443,376)  | 489,080     | (443,376)  | 489,080     |
| Loss on Revaluation of Foreign Exchange                             |      | 213,439    | 10,899,727  | 213,439    | 10,899,727  |
| Dividend Income                                                     | 12   | (144,371)  | (162,511)   | (19,172)   | (16,446)    |
| Mark to Market (Gains)/Losses on Financial Assets recognised at     | 10   | (130,994)  | 153,956     | (130,994)  | 153,956     |
| Fair Value Through Profit/Loss                                      |      |            |             |            |             |
| Profit from Sale of Property, Plant and Equipment                   | 12   | (7,681)    | (2,283)     | (7,681)    | (2,283)     |
| Depreciation of Property, Plant and Equipment                       | 14   | 651,098    | 712,206     | 714,843    | 777,708     |
| Depreciation of Right-of-Use Assets                                 | 14   | 450,115    | 460,289     | 415,452    | 426,586     |
| Depreciation of Investment Properties                               | 14   | -          | -           | 33,674     | 26,665      |
| Amortisation of Intangible Assets                                   | 14   | 184,071    | 185,420     | 184,071    | 185,420     |
| Impairment Charges on Loans and Advances                            | 13   | 15,342,429 | 21,447,905  | 15,342,429 | 21,447,905  |
| Amortisation of Pre Paid Staff Cost                                 | 15   | 371,267    | 302,464     | 371,528    | 302,592     |
| Accrual for VAT and SSCL on Financial Services                      |      | 105,622    | 225,631     | 105,622    | 225,631     |
| Accrual for Employee Retirement Benefits Liability                  |      | 1,196,415  | 78,260      | 1,201,026  | 78,112      |
| Impairment Charges Other than Loans and Advances                    | 13   | 1,662,517  | 4,985,171   | 1,662,508  | 4,985,171   |
| Accrual for Leave Encashment Provision                              | 43.2 | 114,037    | 3,588       | 114,037    | 3,588       |
| Accrual for Other Expenses                                          |      | 924,124    | 33,254      | 934,725    | 33,325      |
| Interest Paid to Debt Security Holders                              |      | 2,494,469  | 2,589,596   | 2,490,131  | 2,578,780   |
| Operating Profit before Changes in Operating Assets and Liabilities |      | 39,887,258 | 51,145,908  | 39,983,243 | 51,223,141  |

Note (b) Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Government of Sri Lanka Treasury Bills/ Bonds, Development Bonds, International Sovereign Bonds and United States Treasury Bills Maturing after Three Months

|                                            | Ba          | nk           | Group       |              |
|--------------------------------------------|-------------|--------------|-------------|--------------|
| For the year ended 31 December             | 2023        | 2022         | 2023        | 2022         |
|                                            | LKR '000    | LKR '000     | LKR '000    | LKR '000     |
| Treasury Bills                             | (1,183,554) | (11,842,301) | (1,105,636) | (11,920,228) |
| Treasury Bonds                             | (681,475)   | (4,042,452)  | (681,475)   | (4,042,452)  |
| Foreign Currency Denominated Bonds / Bills | 163,301     | 4,473,005    | 163,301     | 4,473,005    |
| Total                                      | (1,701,728) | (11,411,748) | (1,623,810) | (11,489,675) |

Notes on pages 178 to 272 form an integral part of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

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 2023 is 3,077 (2022 -3,156). The total number of employees of the Group as at 31 December 2023 is 3,095 (2022 -3,175).

### 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 and retail credit, project financing, lease financing, rural credit, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, salary remittance packages, pawning, margin trading, factoring, digital banking services, bancassurance, Islamic banking products and services, 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 (including the relevant directions) and listing rules of Colombo Stock Exchange (CSE). The details of material accounting policies are disclosed in Note 5.

#### 2.2 Approval of Financial Statements by Directors

The Financial Statements as at 31 December 2023 were authorised for issue by the Board of Directors on 20 February 2024.

#### 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.
- Investment Properties measured at cost at the time of acquisition and subsequently at fair value.
- 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 separate 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 2022 has been restated in arriving at Earnings per Share (EPS) for 2022.

#### 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.

#### **Economic Environment**

Despite the improvements in the economic indicators, uncertainties remains in the local economic environment impacting the creditworthiness of the corporates and individuals resulting in non-performing loans and recognition of impairment losses by the Bank.

The Bank's total exposure to Sri Lanka Government Securities denominated in foreign currency is presented in Note 26 to these financial statements. The main uncertainty is estimating the recoverability of the Bank's total exposure to foreign currency denominated Government Securities (Sri Lanka International Sovereign Bonds -SLISBs) relates to the debt service capacity of the country. This in turn is affected by the prevailing macro-economic environment and the negotiations of the Government of Sri Lanka in relation to debt restructuring and refinancing.

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 economic conditions on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

#### (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) Determination of Fair Value of Financial Instruments when there is no Observable Market Data.

As explained in Note 6.2.

#### (c) Assessment of Credit Risk

The Group 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.

## (d) 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.

## (e) Determination of Control Over Investee

As explained in Note 28.

## (f) Classification of Investment Properties

As Explained in Note 32.

## (II) Assumptions and Estimation Uncertainties

## **Going Concern**

The Directors have made an assessment of the Bank's/Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

The Assessment took into consideration the current economic developments in order to make projections for the future based on uncertainties associated with the economic conditions and its potential impact on the economic and business environment in which the Group operates. The main factors that cause uncertainties regarding the application of this principle relate to uncertainties in the local economic environment, despite the improvements in the economic indicators, which in turn impact the creditworthiness of the corporates and individuals resulting in non-performing loans and recognition of impairment losses by the Bank. Based on the above and taking into consideration the Group's capital adequacy and the ability of the Bank to access liquidity mechanism, the Board of Directors are confident that the conditions for the application of the going concern principle for the preparation of the financial statements are met. Refer Note 6.

The Board is not aware of any material uncertainties that may cast significant doubt on the Bank's/Group'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 impairment of financial instruments: determination of inputs into the Expected Credit Loss (ECL) measurement model including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

## Measurement of the Fair Value of Financial Instruments with Significant Unobservable Inputs

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.

#### Goodwill

Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.

## **Useful life time**

Useful life time of property, plant and equipment, intangible assets and right-ofuse assets - As described In Notes 5.11.6, 5.9.3 and 5.12 respectively.

## 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.

## 180

## NOTES TO THE FINANCIAL STATEMENTS

## 4. Changes in Material Accounting Policies and New and Amended Standards

The group has adopted the standards set out below under Notes 4.1(a) and 4.1(b).

## 4.1(a) Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Group adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12) from 01 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences e.g. leases. For leases, the Group is required to recognise the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the Group applies the amendments to transactions that occur on or after the beginning of the earliest period presented. The Group previously accounted for deferred tax on leases by applying the 'integrally linked' approach, resulting in a similar outcome as under the amendments, except that the deferred tax asset or liability was recognised on a net basis. Following the amendments, the Group has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the Statement of Financial Position because the balances qualify for offset under LKAS 12. There was also no impact on the opening retained earnings as at 01 January 2022 as a result of the change. The key impact for the Group relates to disclosure of the deferred tax assets and liabilities recognised.

## 4.1(b) Material Accounting Policy Information

The Group also adopted Disclosure of Accounting Policies (Amendments to LKAS 1) from 01 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. Management reviewed the accounting policies and made updates to

the information disclosed in Note 5 Material accounting policies (2022: Significant accounting policies) in certain instances in line with the amendments.

## 4. 2 New and Amended Standards and Interpretations

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued several new accounting standards and amendments/improvements to existing standards. These new standards are set to become effective in the coming years. Early application of these standards is allowed, but the Group has not early adopted any of the new or amended standards in the preparation of these financial statements.

(i) Classification of liabilities as current or non-current (Amendments to LKAS 1).

Amendments to LKAS 1 alter the classification of liabilities like convertible debt and introduce new disclosure requirements for liabilities subject to covenants will become effective from 01 January 2024.

(ii) Lease liability in a sale and leased back (Amendment to SLFRS 16).

The amendments specifically affect sellerlessee accounting in sale and leaseback transactions that qualify as a sale under SLFRS 15, especially those involving variable lease payments not based on an index or rate. They modify how a seller-lessee accounts for these leasebacks, preventing recognition of gains on retained rights of use due to lease term modifications or changes, which previously could occur when variable payments not defined as 'lease payments' were excluded. This standard will become effective from 01 January 2024.

- (iii) Supplier Finance Arrangements (Amendments to LKAS 7 and SLFRS 7).
- (iv)Lack of Exchangeability (Amendments to LKAS 21).

## 5. Material Accounting Policies

The Accounting Policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

The Accounting Policies have been 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 01 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 marketbased 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 55.

### 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.

The following are the middle rate of exchange as at 31 December 2023.

| LKR Value<br>(Per 1 Unit of Each<br>Currency) |
|-----------------------------------------------|
| 413.0945                                      |
| 324.2500                                      |
| 358.9772                                      |
| 2.2922                                        |
| 221.6897                                      |
|                                               |

## 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 (nonrecourse 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, 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 nonfinancial 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 Bank 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 Bank 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 Bank 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 Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Bank 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'. Financial Instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired.

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 allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit impaired.

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 creditimpaired 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 Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

# Restructured / Rescheduled 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 Bank 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 creditimpaired 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 Bank on terms that the Bank 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 FVOCI 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 'Other Income' in the Income Statement.

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 Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships.

#### Policy Applicable Generally to Hedging Relationships

On initial designation of the hedge, the Group 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 Group 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 Group has only cash flow hedging relationships.

The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk, if the portion is separately identifiable and reliably measurable.

#### **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 expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

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 for exposures that pose a material risk to the Bank's financial health or threaten the strategic decisions. These hedging transactions are entered within the Bank's approved limits such as Per Transaction Limits Counter Party Limits, Currency Exposure Limits and Gap Limits, and always study the Market Outlook prior to entering into such transactions.

## Fair Value Hedge of Foreign Exchange Risk

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value 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 expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

#### 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<br>(Years) |
|--------------------------------------------------|------------------------|
| Seylan Bank PLC<br>(Banking Software)            | 6                      |
| Seylan Developments<br>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, Sevlan 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 gualification 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 55.

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 owneroccupied, 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-byproperty 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 55 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 Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement 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 Income Statement 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        |              |                   |
| Machine,      |              |                   |
| Equipment,    | 3 - 10       | 33 1/3% - 10%     |
| Furniture and |              |                   |
| Fittings      |              |                   |
| Freehold      |              |                   |
| Buildings on  | Remaining le | ased period or 40 |
| Lease hold    | years whic   | hever is shorter  |
| Lands         |              |                   |

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 Institute of Chartered Accountants 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<br>(Years) | Depreciation<br>Rate |
|-------------------------------|------------------------|----------------------|
| Furniture and<br>Fittings     | 10                     | 10%                  |
| Office and Other<br>Equipment | 05                     | 20%                  |
| Tools                         | 03                     | 33.3%                |

## 188

## NOTES TO THE FINANCIAL STATEMENTS

## 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 01 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 standalone 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 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 rightof-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, pre-printed material, Tikiri gifts and electronic cards. Bank accounts the inventory of stationery, consumables, pre-printed material and Tikiri gifts at first in first out method, and the electronic plastic 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 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 mortality, staff turnover, disability, retirement age specified by the Bank, etc.

As per the Act No. 28 of 2021 Minimum Retirement Age of Workers, the retirement age has been changed to a range of 57 years to 60 years from 55 years. Earlier the Bank's retirement age of employees was increased to 57 years in 2017 from 55 years. These revisions 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 05 March 2009 and retired/resigned after 05 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 05 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.

The Subsidiary has performed the calculation using the Projected Unit Credit Method based on Sri Lanka Accounting Standard (LKAS) 19 - "Employee Benefits", and the provisions have been made accordingly.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

#### Other Long-Term Employee Benefits – (Termination Benefit -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

## 190

# NOTES TO THE FINANCIAL STATEMENTS

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 remeasures 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 postemployment 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 Income Statement 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 Commitments and Contingencies**

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

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.

When a financial asset becomes credit impaired and regarded as "Stage 3", the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit impaired, the group reverts to calculate interest income on gross basis.

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 Income Statement 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 month 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. According to Inland Revenue (Amendment) Act No. 45 of 2022, income tax rate applicable for companies have been changed from 24% to 30% with effect from 01 July 2022. However, if dividend income received not subject to Advance Income Tax (AIT), such shall be taxed at the maximum rate of 15% with effect from 01 October 2022.

## 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 prescribed by the tax statutes or any procedural guidelines.
- Any temporary difference not specifically recognised by an Act or an Act substantively enacted.

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 deduction, which is taxed in the current period, and vice versa, a deferred tax liability shall be created for a foreseen futuristic realisation of a tax payment, which is not 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 34 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 as amended by considering all the lands as business assets. The total related deferred tax charge was recognised in the Other Comprehensive Income from the year 2017 onwards.

## 5.21.3 Advance Income Tax (AIT) on Dividends

Dividends distributed out of profits after tax attract 14% till 30 September 2022 and 15% with effect from 01 October 2022 tax deduction in the hands of the dividend recipient. No Advance Income Tax (AIT) was mandatorily imposed until 30 September 2022 whereas 15% AIT (similar to Withholding Tax) is mandatorily imposed on dividends distributed with effect from 01 January 2023. Therefore, any dividends distributed after 01 January 2023 shall be subject to deduction of 15% AIT where shareholders shall receive dividends net of AIT. AIT deducted on dividends shall be final tax and will attract no further tax in the hands of the shareholders.

With the introduction of the Inland Revenue Amendment Acts No. 10 of 2021 and No. 45 of 2022, any dividends paid out of the dividends received, shall be exempted

191

from income tax net of the cost of funds. In addition, if a resident company pays the dividend to a non-resident person (including a company) such would be totally exempted from income tax.

## 5.21.4 Value Added Tax on Financial Services

The value base for Value Added Tax (VAT) for the Bank is the adjusted accounting profit before tax, emoluments of employees and economic depreciation computed for the owned fixed assets. The total value addition arrived for the entire bank has to be apportioned in accordance to the applicable turnover; turnover has to be quantified in line with the turnover applicable for general VAT and VAT on Financial Services. The Value Addition Attributable for Financial Services" shall be derived with the application of the turnover ratio distinguishing general VAT and VAT on Financial Services. In order to derive the total VAT on Financial Services liability for a particular period, the tax fraction 18/120.5 with effect from 01 October 2022 (18/118 applicable until 30 September 2022) has to be applied accordingly on the value addition attributable to financial services.

## 5.21.5 Social Security Contribution Levy (SSCL)

The Social Security Contribution Levy (SSCL) Act. No 25 of 2022, has been passed in the parliament imposing a new levy on the turnover of persons. This has some similarities to the former Nation Building Tax (NBT), which was abolished from 01 November 2019. The SSCL comes into operations with effect from 01 October 2022. Since SSCL is a turnover based direct tax, it has two tax bases.

- 1. Value Addition attributable to financial services. (The same value addition derived to compute the VAT on Financial services as explained under 5.21.4 above)
- 2. Turnover liable for General VAT (Turnover not liable for financial services).

The Value Addition Attributable for Financial Services shall be derived with the application of the turnover ratio distinguishing general VAT and VAT on Financial Services. Tax fraction 2.5/120.5 is applied in computing SSCL.

In addition, turnover, liable for General VAT too shall be chargeable with SSCL. Bank is required to pay SSCL on the General VAT liable turnover at the rate of 2.5%.

## 5.21.6 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, 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 01 April 2013.

## 5.21.7 Advance Income Tax (AIT) and Withholding Tax (WHT)

Advance Income Tax (AIT) which has similar attributes to the Withholding Tax has been re-introduced with the introduction of Inland Revenue (Amendment) Act No. 45 of 2022 effecting from 01 January 2023. AIT shall be charged on the interest paid or credited from all interest bearing deposit accounts denominated in Sri Lankan Rupees at the rate of 5% on such interest payments or credits. Interest received on interest bearing foreign currency accounts, "Special Deposit Accounts" and Diplomatic accounts are exempted from AIT.

Withholding Tax has been reintroduced on Services Fees paid to Individuals and the Rent paid to any person under the Inland Revenue (Amendment) Act No. 45 of 2022 effecting from 01 January 2023. If any individual including a sole proprietorship is paid with a service related fees as provided under the Section 85 - (1C) of the Inland Revenue (Amendment) Act No. 45 of 2022, the Withholding Tax agent or the service recipient has to deduct Withholding Tax at the rate of 5% on the total gross amount if such payment exceeds LKR 100,000.00 per calendar month.

Withholding Tax has re-introduced on Rent expenses paid to any person if such aggregate gross rent income surpasses or equal to LKR 100,000.00 for a calendar month at the rate of 10%.

#### 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 Statement 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 Sri Lanka Deposit Insurance 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 Sri Lanka Deposit Insurance Scheme operated by the Central Bank of Sri Lanka. Deposits to be insured include demand deposits, time deposits including certificates of deposits and savings deposits other than following:

- Deposit liabilities to member institutions
- 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 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

- Vostro accounts of entities in the member institutions
- Deposit liabilities of overseas branches
- Promissory notes

Each member Institutions shall pay a premium calculated on the total amount of deposits inclusive of any interest accrued, excluding the deposit liabilities stated above, as at the end of the quarter/month as may be determined by the Central Bank of Sri Lanka, from time to time.

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, 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 01 January 2011. Operations of the investment fund account ceased with effect from 01 October 2014. With effect from 01 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 from loans and proceeds received from Government Securities at maturity with effect from 01 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 01 January 2018 and fair value changes of Financial assets measured at fair value through other comprehensive income (FVOCI) since 01 January 2018.

Considering the unprecedented changes in the macro-economic conditions, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued the "Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio" which provides a temporary practical expedient to permit the entities to reclassify the debt portfolio measured at Fair Value through Other Comprehensive Income (FVTOCI) to Amortised cost.

The Bank has adopted the above SoAT and re-classified its Debt Portfolio from Fair Value Through Other Comprehensive Income (FVOCI) to Amortised Cost (AC) with effect from 01 April 2022.

#### 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 51 to the Financial Statements or adjusted as applicable.

## 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

#### 6.1 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 nonexecutive 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 financial assets measured at fair value through profit or loss is managed independently and information thereon is

disclosed below. The market risk in respect of changes in fair value in financial assets measured at fair value through profit or loss 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 Risk 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.

194

- 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**

|                                                           | 2023        |             |              |              | 2022         |
|-----------------------------------------------------------|-------------|-------------|--------------|--------------|--------------|
|                                                           | Stage 1     | Stage 2     | Stage 3      | Total        | Total        |
|                                                           | LKR '000    | LKR '000    | LKR '000     | LKR '000     | LKR '000     |
| Financial Assets at Amortised Cost : Loans and Adva       | inces       |             |              |              |              |
| Gross Loans and Advances                                  | 401,810,674 | 24,226,722  | 71,167,813   | 497,205,209  | 490,431,884  |
| Expected Credit Loss Allowance                            | (3,170,520) | (7,884,411) | (48,617,808) | (59,672,739) | (46,212,376) |
| Total Net Loans and Advances                              | 398,640,154 | 16,342,311  | 22,550,005   | 437,532,470  | 444,219,508  |
| Financial Assets at Amortised Cost : Debt and Other       | Instruments |             |              |              |              |
| Government Securities - Treasury Bills                    | 14,715,608  | -           | -            | 14,715,608   | 6,052,565    |
| Government Securities - Treasury Bonds                    | 72,594,101  | -           | -            | 72,594,101   | 85,560,849   |
| Sri Lanka Development Bonds                               | -           | -           | -            | -            | 2,583,970    |
| Sri Lanka International Sovereign Bonds                   | -           | 12,094,919  | -            | 12,094,919   | 12,842,058   |
| United States - Treasury Bills                            | 9,670,956   | -           | -            | 9,670,956    | -            |
| Quoted Debentures                                         | 213,321     | -           | -            | 213,321      | 294,732      |
| Unquoted Debentures                                       | 538,188     | -           | -            | 538,188      | 595,383      |
| Securities Purchased under Resale Agreements              | 817,150     | -           | -            | 817,150      | 3,628,549    |
| Total Financial Investments Measured at<br>Amortised Cost | 98,549,324  | 12,094,919  | _            | 110,644,243  | 111,558,106  |
| Expected Credit Loss Allowance                            | (375)       | (6,289,358) | -            | (6,289,733)  | (5,399,228)  |
| Net Financial Investments Measured at Amortised Cost      | 98,548,949  | 5,805,561   | -            | 104,354,510  | 106,158,878  |
| Cash and Cash Equivalents (Balances with Banks)           |             |             |              |              |              |
| Balances with Local Banks                                 | 546,389     | -           | -            | 546,389      | 548,410      |
| Balances with Foreign Banks                               | 36,191,728  | -           | -            | 36,191,728   | 28,981,507   |
| Total Balances with Banks                                 | 36,738,117  | -           |              | 36,738,117   | 29,529,917   |
| Expected Credit Loss Allowance                            | (183,691)   | -           | -            | (183,691)    | (147,650)    |
| Net Balances with Banks                                   | 36,554,426  | -           |              | 36,554,426   | 29,382,267   |
| Placements with Banks and Finance Companies               |             |             |              |              |              |
| Term Deposits with Banks                                  | 22,175,550  | -           | -            | 22,175,550   | 1,828,177    |
| Total Placements with Banks and Finance                   |             |             |              |              |              |
| Companies                                                 | 22,175,550  | -           |              | 22,175,550   | 1,828,177    |
| Expected Credit Loss Allowance                            | (110,878)   | -           | -            | (110,878)    | (9,141)      |
| Net Placements with Banks and Finance Companies           | 22,064,672  | -           |              | 22,064,672   | 1,819,036    |

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.

196

|                                                                                     |                              | 2023      |             |
|-------------------------------------------------------------------------------------|------------------------------|-----------|-------------|
|                                                                                     | Impact: Increase/ (Decrease) |           |             |
|                                                                                     | Stage 1                      | Stage 2   | Stage 3     |
|                                                                                     | LKR '000                     | LKR '000  | LKR '000    |
| Financial Assets at Amortised Cost : Loans and Advances - Expected Credit Loss      | · · ·                        |           |             |
| Increase in Lending Portfolio (Including Rescheduled/Restructured/Stress Tested     |                              |           |             |
| Facilities)                                                                         | 1,882,767                    | 1,634,830 | 2,928,780   |
| Loans and Advances Recoveries                                                       | (781,836)                    | (316,853) | (3,816,717) |
| Bucket Net Movements and Changes in Loss Rates                                      | (4,112,492)                  | 150,497   | 16,731,988  |
| Increase in Interest Accrued on Impaired Loans and Advances                         | -                            | -         | 1,041,465   |
| Financial Assets at Amortised Cost : Debt and Other Instruments                     |                              |           |             |
| Increase in Expected Credit Allowance for Foreign Currency Denominated Instruments  |                              |           |             |
| due to Country Downgrading                                                          | 257                          | 1,519,452 | -           |
| Cash and Cash Equivalents (Balances with Banks)                                     |                              |           |             |
| Increase in Carrying Amount of Balances                                             | 36,041                       | -         | -           |
| Placements with Banks and Finance Companies                                         |                              |           |             |
| Increase in Investments in Placements with Banks and Finance Companies              | 101,737                      | -         | -           |
| Undrawn Credit Commitments and Financial Guarantees                                 |                              |           |             |
| Increase in Undrawn Commitments and Financial Guarantees and Increase in Loss Rates | (322,170)                    | 55,606    | 618,840     |
| Other Receivables                                                                   |                              |           |             |
| Carrying Balances Fully Settled                                                     | -                            | -         | (347,246)   |

# 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 Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information.

The Bank uses a backstop of 30 days past due for determining whether there is a significant increase in credit risk.

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. Modified risk elevated sectors are tourism, construction and sub sectors of whole sale and retail trade such as vehicles, parts and accessories and building materials and sub sector of manufacturing such as textile and apparel.

# Incorporation of Forward-Looking Information

The Bank 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 Bank 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 macroeconomic variables and credit risk and credit losses.

The key drivers for credit risk GDP growth, unemployment rates, inflation, exchange rates and interest rates.

The Bank 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 Bank 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 Bank 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.

The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets.

## Stage-wise Analysis of Collateral held against Loans and Advances

The following table sets out the principal types of collateral held by the Bank / Group against loans and advances. For each loan, the value of the collateral is capped at the amortised cost of the loan.

|                           | 2023           | 2022<br>Amortised Cost |  |
|---------------------------|----------------|------------------------|--|
|                           | Amortised Cost |                        |  |
|                           | LKR '000       | LKR '000               |  |
| Stage 1                   |                |                        |  |
| Cash and Cash Equivalents | 56,603,047     | 44,210,472             |  |
| Gold                      | 32,189,618     | 28,985,218             |  |
| Mortgages                 | 102,180,313    | 93,770,387             |  |
| Motor vehicles            | 18,793,006     | 17,593,207             |  |
| Other*                    | 123,027,587    | 113,405,866            |  |
| Unsecured                 | 69,017,103     | 90,111,413             |  |
|                           | 401,810,674    | 388,076,563            |  |
| Stage 2                   |                |                        |  |
| Cash and Cash Equivalents | 971,356        | 722,151                |  |
| Gold                      | 856,679        | 791,532                |  |
| Mortgages                 | 5,727,971      | 9,013,320              |  |
| Motor vehicles            | 2,563,768      | 2,451,926              |  |
| Other*                    | 12,777,856     | 23,329,092             |  |
| Unsecured                 | 1,329,092      | 4,370,001              |  |
|                           | 24,226,722     | 40,678,022             |  |
| Stage 3                   |                |                        |  |
| Cash and Cash Equivalents | 941,653        | 612,918                |  |
| Gold                      | 84,913         | 374,235                |  |
| Mortgages                 | 42,722,415     | 32,343,046             |  |
| Motor vehicles            | 2,272,118      | 3,562,327              |  |
| Other*                    | 12,664,984     | 6,292,993              |  |
| Unsecured                 | 12,481,730     | 18,491,780             |  |
|                           | 71,167,813     | 61,677,299             |  |

\*Other securities include quoted and unquoted shares, factoring agreements, personal guarantees and corporate guarantees

| Type of Credit Exposure                         | Principal Type of Collateral Held for<br>Secured Lending | Percentage of Exposure that is<br>Subject to an Arrangement that<br>Requires Collateralisation |      |
|-------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------------------------------|------|
|                                                 |                                                          | 2023                                                                                           | 2022 |
| Derivative Financial Instruments                | None                                                     |                                                                                                | -    |
| Loans and Advances to Banks                     |                                                          |                                                                                                |      |
| Securities Purchased under Resale Agreements    | Marketable Securities                                    | 100%                                                                                           | 100% |
| Placements with Banks and Finance Companies     | None                                                     | -                                                                                              | -    |
| Loans and Advances to Retail Customers          |                                                          |                                                                                                |      |
| Mortgage Lending                                | Residential Property                                     | 100%                                                                                           | 100% |
| Credit Cards                                    | None                                                     | -                                                                                              | -    |
| Personal Loans                                  | None/Guarantors                                          | -                                                                                              | -    |
| Loans and Advances to Other Customers           |                                                          |                                                                                                |      |
| Finance Leases                                  | Motor Vehicles and Equipment                             | 100%                                                                                           | 100% |
| Other Lending to Other Customers*               | Commercial Property, Floating Charges Over               |                                                                                                |      |
|                                                 | Other Loans and Advances                                 | 83%                                                                                            | 78%  |
| Securities Purchased under Resale Agreements    | Marketable Securities                                    | 100%                                                                                           | 100% |
| *Based on the exposure covered with collateral. |                                                          |                                                                                                |      |

198

\*Based on the exposure covered with collateral.

Details of financial and non-financial assets obtained by the Bank as at 31 December 2023 by taking possession of collateral held as security (foreclosed) against loans and advances as well as calls made on credit enhancements and held as at the year-end are shown below.

|                           | 2023 24            |                                               | )22                |                                               |
|---------------------------|--------------------|-----------------------------------------------|--------------------|-----------------------------------------------|
| Foreclosed Properties     | Loans and Advances | Forced Sale Value of<br>Foreclosed Collateral | Loans and Advances | Forced Sale Value of<br>Foreclosed Collateral |
|                           | LKR '000           | LKR '000                                      | LKR '000           | LKR '000                                      |
| Balance as at 01 January  | 5,506,285          | 8,141,482                                     | 5,399,630          | 8,395,553                                     |
| Additions During the Year | 3,505,722          | 3,318,281                                     | 1,213,152          | 1,069,250                                     |
| Disposal During the Year  | (1,233,727)        | (533,201)                                     | (1,106,497)        | (918,550)                                     |
| Valuation Changes         | -                  | 205,096                                       | -                  | (404,771)                                     |
| Balance as at 31 December | 7,778,280          | 11,131,658                                    | 5,506,285          | 8,141,482                                     |

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. Credit related off-balance sheet commitments are disclosed in Note 47 to the Financial Statements.

Concentration by location for loans and advances, contingent liabilities and commitments are measured based on the location of the Branch entity holding the asset, which has a high correlation with the location of the borrower. These are given in Geographical Analysis.

The table below shows the carrying amounts of the Bank's exposures to other financial instruments.

|                                                                                         | 2023        | 2022        |
|-----------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                         | LKR '000    | LKR '000    |
| Financial Assets measured at Fair Value through Profit or Loss - Measured at Fair Value | 27,753,867  | 17,781,867  |
| Derivative Financial Instruments                                                        | 88,022      | 519,189     |
| Investment Securities :                                                                 |             |             |
| Financial Assets measured at Fair Value through Other Comprehensive Income              | 40,048,711  | 17,136,286  |
| Financial Assets at Amortised Cost - Debt and Other Instruments                         | 104,354,510 | 106,158,878 |

## **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 shortterm liquid assets, largely made up of shortterm 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:

|                      | 2023     |       | 202   | 2     |
|----------------------|----------|-------|-------|-------|
|                      | DBU FCBU |       | DBU   | FCBU  |
|                      | %        | %     | %     | %     |
| At 31 December       | 38.51    | 23.28 | 25.16 | 25.02 |
| Average for the year | 34.06    | 25.77 | 23.23 | 22.99 |
| Maximum for the year | 39.38    | 29.17 | 26.29 | 25.02 |
| Minimum for the year | 27.59    | 23.28 | 19.44 | 21.05 |

Maturity analysis for the financial liabilities is shown below with their undiscounted contractual cash flows over the future periods.

## Financial Liabilities – 2023 Bank

| Less than<br>3 Months | 3 Months<br>to 1 Year                                                              | 1 -5<br>Years                                                                                                                                                                                                                                          | More<br>than 5<br>Years                                                                                                                                                                                                                                                                                                                                                   | Total                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| LKR '000              | LKR '000                                                                           | LKR '000                                                                                                                                                                                                                                               | LKR '000                                                                                                                                                                                                                                                                                                                                                                  | LKR '000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|                       |                                                                                    |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 1,172,022             | 5,385,793                                                                          | 7,870,451                                                                                                                                                                                                                                              | -                                                                                                                                                                                                                                                                                                                                                                         | 14,428,266                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 255,173,481           | 319,491,568                                                                        | 44,971,351                                                                                                                                                                                                                                             | 15,233,163                                                                                                                                                                                                                                                                                                                                                                | 634,869,563                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 581,036               | 6,469,803                                                                          | 18,643,000                                                                                                                                                                                                                                             | -                                                                                                                                                                                                                                                                                                                                                                         | 25,693,839                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 6,899,604             | 22,309                                                                             | -                                                                                                                                                                                                                                                      | -                                                                                                                                                                                                                                                                                                                                                                         | 6,921,913                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 79,167                | 206,354                                                                            | 1,077,858                                                                                                                                                                                                                                              | 4,046,039                                                                                                                                                                                                                                                                                                                                                                 | 5,409,418                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|                       |                                                                                    |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 32,269                | -                                                                                  | -                                                                                                                                                                                                                                                      | -                                                                                                                                                                                                                                                                                                                                                                         | 32,269                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                       | 3 Months<br>LKR '000<br>1,172,022<br>255,173,481<br>581,036<br>6,899,604<br>79,167 | 3 Months         to 1 Year           LKR '000         LKR '000           1,172,022         5,385,793           255,173,481         319,491,568           581,036         6,469,803           6,899,604         22,309           79,167         206,354 | 3 Months         to 1 Year         Years           LKR '000         LKR '000         LKR '000           1,172,022         5,385,793         7,870,451           255,173,481         319,491,568         44,971,351           581,036         6,469,803         18,643,000           6,899,604         22,309         -           79,167         206,354         1,077,858 | Less than<br>3 Months         3 Months<br>to 1 Year         1 -5<br>Years         than 5<br>Years           LKR '000         LKR '000         LKR '000         LKR '000           1,172,022         5,385,793         7,870,451         -           255,173,481         319,491,568         44,971,351         15,233,163           581,036         6,469,803         18,643,000         -           6,899,604         22,309         -         -           79,167         206,354         1,077,858         4,046,039 |

## Financial Liabilities - 2022 Bank

|                                                                                    | Less than<br>3 Months | 3 Months<br>to 1 Year | 1 -5 Years | More than<br>5 Years | Total       |
|------------------------------------------------------------------------------------|-----------------------|-----------------------|------------|----------------------|-------------|
|                                                                                    | LKR '000              | LKR '000              | LKR '000   | LKR '000             | LKR '000    |
| Non-Derivative<br>Liabilities                                                      |                       |                       |            |                      |             |
| Due to Banks and<br>Other Borrowers                                                | 562,841               | -                     | 14,139,162 | -                    | 14,702,003  |
| Financial<br>Liabilities at<br>Amortised Cost<br>due to Depositors                 | 213,064,805           | 313,280,948           | 44,088,080 | 14,330,088           | 584,763,921 |
| Debt Securities<br>Issued                                                          | 4,619,129             | 4,256,853             | 15,981,775 | 2,317,227            | 27,174,984  |
| Financial<br>Liabilities at<br>Amortised Cost<br>due to Debt<br>Securities Holders | 12,008,951            | 26,600                | -          | -                    | 12,035,551  |
| Lease Liabilities                                                                  | 95,303                | 255,609               | 1,316,152  | 3,434,183            | 5,101,247   |
| Derivative<br>Liabilities                                                          |                       |                       |            |                      |             |
| Derivative Financial<br>Instruments                                                | 906,813               | -                     | -          | -                    | 906,813     |

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.

200

## **Liquidity Reserve**

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose.

|                                             | 202            | 2023        |  |
|---------------------------------------------|----------------|-------------|--|
|                                             | Carrying Value | Fair Value  |  |
|                                             | LKR '000       | LKR '000    |  |
| Cash and Cash Equivalents *                 | 48,851,143     | 48,851,143  |  |
| Placements with Banks and Finance Companies | 22,064,672     | 22,064,672  |  |
| Balances with Central Bank of Sri Lanka *   | 7,028,281      | 7,028,281   |  |
| Treasury Bills/ Bonds net of Repos          | 169,029,459    | 162,555,111 |  |
| Bills Purchased *                           | 3,943,841      | 3,943,841   |  |
| Total Liquidity Reserve                     | 250,917,396    | 244,443,048 |  |

\* 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 01 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 01 January 2019 onwards 100%. The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:

|                                                                           | 2023   | 2022   |
|---------------------------------------------------------------------------|--------|--------|
| Rupee Liquidity<br>Requirement for<br>Local Currency<br>Operations        | 355.16 | 280.14 |
| All Currency<br>Liquidity<br>Requirement<br>for the Overall<br>Operations | 338.42 | 175.10 |

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:

|                                                                                                                             | 2023                                 |          |              |                   |                                      | 2                 | 022               |                   |
|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------|--------------|-------------------|--------------------------------------|-------------------|-------------------|-------------------|
|                                                                                                                             | Encumb                               | oered    | Unencumbered |                   | Encumbered                           |                   | Unencumbered      |                   |
|                                                                                                                             | Pledged as<br>Collateral<br>LKR '000 | Other    | Other        | Total<br>LKR '000 | Pledged as<br>Collateral<br>LKR '000 | Other<br>LKR '000 | Other<br>LKR '000 | Total<br>LKR '000 |
| On the second On the                                                                                                        | LKN UUU                              | LKR '000 | LKR '000     | LKN 000           | LKN UUU                              | LKN UUU           | LNN UUU           | LKN 000           |
| Cash and Cash<br>Equivalents                                                                                                | -                                    | -        | 48,851,143   | 48,851,143        | -                                    | -                 | 40,254,514        | 40,254,514        |
| Placements with Banks<br>and Finance Companies                                                                              | -                                    | -        | 22,064,672   | 22,064,672        | -                                    | -                 | 1,819,036         | 1,819,036         |
| Financial Assets<br>Recognised through<br>Profit or Loss - measured<br>at Fair Value                                        | 897,383*                             | -        | 26,856,484   | 27,753,867        | -                                    | -                 | 17,781,867        | 17,781,867        |
| Financial Assets at<br>Amortised Cost - Loans<br>and Advances                                                               | -                                    | -        | 437,532,470  | 437,532,470       | _                                    | -                 | 444,219,508       | 444,219,508       |
| Financial Assets measured<br>at Fair Value through Other<br>Comprehensive Income<br>/ Financial Assets at<br>Amortised Cost | 5,842,235*                           | _        | 138,560,986  | 144,403,221       | 12,936,380*                          |                   | 110,358,784       | 123 205 164       |
|                                                                                                                             | 0,042,200                            | -        |              |                   | 12,930,300                           | -                 |                   |                   |
| Other Assets                                                                                                                | -                                    | -        | 37,380,062   | 37,380,062        | -                                    | -                 | 45,435,555        | 45,435,555        |
| Total Assets                                                                                                                | 6,739,618                            |          | 711,245,817  | 717,985,435       | 12,936,380                           | -                 | 659,869,264       | 672,805,644       |

\* Financial asset values pledged against Repos.

## **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 stress situation, management has little time to plan its strategy, and as such the management understands importance to have a welldeveloped contingency liquidity funding plan prior to a stress 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.

|                               |             | 2023       |             | 2022        |            |             |  |
|-------------------------------|-------------|------------|-------------|-------------|------------|-------------|--|
|                               | Carrying    | Trading    | Non-Trading | Carrying    | Trading    | Non-Trading |  |
|                               | Amount      | Portfolios | Portfolios  | Amount      | Portfolios | Portfolios  |  |
|                               | LKR '000    | LKR '000   | LKR '000    | LKR '000    | LKR '000   | LKR '000    |  |
| Assets Subject to Market Ris  | k           |            |             |             |            |             |  |
| Financial Assets recognised   |             |            |             |             |            |             |  |
| through Profit or Loss -      |             |            |             |             |            |             |  |
| measured at Fair Value        | 27,753,867  | 27,753,867 | -           | 17,781,867  | 17,781,867 | -           |  |
| Derivative Financial          |             |            |             |             |            |             |  |
| Instruments                   | 88,022      | 88,022     | -           | 519,189     | 519,189    | -           |  |
| Placements with Banks and     |             |            |             |             |            |             |  |
| Finance Companies             | 22,064,672  | -          | 22,064,672  | 1,819,036   | -          | 1,819,036   |  |
| Financial Assets at Amortised |             |            |             |             |            |             |  |
| Cost - Loans and Advances     | 437,532,470 | -          | 437,532,470 | 444,219,508 | -          | 444,219,508 |  |
| Financial Assets measured     |             |            |             |             |            |             |  |
| at Fair Value through Other   |             |            |             | 17 100 000  |            | 17 100 000  |  |
| Comprehensive Income          | 40,048,711  | -          | 40,048,711  | 17,136,286  | -          | 17,136,286  |  |
| Securities Purchased under    | 017.450     |            | 047.450     | 0.000 5.40  |            | 0.000 5.40  |  |
| Resale Agreements             | 817,150     | -          | 817,150     | 3,628,549   | -          | 3,628,549   |  |
|                               | 528,304,892 | 27,841,889 | 500,463,003 | 485,104,435 | 18,301,056 | 466,803,379 |  |
| Liabilities Subject to Market | Risk        |            |             |             |            |             |  |
| Derivative Financial          | liisk       |            |             |             |            |             |  |
| Instruments                   | 32,269      | 32,269     |             | 906,813     | 906,813    | -           |  |
| Due to Depositors             | 590,698,330 | -          | 590,698,330 | 547,315,755 | -          | 547,315,755 |  |
| Debt Securities Issued        | 19,967,701  | -          | 19,967,701  | 21,617,455  |            | 21,617,455  |  |
| Due to Banks                  | 12,096,756  |            | 12,096,756  | 12,158,030  | _          | 12,158,030  |  |
| Due to Other Borrowers        | 16,151      | -          | 16,151      | 7,483       |            | 7,483       |  |
| Due to Debt Securities        | 10,131      |            | 10,101      | 7,400       |            | 7,403       |  |
| Holders                       | 6,862,998   | _          | 6,862,998   | 11,944,370  | _          | 11,944,370  |  |
|                               | 0,002,000   |            | 0,002,000   | 11,011,070  |            | 11,011,070  |  |

#### Management of Market Risk

629,674,205

Market Risk Management reporting creates transparency on the risk profile and facilitates understanding of core market risk drivers to all levels in the Bank. The Management and Board Committees receives regular reporting, as well as ad hoc reporting on market risk and liquidity risk and 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) receives risk information at a number of frequencies, besides the monthly and quarterly reporting.

629,641,936

593,949,906

906,813

593,043,093

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.

32,269

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are 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.

The overall authority for market risk is vested in ALCO. The Bank's Market Risk Management Unit is responsible for the development of detailed market risk management policies which is overseen by the EMORMC or ALCO and is subject to review by BIRMC and approved by the Board.

## **Managing Market Risk**

Sri Lanka continued to face a multidimensional slowdown in the economy during the year as during the preceding year. The banking industry faced unprecedented challenges as a result of fiscal and monetary stimulus. Due to the after effects of the COVID 19 pandemic and economic crisis, escalating interest rates and exchange rates and inflationary pressure; the banking industry as a whole was under immense stress managing the domestic economic activities during the year 2023. The effects of various policies and regulations, which were put into place from time to time to mitigate the adverseness of the economic conditions continued through 2023. Monetary Policy decisions were taken in order to maintain price stability and liquidity flows. Thus the Central Bank, during the year, took a number of measures to support the revival of domestic economic activities in the context of the battle with inflationary pressure and external and internal pressure that the country faced throughout the year. This lead to the banking industry preparing themselves to brace the possible impact of a Domestic Debt Restructure. As a result, the Bank also while facing many challenges to manage market and liquidity risk, prudently managed these uncertainties and was able to overcome the many market constraints that were met due to these adverse economic conditions.

Taking into consideration the above; the Bank having employed a range of tools to manage market risk, looks in to the following when monitoring and managing market risk.

#### Non-trading Market Risk

Non trading market risk arises primarily from outside activities of trading units, in the 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 embedded 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**

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.

## Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book is the 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.

IRRBB is considered as an essential tool to monitor the risk of product repricing and the impact it has on Earnings as well as Equity. In this sense the Bank manages the Interest Rate Risk in the Banking Book (IRRBB) exposures using both Earnings at Risk (EAR) and Economic Value of Equity (EVE) measures. Economic value based measures look at the change in economic value of assets, liabilities and off-balance sheet exposures in the banking book 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 as defined by Basel Committee on Banking Supervision. The Bank's primary focus is to achieve the desired overall interest rate profile which may change over time based on management's short and longer term view of interest rates and economic conditions.

The interest rate position of 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 repricing 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 reprice more quickly than assets, this would then support the Banks' net interest income.

The Bank manages the interest rate risk primarily through interest sensitive assets and liability repricing gap analysis, which distributes rate sensitive assets and liabilities into the relevant repricing maturity buckets. Board defined limits are in place for interest rate gaps and positions, which are monitored on a periodic basis to ensure compliance to the prescribed limits. The interest rate risk is also managed using the repricing maturity mis-match gaps by using Funds Transfer Pricing (FTP) techniques to take advantage in optimal gains. Through the FTP; portfolios are hedged; and the Bank ensures that interest rate risk between lending and funding in each time bucket remains low. The majority of the Bank's interest rate risk, therefore, stems from the unhedged portion of assets and liabilities.

The Treasury division is delegated to manage the interest rate risk centrally on an ongoing basis, where Risk Management Unit acts as the second line of defence on an independent oversight function.

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.

## **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 the 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 flow approach tools which is the popular maturity mis-match or Maturity Gap analysis. A summary of the Bank's total assets and liabilities, based on the respective Cash flow/ Maturity dates together with the maturity gaps as at 31 December 2023 are given below.

## Maturity Gaps

|                                                                                                                                                                                                                               | Carrying<br>Amount | Less than 3<br>Months | 3-12<br>Months | 1-5<br>Years | More than 5<br>Years |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------|----------------|--------------|----------------------|
|                                                                                                                                                                                                                               | LKR '000           | LKR '000              | LKR '000       | LKR '000     | LKR '000             |
| 31 December 2023                                                                                                                                                                                                              |                    |                       |                |              |                      |
| Interest Earning Assets                                                                                                                                                                                                       |                    |                       |                |              |                      |
| Placements with Banks and Finance Companies                                                                                                                                                                                   | 22,064,672         | 22,064,672            | -              | -            | -                    |
| Loans and Advances                                                                                                                                                                                                            | 437,532,470        | 216,367,004           | 95,245,373     | 107,005,057  | 18,915,036           |
| Financial Assets recognised through Profit or Loss /<br>Financial Assets at Amortised Cost – Debt and Other<br>Instruments / Financial Assets measured at Fair Value<br>through Other Comprehensive Income excluding Equities | 169,537,083        | 71,248,274            | 39,810,607     | 48,418,397   | 10,059,805           |
| Securities Purchased under Resale Agreements                                                                                                                                                                                  | 817,150            | 817,150               | -              | -            | -                    |
| Balances with Banks                                                                                                                                                                                                           | 32,396,638         | 31,815,850            | 580,788        | -            | -                    |
| Non-Interest Earning Assets                                                                                                                                                                                                   | 55,637,422         | 39,940,965            | 4,975,221      | 206          | 10,721,030           |
| Total Assets                                                                                                                                                                                                                  | 717,985,435        | 382,253,915           | 140,611,989    | 155,423,660  | 39,695,871           |
| Interest Bearing Liabilities                                                                                                                                                                                                  |                    |                       |                |              |                      |
| Due to Depositors                                                                                                                                                                                                             | 550,452,107        | 211,819,392           | 296,685,899    | 31,791,172   | 10,155,644           |
| Due to Banks and Other Borrowers                                                                                                                                                                                              | 12,112,907         | 1,162,539             | 4,896,175      | 6,054,193    | -                    |
| Due to Debt Securities Holders                                                                                                                                                                                                | 6,862,998          | 6,841,827             | 21,171         | -            | -                    |
| Debt Securities Issued                                                                                                                                                                                                        | 19,967,701         | 563,789               | 6,079,912      | 13,324,000   | -                    |
| Group Balances Payable                                                                                                                                                                                                        | 115,548            | 86,548                | 29,000         | -            | -                    |
| Lease Liabilities                                                                                                                                                                                                             | 5,409,418          | 79,167                | 206,354        | 1,077,858    | 4,046,039            |
| Non-Interest Bearing Liabilities                                                                                                                                                                                              | 123,064,756        | 62,547,099            | 11,076         | -            | 60,506,581           |
| Total Liabilities                                                                                                                                                                                                             | 717,985,435        | 283,100,361           | 307,929,587    | 52,247,223   | 74,708,264           |
| Gaps                                                                                                                                                                                                                          | -                  | 99,153,554            | (167,317,598)  | 103,176,437  | (35,012,393)         |

|                                                                                                                                                                                                                               | Carrying    | Less than 3 | 3-12          | 1-5<br>Voore | More than    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|---------------|--------------|--------------|
|                                                                                                                                                                                                                               | Amount      | Months      | Months        | Years        | 5 Years      |
|                                                                                                                                                                                                                               | LKR '000    | LKR '000    | LKR '000      | LKR '000     | LKR '000     |
| 31 December 2022                                                                                                                                                                                                              |             |             |               |              |              |
| Interest Earning Assets                                                                                                                                                                                                       |             |             |               |              |              |
| Placements with Banks and Finance Companies                                                                                                                                                                                   | 1,819,036   | 1,819,036   | -             | -            | -            |
| Loans and Advances                                                                                                                                                                                                            | 444,219,508 | 218,647,950 | 90,536,981    | 114,619,166  | 20,415,411   |
| Financial Assets recognised through Profit or Loss /<br>Financial Assets at Amortised Cost – Debt and Other<br>Instruments / Financial Assets measured at Fair Value<br>through Other Comprehensive Income excluding Equities | 135,947,861 | 37,446,605  | 40.332.471    | 45.182.183   | 12,986,602   |
| Securities Purchased under Resale Agreements                                                                                                                                                                                  | 3,628,549   | 3,628,549   | 10,002,111    | 10,102,100   | 12,000,002   |
| Balances with Banks                                                                                                                                                                                                           |             |             | 586,617       | -            | -            |
|                                                                                                                                                                                                                               | 602,617     | 16,000      | 080,017       | -            | -            |
| Group Balances Receivable                                                                                                                                                                                                     | 24,235      | 24,235      | -             | -            | -            |
| Non-Interest Earning Assets                                                                                                                                                                                                   | 86,563,838  | 74,227,344  | 1,978,275     | 236          | 10,357,983   |
| Total Assets                                                                                                                                                                                                                  | 672,805,644 | 335,809,719 | 133,434,344   | 159,801,585  | 43,759,996   |
| Interest Bearing Liabilities                                                                                                                                                                                                  |             |             |               |              |              |
| Due to Depositors                                                                                                                                                                                                             | 511,619,747 | 175,218,138 | 293,767,153   | 32,684,151   | 9,950,305    |
| Due to Banks and Other Borrowers                                                                                                                                                                                              | 12,165,513  | 559,281     | -             | 11,606,232   | -            |
| Due to Debt Securities Holders                                                                                                                                                                                                | 11,944,370  | 11,919,051  | 25,319        | -            | -            |
| Debt Securities Issued                                                                                                                                                                                                        | 21,617,455  | 4,516,350   | 3,909,355     | 11,582,750   | 1,609,000    |
| Group Balances Payable                                                                                                                                                                                                        | 202,207     | 70,132      | 3,075         | 129,000      | -            |
| Lease Liabilities                                                                                                                                                                                                             | 5,101,247   | 95,303      | 255,609       | 1,316,152    | 3,434,183    |
| Non-Interest Bearing Liabilities                                                                                                                                                                                              | 110,155,105 | 54,803,809  | 493,213       | 407,785      | 54,450,298   |
| Total Liabilities                                                                                                                                                                                                             | 672,805,644 | 247,182,064 | 298,453,724   | 57,726,070   | 69,443,786   |
| Gaps                                                                                                                                                                                                                          | -           | 88,627,655  | (165,019,380) | 102,075,515  | (25,683,790) |

## 204

## NOTES TO THE FINANCIAL STATEMENTS

#### **Interest Rate Benchmark Reforms**

Interest rate benchmarks such as Inter-Bank Offered Rates (IBORs) play an important role in global as well as local financial markets. A fundamental reform of major interest rate benchmarks was undertaken globally, replacing some IBORs with alternative nearly risk-free rates (referred to as 'IBOR reform').

For several decades, London Inter-Bank Offered Rates (LIBOR) was the widely used benchmark for global interest rates, underpinning derivatives, loans, bonds and other financial products. However, LIBOR had notable deficiencies as a benchmark, and markets demanded transition to more robust and reliable market-determined interest rate benchmarks.

The Bank too had exposures to certain LIBOR based financial instruments that were effected due to these market-wide initiatives globally. The main risk to which the Bank has been exposed as a result of LIBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use LIBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to this interest rate risk.

The Bank through ALCO managed its transition to the alternative rate of Secured Overnight Financing Rate (SOFR) from the use of LIBOR. The contracts which have fallen due since end 2021 is repriced at these alternate rates mostly based on fixed pricing. The five US dollar LIBOR settings which continued to be calculated using panel bank submissions until mid 2023, was used when required to reprice longer tenor advances which had frequent repricing dates. However, using these LIBOR's for new business was curtailed from end 2021.

#### **Exposure to Other Market Risks**

#### Share Investment and Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of share indices and the value of individual stocks. These losses could arise because of changes in the value of listed shares held directly by the Bank under each investment category.

Based on the Bank's policies, Risk Management Unit ensures monitoring and reporting the risk in respect of share investments and its valuation methodologies are appropriate and consistent, and assesses the potential impact on earnings and capital.

Market risk limits for share investments are the framework to guide the 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.

During the early part of the year, the banking sector experienced uncertainty in market situations due to the lack of foreign currency liquidity. This mostly led to the banking industry being unable to meet the expected levels in liability conversion transactions especially trade related transactions. The market also experienced a drop in asset conversion transaction such as the inward remittance and export bills. However this situation eased during the 2nd quarter of 2023. The Sri Lanka rupee gradually strengthened from a 360 level to a 320 level to the US dollar during the latter half of the year and remained at these levels during most of the year.

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 |              |
|-------------------------------|------------------------------|----------|---------------------------------|--------------|
|                               | '0                           | 00       | LKR '000                        |              |
|                               | 2023                         | 2022     | 2023                            | 2022         |
| Net Foreign Currency Exposure |                              |          |                                 |              |
| Great Britain Pound           | 2.22                         | 7.24     | 915.48                          | 3,169.42     |
| United States Dollar          | 1,721.34                     | 3,589.55 | 558,145.96                      | 1,303,401.50 |
| Euro                          | 4.98                         | 8.76     | 1,788.64                        | 3,392.05     |
| Japanese Yen                  | 66.50                        | (422.04) | 152.43                          | (1,155.54)   |
| Australian Dollar             | 1.54                         | 1.60     | 340.97                          | 394.08       |

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             | s on 31 December 20                   | 23                                        | NOP                | as on 31 December 2                   | 2022                                      |
|--------------------|---------------------------------------|-------------------------------------------|--------------------|---------------------------------------|-------------------------------------------|
|                    | USD '000                              | LKR '000                                  |                    | USD '000                              | LKR '000                                  |
| NOP                | 1,993                                 | 646,289                                   | NOP                | 4,130                                 | 1,501,992                                 |
| At Shock Levels of | Revised Rupee<br>Position<br>LKR '000 | Effect on Income<br>Statement<br>LKR '000 | At Shock Levels of | Revised Rupee<br>Position<br>LKR '000 | Effect on Income<br>Statement<br>LKR '000 |
| 5%                 | 678,603                               | 32,314                                    | 5%                 | 1,577,092                             | 75,100                                    |
| 10%<br>15%         | 710,918<br>743,232                    | 64,629<br>96,943                          | 10%<br>15%         | 1,652,191<br>1,727,291                | 150,199<br>225,299                        |

## Policy on Repurchase Agreements (Repo) and Reverse Repurchase Agreements (Reverse Repo)

The Bank enters in to Repo and Reverse Repo agreements which are often short term money market instruments. Repurchase agreements are designed to minimise counterparty credit risk during their term. Changes in the market value of these positions can give rise to a "margin deficit" or a "margin excess". Treasury Back Office does a daily Mark to Market of the Securities received and the Securities allocated under Repo and Reverse Repo facilities. This in turn is cross checked by the Treasury Middle Office and if a short fall is observed Treasury is alerted on the required Margin Calls.

## Outstanding Repurchase and Reverse Repurchase Facilities as at 31 December are given below:

|                                         | 2023                                          |                        |
|-----------------------------------------|-----------------------------------------------|------------------------|
|                                         | LKR '000                                      | LKR '000               |
|                                         | Financial Assets<br>measured at Fair<br>Value | Outstanding<br>Balance |
| Securities sold under Repo              | 6,739,618                                     | 6,862,998              |
|                                         | Market Value<br>of Securities<br>Received     | Outstanding<br>Balance |
| Securities purchased under Reverse Repo | 904,414                                       | 817,150                |

The Bank possess a haircut policy which is used to manage and monitor all Repo and Reverse Repo facilities against these haircut policies. The said policy specifies that all transactions should be covered by Government Securities with specified haircuts to cover price variations.

## **Reverse Repurchase Facilities**

To cover the market risk in accepting Government Securities as collateral for Reverse Repo transactions the undernoted haircut policy is adopted:

|                                | Reverse Repo |                  |  |
|--------------------------------|--------------|------------------|--|
| Treasury Bonds and Bills       | Up to 1 week | More than 1 week |  |
| Maturing within 5 years        | 12.50%       | 17.50%           |  |
| Maturing between 5 – 10 years  | 15.00%       | 20.00%           |  |
| Maturing between 10 – 15 years | 20.00%       | 22.50%           |  |
| Maturing between 15 – 20 years | 22.50%       | 25.00%           |  |
| Maturing between 20 – 30 years | 27.50%       | 30.00%           |  |

## **Repurchase Facilities**

Repo Facilities are accepted against collateral of Government Securities. To cover the market risk in allocating Government Securities as collateral for Repo transactions, the undernoted haircut policy is adopted:

| Remaining Term to Maturity of the Eligible Security | Minimum<br>Haircut (%) |
|-----------------------------------------------------|------------------------|
| Up to 1 year                                        | 6%                     |
| More than 1 year and up to 3 years                  | 8%                     |
| More than 3 years and up to 5 years                 | 10%                    |
| More than 5 years and up to 8 years                 | 10%                    |
| More than 8 years                                   | 12%                    |

In case of interbank Repo and Reverse Repo transactions; Based on the Direction, No. 01 of 2019 issued under Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance on "Reverse Repurchase Transactions of Dealer Direct Participants in Scripless Treasury Bonds and Scripless Treasury Bills" the following minimum haircut policy will be adopted:

| Remaining Term to<br>Maturity of the Eligible<br>Security | Minimum<br>Haircut (%) |
|-----------------------------------------------------------|------------------------|
| Up to 1 year                                              | 4%                     |
| More than 1 year and up to 3 years                        | 6%                     |
| More than 3 years and up to 5 years                       | 8%                     |
| More than 5 years and up to 8 years                       | 10%                    |
| More than 8 years                                         | 12%                    |

## **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; or
- 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 01 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 I 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 01 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.

| Components of Capital                                      | Capital Adequacy<br>Ratio to be<br>maintained by<br>Licensed Banks | Capital Adequacy Ratio to be<br>maintained by Licensed Banks<br>determined as 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                                                                         |

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<br>2023 |         | Basel I<br>2022 | 11      |  |
|-----------------------------------------------------------------|-------------------|---------|-----------------|---------|--|
|                                                                 | Bank              | Group   | Bank            | Group   |  |
|                                                                 | LKR Mn            | LKR Mn  | LKR Mn          | LKR Mn  |  |
| Assets                                                          |                   |         |                 |         |  |
| Total Risk Weighted Amount (Including Off- Balance Sheet Items) | 442,786           | 443,102 | 467,105         | 467,790 |  |
| Risk Weighted Amount of Off-Balance Sheet Exposure              | 36,632            | 36,632  | 42,712          | 42,712  |  |
| Capital                                                         |                   |         |                 |         |  |
| Common Equity Tier 1 Capital                                    | 55,448            | 56,998  | 49,920          | 51,334  |  |
| Total Tier 1 Capital                                            | 55,448            | 56,998  | 49,920          | 51,334  |  |
| Total Capital                                                   | 70,147            | 71,698  | 63,477          | 64,891  |  |
| Capital Adequacy Ratios                                         |                   |         |                 |         |  |
| Common Equity Tier 1 Capital Ratio (%)                          | 12.52%            | 12.86%  | 10.69           | 10.97   |  |
| Tier 1 Capital Ratio (%)                                        | 12.52%            | 12.86%  | 10.69           | 10.97   |  |
| Total Capital Ratio (%)                                         | 15.84%            | 16.18%  | 13.59           | 13.87   |  |

## 6.2 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 accounting policy Note No 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.

|                                                                                                                        | 2023       |          |          |            | 2022     |          |
|------------------------------------------------------------------------------------------------------------------------|------------|----------|----------|------------|----------|----------|
|                                                                                                                        | Level 1    | Level 2  | Level 3  | Level 1    | Level 2  | Level 3  |
|                                                                                                                        | LKR '000   | LKR '000 | LKR '000 | LKR '000   | LKR '000 | LKR '000 |
| Financial Assets measured at Fair Value through<br>Profit or Loss and Fair Value through Other<br>Comprehensive Income |            |          |          |            |          |          |
| Financial Assets recognised through Profit or Loss - measured at Fair Value                                            | 27,753,867 | -        | -        | 17,781,867 | -        | -        |
| Derivative Financial Instruments                                                                                       | -          | 88,022   | -        | -          | 519,189  | -        |
| Financial Assets measured at Fair Value through<br>Other Comprehensive Income                                          | 39,626,858 | -        | 421,853  | 16,762,484 | -        | 373,802  |
| Financial Liabilities measured at Fair Value through Profit or Loss                                                    |            |          |          |            |          |          |
| Derivative Financial Instruments                                                                                       | -          | 32,269   | -        | -          | 906,813  | -        |

## 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.

|                                                                                      | 2023     | 2022     |
|--------------------------------------------------------------------------------------|----------|----------|
| Financial Assets measured at Fair Value through Other Comprehensive Income (Level 3) | LKR '000 | LKR '000 |
|                                                                                      |          |          |
| Balance as at 01 January                                                             | 373,802  | 332,252  |
| Total Fair Value Gain/(Loss) in Other Comprehensive Income                           | 48,051   | 41,550   |
| Balance as at 31 December                                                            | 421,853  | 373,802  |

## ii. Unobservable Inputs used in measuring Fair Value

The table below sets out information about significant unobservable inputs used as at 31 December 2023 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

| Type of Financial<br>Instrument | Fair Values as at 31<br>December 2023<br>LKR '000 | Valuation<br>Technique  | Significant<br>Unobservable Inputs        | Fair Value Measurement<br>Sensitivity to<br>Unobservable Inputs |
|---------------------------------|---------------------------------------------------|-------------------------|-------------------------------------------|-----------------------------------------------------------------|
| Investment in Unquoted Equities | 421,853                                           | Net Assets<br>Per Share | Price to Book Value Ratio<br>(PBV) 168.10 | 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 Decem       | ber 2023    | 31 December 2022 |             |
|-----------------------------------------------------------------|----------------|-------------|------------------|-------------|
|                                                                 | Carrying Value | Fair Value  | Carrying Value   | Fair Value  |
|                                                                 | LKR '000       | LKR '000    | LKR '000         | LKR '000    |
| Financial Assets                                                |                |             |                  |             |
| Cash and Cash Equivalents                                       | 48,851,143     | 48,851,143  | 40,254,514       | 40,254,514  |
| Balances with Central Bank of Sri Lanka                         | 7,028,281      | 7,028,281   | 16,784,172       | 16,784,172  |
| Placements with Banks and Finance Companies                     | 22,064,672     | 22,064,672  | 1,819,036        | 1,819,036   |
| Financial Assets at Amortised Cost - Loans and Advances         | 437,532,470    | 436,647,991 | 444,219,508      | 439,845,139 |
| Financial Assets at Amortised Cost - Debt and Other Instruments | 104,354,510    | 104,113,614 | 106,158,878      | 85,297,305  |
| Other Financial Assets                                          | 11,896,790     | 11,896,790  | 11,265,428       | 11,265,428  |
| Financial Liabilities                                           |                |             |                  |             |
| Due to Banks                                                    | 12,096,756     | 12,096,756  | 12,158,030       | 12,158,030  |
| Due to Depositors                                               | 590,698,330    | 590,698,330 | 547,315,755      | 547,315,755 |
| Due to Debt Securities Holders                                  | 6,862,998      | 6,862,998   | 11,944,370       | 11,944,370  |
| Due to Other Borrowers                                          | 16,151         | 16,151      | 7,483            | 7,483       |
| Debt Securities Issued                                          | 19,967,701     | 18,139,173  | 21,617,455       | 16,526,674  |
| Lease Liabilities                                               | 5,409,418      | 5,409,418   | 5,101,247        | 5,101,247   |
| Other Financial Liabilities                                     | 11,953,383     | 11,953,383  | 9,218,039        | 9,218,039   |

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 1     | Level 2    | Level 3     | Total       |
|-----------------------------------------------------------------|-------------|------------|-------------|-------------|
| 31 December 2023                                                | LKR '000    | LKR '000   | LKR '000    | LKR '000    |
| Financial Assets                                                |             |            |             |             |
| Cash and Cash Equivalents                                       | -           | 48,851,143 | -           | 48,851,143  |
| Balances with Central Bank of Sri Lanka                         | -           | 7,028,281  | -           | 7,028,281   |
| Placements with Banks and Finance Companies                     | -           | 22,064,672 | -           | 22,064,672  |
| Financial Assets at Amortised Cost - Loans and Advances         |             | -          | 436,647,991 | 436,647,991 |
| Financial Assets at Amortised Cost - Debt and Other instruments | 100,351,362 | 3,247,525  | 514,727     | 104,113,614 |
| Other Financial Assets                                          | -           | -          | 11,896,790  | 11,896,790  |
| Financial Liabilities                                           |             |            |             |             |
| Due to Banks                                                    | -           | -          | 12,096,756  | 12,096,756  |
| Due to Depositors                                               | -           | -          | 590,698,330 | 590,698,330 |
| Due to Debt Securities Holders                                  | -           | 6,862,998  | -           | 6,862,998   |
| Due to Other Borrowers                                          | -           | -          | 16,151      | 16,151      |
| Debt Securities Issued                                          | -           | 18,139,173 | -           | 18,139,173  |
| Lease Liabilities                                               | -           | -          | 5,409,418   | 5,409,418   |
| Other Financial Liabilities                                     | -           | -          | 11,953,383  | 11,953,383  |

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 71% 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 12 months from the reporting date. Fair value of such leases as at 31 December 2023 was LKR 22,153 Mn Mn as against the carrying value which amounted to LKR 23,038 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 50% 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 pre mature upliftment. Amounts paid to customers in the event of pre mature 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 2023 as against its carrying value which amounted to LKR 19,968 Mn.

## 7 Gross Income

|                                                            | Ba          | nk         | Group       |            |  |
|------------------------------------------------------------|-------------|------------|-------------|------------|--|
| For the year ended 31 December                             | 2023        | 2022       | 2023        | 2022       |  |
|                                                            | LKR '000    | LKR '000   | LKR '000    | LKR '000   |  |
| Interest Income (Note 8.1)                                 | 107,078,561 | 86,068,611 | 107,168,402 | 86,106,337 |  |
| Fee and Commission Income (Note 9.1)                       | 7,751,163   | 6,697,136  | 7,751,002   | 6,697,059  |  |
| Net Gains/(Losses) from Trading (Note 10)                  | 818,206     | (446,958)  | 818,206     | (446,958)  |  |
| Net Gains from Derecognition of Financial Assets (Note 11) | 150,289     | 34,149     | 150,289     | 34,149     |  |
| Net Other Operating Income (Note 12)                       | 975,084     | 4,465,037  | 947,934     | 4,443,437  |  |
| Total Gross Income                                         | 116,773,303 | 96,817,975 | 116,835,833 | 96,834,024 |  |

## 8 Net Interest Income

|                                                                               | Bank        |            | Group       |            |
|-------------------------------------------------------------------------------|-------------|------------|-------------|------------|
| For the year ended 31 December                                                | 2023        | 2022       | 2023        | 2022       |
|                                                                               | LKR '000    | LKR '000   | LKR '000    | LKR '000   |
| Interest Income                                                               |             |            |             |            |
| Placements with Banks                                                         | 2,120,182   | 173,990    | 2,120,182   | 173,990    |
| Financial Assets recognised through Profit or Loss                            |             |            |             |            |
| - Measured at Fair Value                                                      |             |            |             |            |
| Government Securities (Note 8.3)                                              | 4,601,673   | 2,126,879  | 4,601,673   | 2,126,879  |
| Financial Assets at Amortised Cost                                            |             |            |             |            |
| - Loans and Advances *                                                        | 78,508,725  | 69,975,246 | 78,507,405  | 69,974,905 |
| - Interest Accrued on Impaired Loans and Advances **                          | 1,041,465   | 698,299    | 1,041,465   | 698,299    |
| - Debt and Other Instruments                                                  |             |            |             |            |
| Government Securities (Note 8.3)                                              | 13,647,063  | 9,567,019  | 13,731,486  | 9,597,787  |
| Debt Instruments                                                              | 122,758     | 165,153    | 122,758     | 165,153    |
| Financial Assets measured at Fair Value through<br>Other Comprehensive Income |             |            |             |            |
| Government Securities (Note 8.3)                                              | 7,036,695   | 3,142,142  | 7,039,014   | 3,142,142  |
| Debt Instruments                                                              |             | -          | 4,283       | 7,375      |
| Other                                                                         | -           | 219,883    | 136         | 219,807    |
| Total Interest Income                                                         | 107,078,561 | 86,068,611 | 107,168,402 | 86,106,337 |
| Interest Expenses                                                             |             |            |             |            |
| Due to Banks                                                                  | 1,045,694   | 555,604    | 1,046,316   | 556,067    |
| Financial Liabilities at amortised cost                                       |             |            |             |            |
| - Due to Depositors                                                           | 61,882,136  | 39,483,231 | 61,872,642  | 39,478,105 |
| - Due to Debt Securities Holders (Note 8.3)                                   | 689,394     | 2,427,924  | 689,394     | 2,426,688  |
| - Due to Other Borrowers                                                      | 322         | 286        | 322         | 286        |
| Debt Securities Issued                                                        | 2,923,685   | 2,589,596  | 2,916,272   | 2,572,396  |
| Lease Liabilities                                                             | 484,065     | 470,008    | 191,603     | 185,678    |
| Total Interest Expenses                                                       | 67,025,296  | 45,526,649 | 66,716,549  | 45,219,220 |
| Net Interest Income                                                           | 40,053,265  | 40,541,962 | 40,451,853  | 40,887,117 |

\* Interest Income adjustment of LKR 348,724,503.00 in 2023 (LKR 286,733,565.00 for 2022) on staff loans at preferential interest rates that included in interest income has been recognised as a staff benefit under personnel expenses.

\*\* Interest Income on Loans and Advances includes interest accrued on impaired loans of LKR 1,041,464,970.00 in 2023 (LKR 698,298,661.00 for 2022) and corresponding debit entry has been recorded under impairment charges (Note 25.3).

|     |                                                             | Bank       |            | Group      |            |
|-----|-------------------------------------------------------------|------------|------------|------------|------------|
|     | For the year ended 31 December                              | 2023       | 2022       | 2023       | 2022       |
|     |                                                             | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| 8.3 | Net Interest Income from Sri Lanka Government<br>Securities |            |            |            |            |
|     | Interest Income                                             | 25,285,431 | 14,836,040 | 25,372,173 | 14,866,808 |
|     | Less : Interest Expenses                                    | 689,394    | 2,427,924  | 689,394    | 2,426,688  |
|     | Net Interest Income from Sri Lanka Government<br>Securities | 24,596,037 | 12,408,116 | 24,682,779 | 12,440,120 |

212

8.3.1 Interest Income includes LKR 103 Mn recognised from the Treasury Bonds received in exchange of SLDBs in August 2023 (Note 26.6.2).

## 9 Net Fee & Commission Income

9

ĉ

| For the year ended 31<br>December             | Banking   |           | Treasury |          |          | Property/<br>Investment |          | Unallocated/<br>Eliminations |           | Total     |  |
|-----------------------------------------------|-----------|-----------|----------|----------|----------|-------------------------|----------|------------------------------|-----------|-----------|--|
|                                               | 2023      | 2022      | 2023     | 2022     | 2023     | 2022                    | 2023     | 2022                         | 2023      | 2022      |  |
|                                               | LKR '000  | LKR '000  | LKR '000 | LKR '000 | LKR '000 | LKR '000                | LKR '000 | LKR '000                     | LKR '000  | LKR '000  |  |
| Fee and Commission<br>Income                  |           |           |          |          |          |                         |          |                              |           |           |  |
| Comprising ;                                  |           |           |          |          |          |                         |          |                              |           |           |  |
| Loans                                         | 1,148,931 | 925,985   | -        | -        | -        | -                       | -        | 100                          | 1,148,931 | 926,085   |  |
| Cards                                         | 2,182,980 | 1,854,907 | -        | -        | -        | -                       | -        | -                            | 2,182,980 | 1,854,907 |  |
| Trade and Remittances                         | 2,131,011 | 2,096,793 | -        | -        | -        | -                       | -        | -                            | 2,131,011 | 2,096,793 |  |
| Deposits                                      | 473,900   | 257,748   | -        | -        | -        |                         | -        | -                            | 473,900   | 257,748   |  |
| Guarantees                                    | 728,659   | 780,406   | -        | -        | -        | -                       | -        | -                            | 728,659   | 780,406   |  |
| Other Financial Services                      | 920,317   | 732,703   | 153,351  | 22,718   | -        | -                       | 12,014   | 25,776                       | 1,085,682 | 781,197   |  |
| Total Fee and Commission<br>Income - Bank     | 7,585,798 | 6,648,542 | 153,351  | 22,718   | -        | -                       | 12,014   | 25,876                       | 7,751,163 | 6,697,136 |  |
| Subsidiary                                    |           |           |          |          |          |                         |          |                              |           |           |  |
| Deposits                                      | -         | -         | -        | -        | -        | -                       | (161)    | (77)                         | (161)     | (77)      |  |
| Total Fee and Commission<br>Income - Group    | 7,585,798 | 6,648,542 | 153,351  | 22,718   | -        | -                       | 11,853   | 25,799                       | 7,751,002 | 6,697,059 |  |
| Fee and Commission<br>Expenses                |           |           |          |          |          |                         |          |                              |           |           |  |
| Comprising                                    |           |           |          |          |          |                         |          |                              |           |           |  |
| Brokerage Fees                                | 6,068     | 78        | 251      | 4,692    | -        | -                       | -        | -                            | 6,319     | 4,770     |  |
| Loans/Cards                                   | 139,370   | 109,420   | -        | -        | -        | -                       | -        | -                            | 139,370   | 109,420   |  |
| Other Financial Services                      | 92,081    | 96,818    | 33,216   | 24,110   | -        | -                       | -        | -                            | 125,297   | 120,928   |  |
| Total Fee and Commission<br>Expenses - Bank   | 237,519   | 206,316   | 33,467   | 28,802   | -        | -                       | -        | -                            | 270,986   | 235,118   |  |
| Subsidiary                                    |           |           |          |          |          |                         |          |                              |           |           |  |
| Brokerage Fees                                | -         | -         | -        | -        | 3,251    | 734                     | -        | -                            | 3,251     | 734       |  |
| Total Fee and Commission<br>Expenses - Group  | 237,519   | 206,316   | 33,467   | 28,802   | 3,251    | 734                     | -        | -                            | 274,237   | 235,852   |  |
| Total Net Fee and Commission<br>Income - Bank | 7,348,279 | 6,442,226 | 119,884  | (6,084)  | -        | -                       | 12,014   | 25,876                       | 7,480,177 | 6,462,018 |  |
| Total Net Fee and Commission                  |           |           |          |          |          |                         |          |                              |           |           |  |

## 10 Net Gains/(Losses) from Trading

|                                                                                | Ba       | nk        | Gro      | up        |
|--------------------------------------------------------------------------------|----------|-----------|----------|-----------|
| For the year ended 31 December                                                 | 2023     | 2022      | 2023     | 2022      |
|                                                                                | LKR '000 | LKR '000  | LKR '000 | LKR '000  |
| Derivative Financial Instruments (Note 12.1)                                   |          |           |          |           |
| - From Banks                                                                   | 451,839  | (481,382) | 451,839  | (481,382) |
| - From Other Customers                                                         | (8,463)  | (7,698)   | (8,463)  | (7,698)   |
| Financial Assets recognised through Profit or Loss<br>- Measured at Fair Value |          |           |          |           |
| Government Securities                                                          |          |           |          |           |
| - Net Mark-to-Market Gains/ (Losses)                                           | 130,994  | (153,956) | 130,994  | (153,956) |
| - Net Capital Gains / (Losses)                                                 | 243,836  | 196,078   | 243,836  | 196,078   |
| Total Net Gains/(Losses) from Trading                                          | 818,206  | (446,958) | 818,206  | (446,958) |

## **11** Net Gains from Derecognition of Financial Assets

|                                                                               | Ba       | nk       | Gro      | up       |
|-------------------------------------------------------------------------------|----------|----------|----------|----------|
| For the year ended 31 December                                                | 2023     | 2022     | 2023     | 2022     |
|                                                                               | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Financial Assets measured at Fair Value through<br>Other Comprehensive Income |          |          |          |          |
| - Government Securities                                                       | 150,289  | 34,149   | 150,289  | 34,149   |
| Total Net Gains from Derecognition of Financial Assets                        | 150,289  | 34,149   | 150,289  | 34,149   |

## 12 Net Other Operating Income

|                                                                                                                     | Ba       | nk        | Group    |           |  |
|---------------------------------------------------------------------------------------------------------------------|----------|-----------|----------|-----------|--|
| For the year ended 31 December                                                                                      | 2023     | 2022      | 2023     | 2022      |  |
|                                                                                                                     | LKR '000 | LKR '000  | LKR '000 | LKR '000  |  |
| Dividend Income                                                                                                     |          |           |          |           |  |
| <ul> <li>Equity Investments measured at Fair Value<br/>through Other Comprehensive Income -<br/>Quoted</li> </ul>   | 1,673    | 1,987     | 1,673    | 1,987     |  |
| <ul> <li>Equity Investments measured at Fair Value<br/>through Other Comprehensive Income -<br/>Unquoted</li> </ul> | 17,499   | 14,459    | 17,499   | 14,459    |  |
| - Subsidiary - Seylan Developments PLC                                                                              | 125,199  | 146,065   | -        | -         |  |
| Profit on Sale of Property , Plant & Equipment                                                                      | 7,681    | 2,283     | 7,681    | 2,283     |  |
| Foreign Exchange Income (Note 12.1)                                                                                 | 517,448  | 3,964,391 | 510,157  | 3,976,486 |  |
| Recovery of Loans Written-Off                                                                                       | 305,584  | 335,852   | 305,584  | 335,852   |  |
| Rent and Other Income                                                                                               | -        | -         | 105,340  | 112,370   |  |
| Total Other Operating Income - Net                                                                                  | 975,084  | 4,465,037 | 947,934  | 4,443,437 |  |

## 12.1 Foreign Exchange Income

Foreign exchange income represents both revaluation gain/(loss) on the Bank's net open position and realised exchange gain/(loss) on foreign currency transactions. Mark to market gains on derivative financial instruments amounting to LKR 443 Mn. (2022: loss LKR 489 Mn.) is reported under Note 10, 'Net Gains/(Losses) from Trading' as required by the Sri Lanka Accounting Standard SLFRS 9 (Financial Instruments) and foreign exchange income amounting to LKR 517 Mn. (2022: LKR 3,964 Mn.) is reported under Note 12, 'Net Other Operating Income'. Accordingly the corresponding gains on derivative financial instruments is included in the foreign exchange income, total foreign exchange income of the Bank for the year ended 31 December 2023 amounted to LKR 961 Mn. (2022: LKR 3,475Mn.).

## 13 Impairment Charges

13.1

|                                                                                              | Ban         | k          | Group       |            |  |
|----------------------------------------------------------------------------------------------|-------------|------------|-------------|------------|--|
| For the year ended 31 December                                                               | 2023        | 2022       | 2023        | 2022       |  |
|                                                                                              | LKR '000    | LKR '000   | LKR '000    | LKR '000   |  |
| Loans & Advances (Note 13.1)                                                                 | 15,342,429  | 21,447,905 | 15,342,429  | 21,447,905 |  |
| Financial Investments Measured at Amortised Cost<br>- Debt and Other Instruments (Note 26.5) | 1,519,709   | 4,711,624  | 1,519,709   | 4,711,624  |  |
| Financial Assets Measured at FVOCI (Note 27.6)                                               | -           | (14,940)   | (9)         | (14,940)   |  |
| Cash and Cash Equivalents (Note 20.1)                                                        | 36,041      | 113,051    | 36,041      | 113,051    |  |
| Placements with Banks and Finance Companies (Note 22.1)                                      | 101,737     | (32,301)   | 101,737     | (32,301)   |  |
| Undrawn Credit Commitments and Financial<br>Guarantees (Note 43.3)                           | 352,276     | (139,509)  | 352,276     | (139,509)  |  |
| Other Financial Receivables (Note 35.1)                                                      | (347,246)   | 347,246    | (347,246)   | 347,246    |  |
| Total Impairment Charge                                                                      | 17,004,946  | 26,433,076 | 17,004,937  | 26,433,076 |  |
| Loans & Advances                                                                             |             |            |             |            |  |
| Impairment Charges - Stage 1 (Note 25.3.1)                                                   | (3,011,561) | 3,350,366  | (3,011,561) | 3,350,366  |  |
| Impairment Charges - Stage 2 (Note 25.3.1)                                                   | 1,468,474   | 4,384,081  | 1,468,474   | 4,384,081  |  |
| Impairment Charges - Stage 3 (Note 25.3.1)                                                   | 16,885,516  | 13,713,458 | 16,885,516  | 13,713,458 |  |
| Total Impairment Charges - Loans and Advances                                                | 15,342,429  | 21,447,905 | 15,342,429  | 21,447,905 |  |

214

**13.2** Impairment charges recognised against loans and advances include the post model adjustments made outside the ECL model using various stress testing techniques in order to address the potential implications of the uncertainties associated with the prevailing economic conditions on risk elevated sectors and stressed customer portfolios in excess of the impairment computed based on the ISL assessment/ECL of the Bank.

The improved economic factors applied to the base case in 2023 resulted in a reduction in the modelled ECL. The management initiated post model adjustments to the modelled ECL from 2021 based on Bank's exposure to the moratorium schemes, risk elevated sectors and stressed customer portfolio primarily due to the prolonged uncertainties that impacted the economic landscape immediately after COVID 19 pandemic. With the conclusion of the moratorium schemes, the Bank's post model adjustments were reassessed during 2022 and were amended to address only the risk elevated sectors and stressed customer portfolio reflecting the potential implications of the adverse economic conditions prevailed in 2022. During the year 2023, the Bank re visited the risk elevated sectors based on the improved economic conditions and continues to assess the exposure to stressed customers portfolio. Accordingly, required adjustments have been made to previously assessed post model adjustments resulting in reductions in such adjustments made in Stage 1 & 2 . The Bank has increased the threshold set for individually significant loans (ISL) from LKR 25 Mn to 100 Mn during the year. Accordingly the exposure at default considered under modelled ECL increased especially in Stage 3 and the resultant ECL , while the respective portfolio was excluded from Stage 3 ISL assessment.

13.3 As mentioned in Note 26.6.3, the Bank ahs recognized a provision of LKR 890 Mn net of exchange impact (LKR 1.5 Bn before exchange impact), during the year to arrive at a provision cover of 52% on investments in SLISBs. Further, as mentioned in Note 26.6.2, the Bank recognized as loss on initial recognition on account of local currency denominated treasury bonds received in exchange of SLDBs as part of Domestic Debt Optimization program.

## 14 Operating Expenses

|                                                                  | Bank     |          | Group    |          |  |
|------------------------------------------------------------------|----------|----------|----------|----------|--|
| For the year ended 31 December                                   | 2023     | 2022     | 2023     | 2022     |  |
|                                                                  | LKR '000 | LKR '000 | LKR '000 | LKR '000 |  |
| Operating Expenses include the following :                       |          |          |          |          |  |
| Directors' Emoluments *                                          | 115,701  | 123,451  | 119,886  | 126,846  |  |
| Auditors' Remunerations                                          |          |          |          |          |  |
| - Audit Fees & Expenses                                          | 17,076   | 15,236   | 18,565   | 16,577   |  |
| - Audit-Related Fees & Expenses                                  | 8,458    | 8,941    | 8,591    | 9,052    |  |
| - Non-Audit Services                                             | 1,587    | 1,918    | 1,872    | 2,001    |  |
| Depreciation - Freehold Property, Plant &<br>Equipment (Note 30) | 651,098  | 712,206  | 714,843  | 777,708  |  |
| Depreciation - Right-of-use Assets (Note 31)                     | 450,115  | 460,289  | 415,452  | 426,586  |  |
| Depreciation - Investment Properties (Note 32)                   | -        | -        | 33,674   | 26,665   |  |
| Amortisation of Intangible Assets (Note 33)                      | 184,071  | 185,420  | 184,071  | 185,420  |  |
| Donations                                                        | 5,560    | 574      | 6,660    | 1,525    |  |
| Legal Expenses                                                   | 198,212  | 127,810  | 198,649  | 129,228  |  |
| Sri Lanka Deposit Insurance Fund Contribution                    | 696,749  | 509,672  | 696,749  | 509,672  |  |
| Crop Insurance Levy                                              | 62,873   | 46,734   | 62,873   | 46,734   |  |

\* Directors' Emoluments include the salaries and benefits paid to Executive and fees to Non-Executive Directors of the Bank and the Group.

#### 15 Personnel Expenses

|                                                         | Bank      |           | Group     |           |
|---------------------------------------------------------|-----------|-----------|-----------|-----------|
| For the year ended 31 December                          | 2023      | 2022      | 2023      | 2022      |
|                                                         | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Personnel Expenses include the Following:               |           |           |           |           |
| Salaries and Bonuses                                    | 6,457,267 | 5,518,013 | 6,482,831 | 5,543,181 |
| Contribution to Employees' Provident Fund               | 582,529   | 554,220   | 585,469   | 557,201   |
| Contribution to Employees' Trust Fund                   | 145,632   | 138,558   | 146,367   | 139,303   |
| Provision for Defined Benefit Obligations (Note 43.1.6) | 434,682   | 314,729   | 433,605   | 314,579   |
| Additional Gratuity Expense (Note 43.1.6)               | (279,283) | 162,386   | (279,283) | 162,386   |
| Amortisation of Prepaid Staff Cost *                    | 371,267   | 302,464   | 371,528   | 302,592   |
| Other Staff Related Expenses                            | 1,437,706 | 973,726   | 1,453,800 | 988,161   |
| Total Personnel Expenses                                | 9,149,800 | 7,964,096 | 9,194,317 | 8,007,403 |

\* Includes prepaid staff cost on both staff loans and staff deposits.

#### 16 Income Tax Expense

| For the year ended 31 December              |                         | Ban       | k           | Group     |             |  |
|---------------------------------------------|-------------------------|-----------|-------------|-----------|-------------|--|
|                                             |                         | 2023 20   |             | 2023      | 2022        |  |
|                                             |                         | LKR '000  | LKR '000    | LKR '000  | LKR '000    |  |
| Income Tax Expense I<br>Statement           | recognised in Income    |           |             |           |             |  |
| <b>Current Tax Expense</b>                  |                         |           |             |           |             |  |
| -Tax on Current Year's P                    | rofits (Note 16.2)      | 4,063,720 | 5,643,038   | 4,110,333 | 5,704,578   |  |
| -(Over Provision) / Under<br>Previous Years | Provision in Respect of | -         | -           | (6,156)   | -           |  |
|                                             |                         | 4,063,720 | 5,643,038   | 4,104,177 | 5,704,578   |  |
| <b>Deferred Taxation</b>                    |                         |           |             |           |             |  |
| - Charge/(Reversal) on T<br>(Note 34)       | emporary Differences    | (239,848) | (3,726,441) | (235,348) | (3,485,690) |  |
|                                             |                         | (239,848) | (3,726,441) | (235,348) | (3,485,690) |  |
| Total Income Tax Expe                       | nse                     | 3,823,872 | 1,916,597   | 3,868,829 | 2,218,888   |  |

i The Inland Revenue (Amended) Act No.45 of 2022 was certified by the speaker on 19th December 2022. The standard rate of income tax has been increased from 24% to 30%. The increase in the income tax rate to 30% has resulted in two tax rates being applicable for the year of assessment 2022/23. The Bank and Group have computed the current and deferred tax at the rate of 30%.

216

- ii As per Section 66(2) and 66(3) of the Inland Revenue Act No. 24 of 2017 the Commissioner General of Inland Revenue has specified the amount of impairment charges that can be deducted in accordance with the directives of Central Bank of Sri Lanka. Accordingly, the Gazette Notification issued under the reference of 2303/05 dated 2022.10.25 specifies that impairment charges for stage 3 credit facilities prepared in accordance with the Sri Lanka Accounting Standards (SLFRS 9) considered as allowable subject to the conditions laid out therein.
- iii The Seylan Developments PLC (subsidiary) has computed taxation based on the rate applicable for the companies.
- iv As per the opinion received from Bank's Tax Consultant, investment impairment made for probable haircut on international sovereign bonds have been converted to a deferred tax asset.
- v Income received from foreign sources including investments and placements denominated in FCY, have been considered as exempt income subject to attributable cost. In addition, profits from offshore banking business have been considered tax free as per the provisions of the Inland Revenue Act No. 24 of 2017 and its subsequent amendments.

#### 16.2 Reconciliation of the Accounting Profit to Income Tax Expense

| For the year ended 31 December                            | Ban        | k           | Group      |             |
|-----------------------------------------------------------|------------|-------------|------------|-------------|
|                                                           | 2023       | 2022        | 2023       | 2022        |
|                                                           | LKR '000   | LKR '000    | LKR '000   | LKR '000    |
| Profit before Income Tax                                  | 10,080,086 | 6,628,860   | 10,269,451 | 6,796,658   |
| Add : Disallowable Expenses                               |            |             |            |             |
| - Impairment on Loans and Advances                        | 15,342,429 | 21,447,905  | 15,342,429 | 21,447,905  |
| - Impairment other than Loans and Advances                | 1,662,517  | 4,985,171   | 1,662,517  | 4,985,171   |
| - Other Disallowable Expenses                             | 7,245,402  | 5,998,543   | 7,212,340  | 5,998,543   |
| Less : Allowable Expenses                                 |            |             |            |             |
| - Impairment on Loans and Advances (Stage 03)             | 16,625,106 | 13,713,472  | 16,625,106 | 13,713,472  |
| - Other Allowable Expenses                                | 2,876,438  | 2,973,602   | 2,876,438  | 2,906,170   |
| Less : Exempt Income                                      | 1,341,889  | 1,822,665   | 1,341,889  | 1,822,665   |
| Less : Tax Losses Set-off                                 | -          | -           | -          | 22,213      |
| Assessable Income from Business                           | 13,487,001 | 20,550,740  | 13,643,304 | 20,763,757  |
| Assessable Income from Investments (Dividend Receipts)    | 127,465    | 146,333     | 127,465    | 146,333     |
| Total Assessable Income                                   | 13,614,466 | 20,697,073  | 13,770,769 | 20,910,090  |
| Taxable income from Business                              | 13,487,001 | 20,550,740  | 13,643,304 | 20,763,757  |
| Less: Qualifying Payments - Donation to Government        | 5,000      | -           | 5,927      | -           |
| Net Taxable Income from Business                          | 13,482,001 | 20,550,740  | 13,637,377 | 20,763,757  |
| Taxable Income from Investments (Dividend Receipts)       | 127,465    | 146,333     | 127,465    | 146,333     |
| Total Taxable Income                                      | 13,609,466 | 20,697,073  | 13,764,842 | 20,910,090  |
| Tax on Business Income at 24%                             | -          | 2,170,955   | -          | 2,176,382   |
| Tax on Business Income at 30%                             | 4,044,600  | 3,451,528   | 4,091,213  | 3,507,641   |
| Tax on Investment Income (Dividend Receipts) at 14%       | -          | 19,529      | -          | 19,529      |
| Tax on Investment Income (Dividend Receipts) at 15%       | 19,120     | 1,026       | 19,120     | 1,026       |
| Tax on Total Taxable Income                               | 4,063,720  | 5,643,038   | 4,110,333  | 5,704,578   |
| (Over)/Under Provision in Respect of Previous Years       | -          | -           | (6,156)    | -           |
| Transfer to Deferred Taxation (Note 16.3)                 | (239,848)  | (3,726,441) | (235,348)  | (3,485,690) |
| Total Income Tax Expense                                  | 3,823,872  | 1,916,597   | 3,868,829  | 2,218,888   |
| Effective Income Tax Rate (%) (Note 16.4)                 | 38         | 29          | 38         | 33          |
| Effective Current Rax Rate (Excluding Deferred Tax) (%) * | 40         | 85          | 40         | 84          |

\* The difference of effective income tax rate and effective current tax rate arise due to the temporary differences between the tax base and the accounting base (i.e. impairment charges, depreciable assets, expenses. etc.)

|                                   | Bank       |           |            |           | Group      |           |            |           |
|-----------------------------------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|
| For the year ended<br>31 December | 2023       |           | 2023 2022  |           | 2023       |           | 2022       |           |
|                                   | Taxable    | Tax       | Taxable    | Tax       | Taxable    | Tax       | Taxable    | Tax       |
|                                   | Income     | Expense   | Income     | Expense   | Income     | Expense   | Income     | Expense   |
|                                   | LKR 000    | LKR '000  | LKR '000   | LKR '000  | LKR '000   | LKR '000  | LKR '000   | LKR '000  |
| Bank's Domestic Banking           |            |           |            |           |            |           |            |           |
| Unit and On-Shore Profits         | 13,772,541 | 4,063,720 | 21,211,456 | 5,643,038 | 13,927,917 | 4,110,333 | 21,424,473 | 5,704,578 |
| Less: Off-Shore Profits           | 163,075    | -         | 514,383    | -         | 163,075    | -         | 514,383    | -         |
|                                   | 13,609,466 | 4,063,720 | 20,697,073 | 5,643,038 | 13,764,842 | 4,110,333 | 20,910,090 | 5,704,578 |

#### 16.3 Deferred Tax Charge/ (Reversal)

| Deferred Tax Charge/ (Reversal)                 | Bai       | nk          | Group     |             |  |
|-------------------------------------------------|-----------|-------------|-----------|-------------|--|
| For the year ended 31 December                  | 2023      | 2022        | 2023      | 2022        |  |
|                                                 | LKR '000  | LKR '000    | LKR '000  | LKR '000    |  |
| Deferred Tax - Liabilities                      |           |             |           |             |  |
| Property, Plant and Equipment                   | (9,080)   | (20,322)    | (9,231)   | (20,448)    |  |
| Lease Receivables                               | (153,178) | (118,841)   | (153,178) | (118,841)   |  |
| Revaluation Gain on Property, Plant & Equipment | -         | -           | 24,916    | -           |  |
| Right-of-use Assets (SLFRS 16)                  | 78,869    | -           | 78,869    | 223,851     |  |
|                                                 | (83,389)  | (139,163)   | (58,624)  | 84,562      |  |
| Deferred tax - Assets                           |           |             |           |             |  |
| Leave Encashment Provision                      | 31,459    | 1,076       | 31,459    | 1,076       |  |
| Other Provisions                                | 6,228     | (47,166)    | 6,228     | (47,166)    |  |
| Enhanced Gratuity                               | 177,047   | (55,517)    | 177,047   | (55,517)    |  |
| Lease Liabilities (SLFRS 16)                    | 92,451    | 30,330      | 112,716   | -           |  |
| Expected Credit Loss Allowances                 | (150,726) | 3,636,217   | (150,726) | 3,636,217   |  |
| Tax Losses Carried Forward                      | -         | -           | -         | (3,998)     |  |
|                                                 | 156,459   | 3,564,940   | 176,724   | 3,530,612   |  |
| Effect from Rate Change (24% to 30%)            | -         | (22,338)    | -         | (39,640)    |  |
| Transfer to Deferred Taxation                   | (239,848) | (3,726,441) | (235,348) | (3,485,690) |  |

#### 16.4 **Reconciliation of Effective Tax Rate**

|                                                                                | Bank |             |      |             | Group |             |      |             |
|--------------------------------------------------------------------------------|------|-------------|------|-------------|-------|-------------|------|-------------|
| For the year ended 31 December                                                 |      | 2023        |      | 2022        |       | 2023        |      | 2022        |
|                                                                                | %    | LKR'000     | %    | LKR'000     | %     | LKR'000     | %    | LKR'000     |
| Profit Before Income Tax                                                       |      | 10,080,086  |      | 6,628,860   |       | 10,269,451  |      | 6,796,658   |
| Income Tax for the Period                                                      | 30   | 3,024,026   | 28   | 1,866,721   | 30    | 3,080,835   | 28   | 1,917,061   |
| Tax Effect of Expenses that are Not<br>Deductible for Tax Purposes             | 72   | 7,275,104   | 134  | 8,888,645   | 71    | 7,265,186   | 131  | 8,888,645   |
| Tax Effect of Expenses that are Deductible for Tax Purposes                    | (58) | (5,850,463) | (70) | (4,643,848) | (57)  | (5,850,463) | (68) | (4,632,648) |
| Exempt Income                                                                  | (4)  | (402,567)   | (7)  | (489,035)   | (4)   | (402,567)   | (7)  | (489,035)   |
| Qualifying Payments (Donation to the Government)                               | -    | (1,500)     | -    | -           | -     | (1,778)     | _    | -           |
| (Over)/ Under Provision in Respect of<br>Previous Years                        | -    | -           | -    | _           | -     | (6,156)     | -    | _           |
| Dividend (First six months - under 14%<br>Tax Rate & Second six months - under |      |             |      |             |       |             |      |             |
| 15% Tax Rate)                                                                  | -    | 19,120      | -    | 20,555      | -     | 19,120      | -    | 20,555      |
| Deferred Taxation                                                              | (2)  | (239,848)   | (56) | (3,726,441) | (2)   | (235,348)   | (51) | (3,485,690) |
| Total Income Tax Expense (Note 16.2)                                           | 38   | 3,823,872   | 29   | 1,916,597   | 38    | 3,868,829   | 33   | 2,218,888   |

#### 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 2023 and 2022.

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive Ordinary Shares.

|                                                                                    | Ba        | nk        | Group     |           |  |
|------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|--|
|                                                                                    | 2023      | 2022      | 2023      | 2022      |  |
|                                                                                    | Rest      | ated      | Rest      | ated      |  |
| Total Profit after Tax Attributable to Equity Holders of the Bank (LKR '000)       | 6,256,214 | 4,712,263 | 6,321,116 | 4,574,359 |  |
| Weighted Average Number of Ordinary Shares as at 31<br>December ('000) (Note 17.1) | 615,449   | 615,449   | 615,449   | 615,449   |  |
| Basic/Diluted Earnings Per Share (LKR)                                             | 10.17     | 7.66      | 10.27     | 7.43      |  |

2023

#### 17.1 Weighted Average Number of Ordinary Shares for Earnings per Share

| Earnings per Share                                   |             |                     |             |                     |
|------------------------------------------------------|-------------|---------------------|-------------|---------------------|
|                                                      | Outstanding | Weighted<br>Average | Outstanding | Weighted<br>Average |
|                                                      |             |                     |             | Restated            |
| Number of Shares held as at 01 January               | 577,776,073 | 577,776,073         | 534,190,683 | 534,190,683         |
| Add: Number of Shares Issued - Scrip Dividend - 2022 |             | -                   | 43,585,390  | 43,585,390          |
| Add: Number of Shares Issued - Scrip Dividend - 2023 | 37,672,985  | 37,672,985          | -           | -                   |
| Number of Shares held as at 31 December              | 615,449,058 | 615,449,058         | 577,776,073 | 577,776,073         |
| Restatement due to subsequent scrip issue *          |             |                     |             | 37,672,985          |
| Weighted Average Number of Ordinary Shares as at     |             |                     |             |                     |
| 31 December                                          |             | 615,449,058         |             | 615,449,058         |

\* Weighted average number of ordinary shares as at 31 December 2022 has been restated based on the no of shares issued for scrip dividend in 2022 as per Sri Lanka Accounting Standard (LKAS 33) - "Earnings per Share".

#### 18 Dividends

|                          | Bank/Group |           |  |  |
|--------------------------|------------|-----------|--|--|
| Ordinary Share Dividends | 2023       | 2022      |  |  |
|                          | LKR '000   | LKR '000  |  |  |
| Net Dividend Paid        |            |           |  |  |
| Scrip Dividends          | 982,220    | 1,602,571 |  |  |
| Tax Deducted at Source   | 173,333    | -         |  |  |
| Gross Dividend           | 1,155,553  | 1,602,571 |  |  |

#### **Proposed Dividend**

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 2.50 per share for both voting and nonvoting ordinary shareholders of the Bank to be paid by way of LKR 1 cash dividend per share and LKR 1.50 scrip dividend per share for the year ended 31 December 2023 (Bank declared a final dividend of LKR 2.00 per share for 2022 by way of 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 28 March 2024. Final dividend proposed for the year 2023 amounts to LKR 1,538,622,645.00 (LKR 1,155,552,146.00 for 2022).

In accordance with provisions of the Sri Lanka Accounting Standard (LKAS 10) – Events after the Reporting Period, the proposed final dividend has not been recognized 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 the solvency test in accordance with the section 57, prior to recommending the final dividend.

2022

19 Analysis of Financial Instruments by Measurement Basis

## 19.1 Bank

| As at 31 December                            | 2023                                                                                  |                                                                                                      |                                                              |             |  |  |
|----------------------------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------|--|--|
|                                              | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Profit<br>or Loss (FVTPL) | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Other<br>Comprehensive<br>Income (FVOCI) | Financial<br>Assets<br>Measured at<br>Amortised Cost<br>(AC) | Total       |  |  |
|                                              | LKR '000                                                                              | LKR '000                                                                                             | LKR '000                                                     | LKR '000    |  |  |
| Assets                                       |                                                                                       |                                                                                                      |                                                              |             |  |  |
| Cash and Cash Equivalents                    | -                                                                                     | -                                                                                                    | 48,851,143                                                   | 48,851,143  |  |  |
| Balances with Central Bank of Sri Lanka      | -                                                                                     | -                                                                                                    | 7,028,281                                                    | 7,028,281   |  |  |
| Placements with Banks and Finance Companies  | -                                                                                     | -                                                                                                    | 22,064,672                                                   | 22,064,672  |  |  |
| Derivative Financial Instruments             | 88,022                                                                                | -                                                                                                    | -                                                            | 88,022      |  |  |
| Securities Purchased under Resale Agreements | -                                                                                     | -                                                                                                    | 817,150                                                      | 817,150     |  |  |
| Customer Loans and Advances                  | -                                                                                     | -                                                                                                    | 437,532,470                                                  | 437,532,470 |  |  |
| Debt Instruments                             | -                                                                                     | -                                                                                                    | 751,134                                                      | 751,134     |  |  |
| Equity Instruments                           | -                                                                                     | 1,802,855                                                                                            | -                                                            | 1,802,855   |  |  |
| Government Securities                        | 27,753,867                                                                            | 38,245,856                                                                                           | 102,786,226                                                  | 168,785,949 |  |  |
| Group Balances Receivable                    | -                                                                                     | -                                                                                                    | 40,500                                                       | 40,500      |  |  |
| Other Financial Assets                       | -                                                                                     | -                                                                                                    | 11,896,790                                                   | 11,896,790  |  |  |
| Total Financial Assets                       | 27,841,889                                                                            | 40,048,711                                                                                           | 631,768,366                                                  | 699,658,966 |  |  |

|                                             | Financial<br>Liabilities<br>Measured at<br>Fair Value<br>through Profit<br>or Loss (FVTPL) | Financial<br>Liabilities<br>Measured at<br>Amortised Cost<br>(AC) | Total       |
|---------------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------|
|                                             | LKR '000                                                                                   | LKR '000                                                          | LKR '000    |
| Liabilities                                 |                                                                                            |                                                                   |             |
| Due to Banks                                | -                                                                                          | 12,096,756                                                        | 12,096,756  |
| Derivative Financial Instruments            | 32,269                                                                                     | -                                                                 | 32,269      |
| Due to Depositors                           | -                                                                                          | 590,698,330                                                       | 590,698,330 |
| Securities Sold under Repurchase Agreements | -                                                                                          | 6,862,998                                                         | 6,862,998   |
| Due to Other Borrowers                      | -                                                                                          | 16,151                                                            | 16,151      |
| Group Balances Payable                      | -                                                                                          | 115,823                                                           | 115,823     |
| Debt Securities Issued                      | -                                                                                          | 19,967,701                                                        | 19,967,701  |
| Lease Liabilities                           | -                                                                                          | 5,409,418                                                         | 5,409,418   |
| Other Financial Liabilities                 | -                                                                                          | 11,953,383                                                        | 11,953,383  |
| Total Financial Liabilities                 | 32,269                                                                                     | 647,120,560                                                       | 647,152,829 |

| As at 31 December                            | 2022                                                                                  |                                                                                                      |                                                              |             |  |
|----------------------------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------|--|
|                                              | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Profit<br>or Loss (FVTPL) | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Other<br>Comprehensive<br>Income (FVOCI) | Financial<br>Assets<br>Measured at<br>Amortised Cost<br>(AC) | Total       |  |
|                                              | LKR '000                                                                              | LKR '000                                                                                             | LKR '000                                                     | LKR '000    |  |
| Assets                                       |                                                                                       |                                                                                                      |                                                              |             |  |
| Cash and Cash Equivalents                    | -                                                                                     | -                                                                                                    | 40,254,514                                                   | 40,254,514  |  |
| Balances with Central Bank of Sri Lanka      | -                                                                                     | -                                                                                                    | 16,784,172                                                   | 16,784,172  |  |
| Placements with Banks and Finance Companies  | -                                                                                     | -                                                                                                    | 1,819,036                                                    | 1,819,036   |  |
| Derivative Financial Instruments             | 519,189                                                                               | -                                                                                                    | -                                                            | 519,189     |  |
| Securities Purchased under Resale Agreements | -                                                                                     | -                                                                                                    | 3,628,549                                                    | 3,628,549   |  |
| Customer Loans and Advances                  | -                                                                                     | -                                                                                                    | 444,219,508                                                  | 444,219,508 |  |
| Debt Instruments                             | -                                                                                     | -                                                                                                    | 889,997                                                      | 889,997     |  |
| Equity Instruments                           | -                                                                                     | 1,500,621                                                                                            | -                                                            | 1,500,621   |  |
| Government Securities                        | 17,781,867                                                                            | 15,635,665                                                                                           | 101,640,332                                                  | 135,057,864 |  |
| Group Balances Receivable                    | -                                                                                     | -                                                                                                    | 64,435                                                       | 64,435      |  |
| Other Financial Assets                       | -                                                                                     | -                                                                                                    | 11,265,428                                                   | 11,265,428  |  |
| Total Financial Assets                       | 18,301,056                                                                            | 17,136,286                                                                                           | 620,565,971                                                  | 656,003,313 |  |

|                                             | Financial<br>Liabilities<br>Measured at<br>Fair Value<br>through Profit<br>or Loss (FVTPL) | Liabilities Liabilities<br>Measured at Measured at<br>Fair Value Amortised Cost<br>through Profit (AC) |             |
|---------------------------------------------|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|-------------|
|                                             | LKR '000                                                                                   | LKR '000                                                                                               | LKR '000    |
| Liabilities                                 |                                                                                            |                                                                                                        |             |
| Due to Banks                                | -                                                                                          | 12,158,030                                                                                             | 12,158,030  |
| Derivative Financial Instruments            | 906,813                                                                                    | -                                                                                                      | 906,813     |
| Due to Depositors                           | -                                                                                          | 547,315,755                                                                                            | 547,315,755 |
| Securities Sold under Repurchase Agreements | -                                                                                          | 11,944,370                                                                                             | 11,944,370  |
| Due to Other Borrowers                      | -                                                                                          | 7,483                                                                                                  | 7,483       |
| Group Balances Payable                      | -                                                                                          | 202,382                                                                                                | 202,382     |
| Debt Securities Issued                      | -                                                                                          | 21,617,455                                                                                             | 21,617,455  |
| Lease Liabilities                           | -                                                                                          | 5,101,247                                                                                              | 5,101,247   |
| Other Financial Liabilities                 | -                                                                                          | 9,218,039                                                                                              | 9,218,039   |
| Total Financial Liabilities                 | 906,813                                                                                    | 607,564,761                                                                                            | 608,471,574 |

#### 19.2 GROUP

|                                              | 2023                                                                                  |                                                                                                      |                                                              |             |  |
|----------------------------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------|--|
| As at 31 December                            | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Profit<br>or Loss (FVTPL) | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Other<br>Comprehensive<br>Income (FVOCI) | Financial<br>Assets<br>Measured at<br>Amortised Cost<br>(AC) | Total       |  |
|                                              | LKR '000                                                                              | LKR '000                                                                                             | LKR '000                                                     | LKR '000    |  |
| Assets                                       |                                                                                       |                                                                                                      |                                                              |             |  |
| Cash and Cash Equivalents                    |                                                                                       | -                                                                                                    | 48,851,183                                                   | 48,851,183  |  |
| Balances with Central Bank of Sri Lanka      | -                                                                                     | -                                                                                                    | 7,028,281                                                    | 7,028,281   |  |
| Placements with Banks and Finance Companies  |                                                                                       | -                                                                                                    | 22,064,672                                                   | 22,064,672  |  |
| Derivative Financial Instruments             | 88,022                                                                                | -                                                                                                    | -                                                            | 88,022      |  |
| Securities Purchased under Resale Agreements | -                                                                                     | -                                                                                                    | 817,150                                                      | 817,150     |  |
| Customer Loans and Advances                  | -                                                                                     | -                                                                                                    | 437,532,470                                                  | 437,532,470 |  |
| Debt Instruments                             |                                                                                       | -                                                                                                    | 751,134                                                      | 751,134     |  |
| Equity Instruments                           | -                                                                                     | 1,802,855                                                                                            | -                                                            | 1,802,855   |  |
| Government Securities                        | 27,753,867                                                                            | 38,484,010                                                                                           | 103,057,378                                                  | 169,295,255 |  |
| Other Financial Assets                       | -                                                                                     | -                                                                                                    | 11,918,708                                                   | 11,918,708  |  |
| Total Financial Assets                       | 27,841,889                                                                            | 40,286,865                                                                                           | 632,020,976                                                  | 700,149,730 |  |

| Financial<br>Liabilities<br>Measured at<br>Fair Value<br>through Profit | Financial<br>Liabilities<br>Measured at<br>Amortised Cost<br>(AC) | Total    |
|-------------------------------------------------------------------------|-------------------------------------------------------------------|----------|
| or Loss (FVTPL)<br>LKR '000                                             | LKR '000                                                          | LKR '000 |

| Liabilities                                 |        |             |             |
|---------------------------------------------|--------|-------------|-------------|
| Due to Banks                                | -      | 12,096,756  | 12,096,756  |
| Derivative Financial Instruments            | 32,269 | -           | 32,269      |
| Due to Depositors                           | -      | 590,698,330 | 590,698,330 |
| Securities Sold under Repurchase Agreements | -      | 6,862,998   | 6,862,998   |
| Due to Other Borrowers                      | -      | 16,151      | 16,151      |
| Debt Securities Issued                      | -      | 19,967,701  | 19,967,701  |
| Lease Liabilities                           | -      | 2,245,420   | 2,245,420   |
| Other Financial Liabilities                 | -      | 12,015,613  | 12,015,613  |
| Total Financial Liabilities                 | 32,269 | 643,902,969 | 643,935,238 |

Liabilities

222

# NOTES TO THE FINANCIAL STATEMENTS

| As at 31 December                            | 2022                                                                                  |                                                                                                      |                                                              |             |  |
|----------------------------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------|--|
|                                              | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Profit<br>or Loss (FVTPL) | Financial<br>Assets<br>Measured at<br>Fair Value<br>through Other<br>Comprehensive<br>Income (FVOCI) | Financial<br>Assets<br>Measured at<br>Amortised Cost<br>(AC) | Total       |  |
|                                              | LKR '000                                                                              | LKR '000                                                                                             | LKR '000                                                     | LKR '000    |  |
| Assets                                       |                                                                                       |                                                                                                      |                                                              |             |  |
| Cash and Cash Equivalents                    | -                                                                                     | -                                                                                                    | 40,254,554                                                   | 40,254,554  |  |
| Balances with Central Bank of Sri Lanka      | -                                                                                     | -                                                                                                    | 16,784,172                                                   | 16,784,172  |  |
| Placements with Banks and Finance Companies  | -                                                                                     | -                                                                                                    | 1,819,036                                                    | 1,819,036   |  |
| Derivative Financial Instruments             | 519,189                                                                               | -                                                                                                    | -                                                            | 519,189     |  |
| Securities Purchased under Resale Agreements | -                                                                                     | -                                                                                                    | 3,628,549                                                    | 3,628,549   |  |
| Customer Loans and Advances                  | -                                                                                     | -                                                                                                    | 444,219,508                                                  | 444,219,508 |  |
| Debt Instruments                             | -                                                                                     | 49,897                                                                                               | 889,997                                                      | 939,894     |  |
| Equity Instruments                           | -                                                                                     | 1,500,621                                                                                            | -                                                            | 1,500,621   |  |
| Government Securities                        | 17,781,867                                                                            | 15,635,665                                                                                           | 101,911,206                                                  | 135,328,738 |  |
| Other Financial Assets                       | -                                                                                     | -                                                                                                    | 11,292,150                                                   | 11,292,150  |  |
| Total Financial Assets                       | 18,301,056                                                                            | 17,186,183                                                                                           | 620,799,172                                                  | 656,286,411 |  |

| Financial<br>Liabilities<br>Measured at<br>Fair Value<br>through Profit<br>or Loss (FVTPL) | Financial<br>Liabilities<br>Measured at<br>Amortised Cost<br>(AC) | Total       |
|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------|
| LKR '000                                                                                   | LKR '000                                                          | LKR '000    |
|                                                                                            |                                                                   |             |
| -                                                                                          | 12,158,030                                                        | 12,158,030  |
| 906,813                                                                                    | -                                                                 | 906,813     |
| -                                                                                          | 547,315,755                                                       | 547,315,755 |
| -                                                                                          | 11,944,370                                                        | 11,944,370  |

| Due to Banks                                | -       | 12,158,030  | 12,158,030  |
|---------------------------------------------|---------|-------------|-------------|
| Derivative Financial Instruments            | 906,813 | -           | 906,813     |
| Due to Depositors                           | -       | 547,315,755 | 547,315,755 |
| Securities Sold under Repurchase Agreements | -       | 11,944,370  | 11,944,370  |
| Due to Other Borrowers                      | -       | 7,483       | 7,483       |
| Debt Securities Issued                      | -       | 21,617,455  | 21,617,455  |
| Lease Liabilities                           | -       | 2,254,558   | 2,254,558   |
| Other Financial Liabilities                 | -       | 9,280,995   | 9,280,995   |
| Total Financial Liabilities                 | 906,813 | 604,578,646 | 605,485,459 |

#### 20 Cash and Cash Equivalents

20.1

|                                            | Bank       |            | Group      |            |
|--------------------------------------------|------------|------------|------------|------------|
| As at 31 December                          | 2023       | 2022       | 2023       | 2022       |
|                                            | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Cash in Hand - Local Currency              | 11,733,074 | 10,442,345 | 11,733,114 | 10,442,385 |
| Cash in Hand - Foreign Currency            | 563,643    | 429,902    | 563,643    | 429,902    |
| Balances with Local Banks                  | 546,389    | 548,410    | 546,389    | 548,410    |
| Balances with Foreign Banks                | 36,191,728 | 28,981,507 | 36,191,728 | 28,981,507 |
| Total Cash and Cash Equivalents            | 49,034,834 | 40,402,164 | 49,034,874 | 40,402,204 |
| Expected Credit Loss Allowance (Note 20.1) | (183,691)  | (147,650)  | (183,691)  | (147,650)  |
| Fotal Cash and Cash Equivalents - Net      | 48,851,143 | 40.254.514 | 48,851,183 | 40,254,554 |

| Stage 1                                             |         |         |         |         |
|-----------------------------------------------------|---------|---------|---------|---------|
| Balance as at 01 January                            | 147,650 | 34,599  | 147,650 | 34,599  |
| Charge / (Write back) to Income Statement (Note 13) | 36,041  | 113,051 | 36,041  | 113,051 |
| Balance as at 31 December                           | 183,691 | 147,650 | 183,691 | 147,650 |

#### 21 Balances with Central Bank of Sri Lanka

As required by Section 93 of the Monetary Law Act, a cash balance to fulfil the statutory reserve requirement of 2% (2% for the period 16 August 2023 to 31 December 2023, 4% for the period 1 September 2021 to 15 August 2023) of the rupee deposit liabilities to be maintained with Central Bank of Sri Lanka.

|                                                                                               | Bank/G             | roup       |
|-----------------------------------------------------------------------------------------------|--------------------|------------|
| As at 31 December                                                                             | 2023               | 2022       |
|                                                                                               | LKR '000           | LKR '000   |
| Statutory balances with the Central Bank of Sri Lanka*                                        | 7,028,281          | 16,784,172 |
| Total Balances with Central Bank of Sri Lanka                                                 | 7,028,281          | 16,784,172 |
| *Amount required to maintain the statutory reserve requirement on average over the reserve of | naintananca pariod |            |

\*Amount required to maintain the statutory reserve requirement on average over the reserve maintenance period.

#### 22 Placements with Banks and Finance Companies

|                                                         | Bai        | nk        | Group      |           |
|---------------------------------------------------------|------------|-----------|------------|-----------|
| As at 31 December                                       | 2023       | 2022      | 2023       | 2022      |
|                                                         | LKR '000   | LKR '000  | LKR '000   | LKR '000  |
| Term Deposits with Banks                                | 22,175,550 | 1,828,177 | 22,175,550 | 1,828,177 |
| Term Deposits with Finance Companies                    | -          | -         | 498        | 498       |
| Total Placements with Banks and Finance Companies       | 22,175,550 | 1,828,177 | 22,176,048 | 1,828,675 |
| Expected Credit Loss Allowance (Note 22.1)              | (110,878)  | (9,141)   | (111,376)  | (9,639)   |
| Total Placements with Banks and Finance Companies - Net | 22,064,672 | 1,819,036 | 22,064,672 | 1,819,036 |

As at 31 December

| 22.1 | Movement in Expected Credit Loss Allowance During the year |         |          |         |          |
|------|------------------------------------------------------------|---------|----------|---------|----------|
|      | Stage 1                                                    |         |          |         |          |
|      | Balance as at 1 January                                    | 9,141   | 41,442   | 9,639   | 41,940   |
|      | Charge / (Write back) to Income statement (Note 13)        | 101,737 | (32,301) | 101,737 | (32,301) |
|      | Balance as at 31 December                                  | 110,878 | 9,141    | 111,376 | 9,639    |

#### 23 Derivative Financial Instruments

|      |                                    | Bank/    | Group    |
|------|------------------------------------|----------|----------|
|      | As at 31 December                  | 2023     | 2022     |
|      |                                    | LKR '000 | LKR '000 |
| 23.1 | Derivative Assets                  |          |          |
|      | Foreign Currency Derivatives       |          |          |
|      | Forward Foreign Exchange Contracts |          |          |
|      | - Designated as Cash Flow Hedges   | -        | -        |
|      | - Designated as Fair Value Hedges  | -        | -        |
|      | - Not Designated as Hedge          | 88,022   | 519,189  |
|      |                                    | 88,022   | 519,189  |

224

| 23.2 | Derivative Liabilities             |        |         |
|------|------------------------------------|--------|---------|
|      | Foreign Currency Derivatives       |        |         |
|      | Forward Foreign Exchange Contracts |        |         |
|      | - Designated as Cash Flow Hedges   | -      | -       |
|      | - Designated as Fair Value Hedges  | -      | -       |
|      | - Not Designated as Hedge          | 32,269 | 906,813 |
|      |                                    | 32,269 | 906,813 |

#### 24 Financial Assets Measured at Fair Value Through Profit and Loss (FVTPL)

|                                                    | Bank/      | Bank/Group |  |  |
|----------------------------------------------------|------------|------------|--|--|
| As at 31 December                                  | 2023       | 2022       |  |  |
|                                                    | LKR '000   | LKR '000   |  |  |
| Government Securities - Treasury Bills (Note 26.1) | 26,177,114 | 17,424,841 |  |  |
| Government Securities - Treasury Bonds (Note 26.1) | 1,576,753  | 357,026    |  |  |
| Total Financial Assets Measured at FVTPL           | 27,753,867 | 17,781,867 |  |  |

#### 24.1 Analysis of Financial Assets Measured at FVTPL

| 24.1.1 | By Currency                              |            |            |
|--------|------------------------------------------|------------|------------|
|        | Sri Lankan Rupee                         | 27,753,867 | 17,781,867 |
|        | Total Financial Assets Measured at FVTPL | 27,753,867 | 17,781,867 |

| 24.1.2 | By Collateralisation                     |            |            |
|--------|------------------------------------------|------------|------------|
|        | Pledged as Collateral                    | 897,383    | -          |
|        | Unencumbered                             | 26,856,484 | 17,781,867 |
|        | Total Financial Assets Measured at FVTPL | 27,753,867 | 17,781,867 |
|        |                                          |            |            |

# 24.2 Financial Assets Measured at FVTPL Consists of Total Cost/Amortised Cost 27,819,065 17,978,059 Marked to Market Valuation Gain/(Loss) \* (65,198) (196,192) Total Fair Value 27,753,867 17,781,867

\* Marked to market valuation gain/(loss) of financial Assets measured at fair value through profit and loss is included in Net Gains / (Losses) from Trading (Note 10).

|                                                             | Bank/G      | iroup       |
|-------------------------------------------------------------|-------------|-------------|
| Financial Assets at Amortised Cost - Loans and Advances     | 2023        | 2022        |
|                                                             | LKR '000    | LKR '000    |
| Gross Loans & Advances under;                               |             |             |
| Stage 1                                                     | 401,810,674 | 388,076,563 |
| Stage 2                                                     | 24,226,722  | 40,678,022  |
| Stage 3                                                     | 71,167,813  | 61,677,299  |
| Gross Loans & Advances                                      | 497,205,209 | 490,431,884 |
| Less: Expected Credit Loss Allowance under; (Note 25.3)     |             |             |
| Stage 1                                                     | 3,170,520   | 6,207,450   |
| Stage 2                                                     | 7,884,411   | 6,450,019   |
| Stage 3                                                     | 48,617,808  | 33,554,907  |
| Total Expected Credit Loss Allowance for Loans and Advances | 59,672,739  | 46,212,376  |
| Total Loans and Advances - Net                              | 437,532,470 | 444,219,508 |

#### 25.1 Analysis of Gross Loans & Advances

|                                                   | LKR '000    | LKR '000    |
|---------------------------------------------------|-------------|-------------|
| By Product                                        |             |             |
| Local Currency                                    |             |             |
| Export Bills                                      | 210,614     | 91,837      |
| Import Bills                                      | 209,672     | 213,784     |
| Local Bills                                       | 9,597       | 12,054      |
| Lease Rentals Receivable (Note 25.2)              | 23,037,804  | 24,036,119  |
| Overdrafts                                        | 60,821,111  | 69,185,621  |
| Revolving Import Loans                            | 12,296,069  | 10,888,046  |
| Packing Credit Loans                              | 6,971,268   | 4,678,143   |
| Trust Receipt Loans                               | -           | 581,793     |
| Staff Loans                                       | 7,097,794   | 7,657,777   |
| Housing Loans                                     | 15,717,780  | 17,620,074  |
| Pawning Receivables                               | 33,111,793  | 31,991,223  |
| Refinance Loans                                   | 8,632,690   | 8,510,440   |
| Credit Cards                                      | 7,797,586   | 7,162,363   |
| Margin Trading                                    | 2,999,107   | 4,508,146   |
| Factoring                                         | 1,850,487   | 1,630,891   |
| Term Loans                                        | 261,486,656 | 234,656,074 |
| Total Gross Loans and Advances - Local Currency   | 442,250,028 | 423,424,385 |
| Foreign Currency                                  |             |             |
| Export Bills                                      | 3,013,553   | 5,409,459   |
| Import Bills                                      | 495,370     | 647,607     |
| Local Bills                                       | 5,035       | 869         |
| Overdrafts                                        | 679,910     | 683,306     |
| Revolving Import Loans                            | 621,332     | 1,443,978   |
| Packing Credit Loans                              | 11,790,930  | 17,274,822  |
| Housing Loans                                     | 110,496     | 212,938     |
| Term Loans                                        | 38,238,555  | 41,334,520  |
| Total Gross Loans and Advances - Foreign Currency | 54,955,181  | 67,007,499  |
| Total Gross Loans and Advances                    | 497,205,209 | 490,431,884 |

|   |                                                   | Bank/G      | roup        |
|---|---------------------------------------------------|-------------|-------------|
|   |                                                   | 2023        | 202         |
|   |                                                   | LKR '000    | LKR '00     |
| 2 | By Currency                                       |             |             |
|   | Sri Lankan Rupee                                  | 442,250,028 | 423,424,38  |
|   | United States Dollar                              | 54,583,523  | 66,638,40   |
|   | Great Britain Pound                               | 329,377     | 335,29      |
|   | Japanese Yen                                      | 18,865      | 16,89       |
|   | Australian Dollar                                 | 12,127      | 16,90       |
|   | Euro                                              | 11,289      |             |
|   | Total Gross Loans and Advances                    | 497,205,209 | 490,431,88  |
| } | By Industry Agriculture, Forestry and Fishing     | 51,741,694  | 61,887,88   |
| 2 | Rv Industry                                       |             |             |
|   | Manufacturing                                     | 75,717,705  | 65,498,658  |
|   | Tourism                                           | 23,639,989  | 24,039,31   |
|   | Transportation and Storage                        | 14,248,937  | 9,498,38    |
|   | Construction                                      | 60,419,339  | 69,838,60   |
|   | Infrastructure Development                        | 16,076,242  | 17,539,54   |
|   | Wholesale and Retail Trade                        | 64,173,116  | 52,473,82   |
|   | Information Technology and Communication Services | 6,028,933   | 4,972,92    |
|   | Financial Services                                | 41,419,808  | 41,857,30   |
|   | Professional, Scientific and Technical Activities | 8,216,146   | 8,249,12    |
|   | Arts, Entertainment and Recreation                | 442,293     | 471,73      |
|   | Education                                         | 931,488     | 982,07      |
|   | Healthcare, Social Services and Support Services  | 10,887,730  | 11,085,53   |
|   | Consumption                                       | 119,196,950 | 118,563,14  |
|   | Lending to Overseas Entities                      | 4,064,839   | 3,473,823   |
|   | Total Gross Loans and Advances                    | 497,205,209 | 490,431,884 |

#### 25.2 Lease Rentals Receivable

|                                                                                  |                                       | Bank/Group         |            |                                       |                    |            |
|----------------------------------------------------------------------------------|---------------------------------------|--------------------|------------|---------------------------------------|--------------------|------------|
|                                                                                  |                                       | 2023               |            |                                       | 2022               |            |
|                                                                                  | Gross Lease<br>Rentals<br>Receivables | Unearned<br>Income | Total      | Gross Lease<br>Rentals<br>Receivables | Unearned<br>Income | Total      |
|                                                                                  | LKR '000                              | LKR '000           | LKR '000   | LKR '000                              | LKR '000           | LKR '000   |
| Lease Rentals Receivable within One Year                                         | 12,112,416                            | (3,212,396)        | 8,900,020  | 13,045,362                            | (3,168,789)        | 9,876,573  |
| Lease Rentals Receivable Later<br>than One Year and Not Later<br>than Five Years | 16,891,858                            | (2,755,308)        | 14,136,550 | 16,938,898                            | (2,781,214)        | 14,157,684 |
| Lease Rentals Receivable Later than Five Years                                   | 1,400                                 | (166)              | 1,234      | 1,970                                 | (108)              | 1,862      |
| Total Lease Rentals Receivable                                                   | 29,005,674                            | (5,967,870)        | 23,037,804 | 29,986,230                            | (5,950,111)        | 24,036,119 |

|      |                                                                 | Bank/Group  |            |
|------|-----------------------------------------------------------------|-------------|------------|
|      |                                                                 | 2023        | 2022       |
|      |                                                                 | LKR '000    | LKR '000   |
| 25.3 | Movements in Expected Credit Loss Allowance on Loans & Advances |             |            |
|      | Balance as at 01 January                                        | 46,212,376  | 23,928,831 |
|      | Charge/(Write back) to Income Statement (Note 13.1)             | 15,342,429  | 21,447,905 |
|      | Reversal for Write-Off during the Year                          | (72,484)    | (97,301)   |
|      | Interest Accrued on Impaired Loans and Advances (Note 8.1)      | (1,041,465) | (698,299)  |
|      | Exchange Rate Movements                                         | (768,117)   | 1,631,240  |
|      | Balance as at 31 December                                       | 59,672,739  | 46,212,376 |

#### 25.3.1 Stagewise Movements in Expected Credit Loss Allowance during the year

| Stage 1                                                    |             |            |
|------------------------------------------------------------|-------------|------------|
| Balance as at 01 January                                   | 6,207,450   | 2,719,224  |
| Charge/(Write back) to Income Statement (Note 13.1)        | (3,011,561) | 3,350,366  |
| Exchange Rate Movements                                    | (25,369)    | 137,860    |
| Balance as at 31 December                                  | 3,170,520   | 6,207,450  |
| Stage 2                                                    |             |            |
| Balance as at 01 January                                   | 6,450,019   | 2,056,798  |
| Charge/(Write back) to Income Statement (Note 13.1)        | 1,468,474   | 4,384,081  |
| Exchange Rate Movements                                    | (34,082)    | 9,140      |
| Balance as at 31 December                                  | 7,884,411   | 6,450,019  |
| Stage 3                                                    |             |            |
| Balance as at 01 January                                   | 33,554,907  | 19,152,809 |
| Charge/(Write back) to Income Statement (Note 13.1)        | 16,885,516  | 13,713,458 |
| Reversal for Write-Off during the Year                     | (72,484)    | (97,301)   |
| Interest Accrued on Impaired Loans and Advances (Note 8.1) | (1,041,465) | (698,299)  |
| Exchange Rate Movements                                    | (708,666)   | 1,484,240  |
| Balance as at 31 December                                  | 48,617,808  | 33,554,907 |

#### Assessment of implications of adverse economic conditions

For facilities affected by prevailing adverse economic conditions and / or subject to any 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 risk categorisation, facilities have been stress tested and required allowance overlays have been made.

#### **Key Judgements and Estimates**

In estimating collectively assessed Expected Credit Loss (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's 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 prevailing adverse economic conditions and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to the impact of prevailing adverse economic conditions, judgements and assumptions include 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/<br>Assumption                                                                       | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Considerations for the year ended                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 31 December 2023                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Determining when a<br>Significant Increase in<br>Credit Risk (SICR) has<br>occurred            | In the measurement of ECL, judgement is involved in<br>setting the rules and trigger points to determine whether<br>there has been a SICR since initial recognition of a loan,<br>which would result in the financial asset moving from<br>'Stage 1' to 'Stage 2'. This is a key area of judgement<br>since transition from 'Stage '1 to 'Stage 2' increases<br>the ECL from an allowance based on the probability<br>of default in the next 12 months, to an allowance for<br>lifetime expected credit losses. | The Bank has assessed the impact of the adverse<br>economic conditions on its customer portfolio and<br>assessments have been carried out based on the<br>discussions with the customers on the future business<br>cashflows, financial position, the sectors in which the<br>businesses operate, and ability to recommence loan<br>repayments to conclude whether there is SICR. The<br>Bank also takes into consideration the current adverse<br>economic developments in order to assess cashflow<br>projections for future recoveries. The main factors that<br>cause uncertainties regarding this application relate<br>to the unstable economic environment prevailing in<br>the country and the resultant implications on the<br>creditworthiness of the borrowers. |
| Measuring both 12-<br>month and lifetime<br>credit losses                                      | The Probability of Default (PD), Loss Given Default (LGD)<br>and Exposure at Default (EAD) credit risk parameters<br>used in determining ECL are point-in time measures<br>reflecting the relevant forward looking information<br>determined by management. Judgement is involved in<br>determining which forward-looking information variables<br>are relevant for particular lending portfolios and for<br>determining each portfolio's point-in-time sensitivity.                                            | The PD, EAD and LGD models are subject to the<br>Bank's policy on impairment model that stipulates<br>periodic Model monitoring, periodic revalidation and the<br>approval procedures and authorities according to model<br>materiality.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|                                                                                                | In addition, judgement is required where behavioural                                                                                                                                                                                                                                                                                                                                                                                                                                                            | There were no material changes to the policies during<br>the year ended 31 December 2023. As the moratorium<br>schemes ended in 2022, the PDs and LGDs have been<br>computed based on the actual stage movements and<br>current economic condition adjustment have been made<br>as post model adjustments based on stress testing and<br>historic patterns to better reflect the adequacy of ECL.<br>There were no material changes to behavioural lifetime                                                                                                                                                                                                                                                                                                                |
|                                                                                                | characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.                                                                                                                                                                                                                                                                                                                                                                                                               | estimates during the year ended 31 December 2023.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Base case economic<br>forecast                                                                 | The Bank derives a forward-looking "base case"<br>economic scenario which reflects the it's view of the<br>most likely future macro-economic conditions.                                                                                                                                                                                                                                                                                                                                                        | There have been no changes to the types of forward-<br>looking variables (key economic drivers) used as model<br>inputs in the current year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | As at 31 December 2023, the base case assumptions<br>have been updated to reflect the evolving situation<br>with respect to the economic conditions prevailing in<br>the country, the economic factor adjustments were<br>incorporated to the model by using the economic<br>forecasts provided by Central Bank of Sri Lanka (CBSL)<br>and International Monetary Fund (IMF) and based on<br>forecast model techniques.                                                                                                                                                                                                                                                                                                                                                    |
| Probability weighting of<br>each economic scenario<br>(base case, best and<br>worst scenarios) | Probability weighting of each economic scenario is<br>determined by management considering the risks and<br>uncertainties surrounding the base case economic<br>scenario at each measurement date.                                                                                                                                                                                                                                                                                                              | The key consideration for probability weightings in the current period is the continuing impact of the prevailing adverse economic conditions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

| Judgement/<br>Assumption                        | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Considerations for t                                                                                                                                                                                                                                  | he year ended                                                                                                                                                    |                                                                             |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| -                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 31 December 2023                                                                                                                                                                                                                                      |                                                                                                                                                                  |                                                                             |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | In addition to the base of<br>lingering effects of the eresidual impact of COVI<br>been applied to the wor<br>assessment of ongoing<br>economic conditions. The<br>are subject to a high de<br>and therefore the actual<br>different to those project | economic downturn<br>D-19, greater weigh<br>st scenario given the<br>uncertainties associ<br>ne assigned probabil<br>gree of inherent unc<br>I outcomes may be s | and the<br>ting has<br>e Bank's<br>ated with<br>ity weightings<br>certainty |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Scenario                                                                                                                                                                                                                                              | 2023                                                                                                                                                             | 2022                                                                        |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Base Case                                                                                                                                                                                                                                             | 15%                                                                                                                                                              | 15%                                                                         |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Best Case                                                                                                                                                                                                                                             | 5%                                                                                                                                                               | 5%                                                                          |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Worst Case                                                                                                                                                                                                                                            | 80%                                                                                                                                                              | 80%                                                                         |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | economic crisis, the Bar<br>the weightages applied                                                                                                                                                                                                    | in 2022.                                                                                                                                                         |                                                                             |
| Post model adjustments<br>( Management overlay) | Post model adjustments to the ECL allowance are used<br>in circumstances where it is judged that the existing<br>inputs, assumptions and model techniques do not<br>capture all the risk factors relevant to Bank's lending<br>portfolios. Emerging local or global macroeconomic,<br>microeconomic or political events and natural disasters<br>that are not incorporated into the current parameters,<br>risk ratings, or forward-looking information are examples<br>of such circumstances.<br>The use of post model adjustments may impact the<br>amount of ECL recognised. | Management have appl<br>the modelled ECL as po<br>due to the uncertainty a<br>adverse economic cond<br>on customers operating<br>customers and stress c                                                                                               | st model adjustmen<br>ssociated with the<br>itions, resultant imp<br>in the risk elevated                                                                        | ts primarily<br>prevailing<br>lications                                     |
|                                                 | The uncertainty associated with the prevailing adverse<br>economic conditions and the extent to which the actions<br>of governments, businesses and consumers mitigate<br>against potentially adverse credit outcomes are not<br>fully incorporated into existing ECL models. Accordingly,<br>management overlays have been applied to ensure credit<br>provisions are appropriate.                                                                                                                                                                                             | Management overlays (i<br>economic conditions) w<br>modelled ECL provision<br>risk elevated sectors ide<br>customers identified as                                                                                                                    | hich have been adde<br>made for risks parti<br>entified by the Bank                                                                                              | ed to the<br>cular for<br>and any                                           |

## 26 Financial Assets Measured at Amortised Cost - Debt and Other Instruments

|                                                             | Bank        |             | Gro         | roup        |  |
|-------------------------------------------------------------|-------------|-------------|-------------|-------------|--|
|                                                             | 2023 2022   |             | 2023        | 2022        |  |
|                                                             | LKR '000    | LKR '000    | LKR '000    | LKR '000    |  |
| Government Securities - Treasury Bills (Note 26.1)          | 14,715,608  | 6,052,565   | 14,986,760  | 6,323,439   |  |
| Government Securities - Treasury Bonds (Note 26.1)          | 72,594,101  | 85,560,849  | 72,594,101  | 85,560,849  |  |
| Sri Lanka Development Bonds (SLDB) (Note 26.6.2)            | -           | 2,583,970   | -           | 2,583,970   |  |
| Sri Lanka International Sovereign Bonds (ISB) (Note 26.6.3) | 12,094,919  | 12,842,058  | 12,094,919  | 12,842,058  |  |
| United States - Treasury Bills                              | 9,670,956   | -           | 9,670,956   | -           |  |
| Quoted Debentures (Note 26.2)                               | 213,321     | 294,732     | 213,321     | 294,732     |  |
| Unquoted Debentures (Note 26.3)                             | 538,188     | 595,383     | 538,188     | 595,383     |  |
| Securities Purchased under Resale Agreements                | 817,150     | 3,628,549   | 817,150     | 3,628,549   |  |
| Total Financial Assets Measured at Amortised Cost           | 110,644,243 | 111,558,106 | 110,915,395 | 111,828,980 |  |
| Expected Credit Loss Allowance (Note 26.6)                  | (6,289,733) | (5,399,228) | (6,289,733) | (5,399,228) |  |
| Net Financial Assets Measured at Amortised Cost             | 104,354,510 | 106,158,878 | 104,625,662 | 106,429,752 |  |

#### Government Domestic Debt Optimisation (DDO) Arrangement of the Government Securities 26.1

Sri Lanka has been facing a challenging economic situation amid an increasingly difficult global economic environment. The Government of Sri Lanka announced its plans to restructure its foreign currency denominated Treasury Bonds (Sri Lanka Development Bonds - SLDBs and Sri Lanka Internal Sovereign Bonds - SLISB) in April 2022.

230

In June 2023, the Government announced the International Monetary Fund (IMF) supported Domestic Debt Optimization program (DDO). The DDO announced and designed to achieve a target level of debt sustainability, stated that it will carve out the Local currency Treasury bills and bonds held by the Employees Provident Funds and the Central Bank of Sri Lanka (CBSL), hence excluding the rest of the local currency Treasury bills and bonds. The said DDO has been completed by the reporting date with the specified portfolio referred to above.

Accordingly, the DDO has not restricted the government's ability to continue to repay the principal and interest on local currency-denominated Treasury bills and Bonds. Further, the Banking Act Direction No. 14 of 2021, Classification, Recognition, and Measurement of Financial Assets other than Credit Facilities in Licensed Banks, issued by the Monetary Board, Central Bank of Sri Lanka requires LGD of zero to be applied to these Government securities, accordingly, the Bank's overall Expected Credit Loss (ECL) on these instruments has been considered to be effectively zero.

Considering the above, currency denominated Tbills and Tbonds continue to be classified under Stage 1.

Refer Note 26.6.2 for the classification and accounting treatment adopted by the Bank for the SLDBs and the LKR bonds issued instead of the SLBDs in August 2023.

Refer Note 26.6.3 for the classification of SLISBs and assessment of expected credit loss carried out by Bank as at reporting date.

|      |                                                                    | Bai      | ık       | Group    |          |  |
|------|--------------------------------------------------------------------|----------|----------|----------|----------|--|
|      | As at 31 December                                                  | 2023     | 2022     | 2023     | 2022     |  |
|      |                                                                    | LKR '000 | LKR '000 | LKR '000 | LKR '000 |  |
| 26.2 | Quoted Debentures                                                  |          |          |          |          |  |
|      | Singer Finance PLC (750,000 Debentures of LKR 100/- each )         | -        | 81,411   | -        | 81,411   |  |
|      | Ceylon Electricity Board (2,000,000 Debentures of LKR 100/- each ) | 213,321  | 213,321  | 213,321  | 213,321  |  |
|      | Total Quoted Debentures Measured at Amortised Cost                 | 213,321  | 294,732  | 213,321  | 294,732  |  |
| 26.3 | Unquoted Debentures                                                |          |          |          |          |  |
|      | HNB Finance PLC                                                    | 538,188  | 595,383  | 538,188  | 595,383  |  |
|      | Total Unguoted Debentures Measured at Amortised Cost               | 538,188  | 595,383  | 538,188  | 595,383  |  |

#### Analysis of Financial Assets Measured at Amortised Cost - Debt and Other Instruments 26.4

As at 31 December

|        |                                                   | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
|--------|---------------------------------------------------|-------------|-------------|-------------|-------------|
| 26.4.1 | By Currency                                       |             |             |             |             |
|        | Sri Lankan Rupee                                  | 88,878,368  | 96,132,078  | 89,149,520  | 96,402,952  |
|        | United States Dollar                              | 21,765,875  | 15,426,028  | 21,765,875  | 15,426,028  |
|        | Total Financial Assets Measured at Amortised Cost | 110,644,243 | 111,558,106 | 110,915,395 | 111,828,980 |
| 26.4.2 | By Collateralisation                              | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
|        | Pledged as Collateral                             | 5,842,235   | 12,542,480  | 5,842,235   | 12,542,480  |
|        | Unencumbered                                      | 104,802,008 | 99,015,626  | 104,802,008 | 99,286,500  |
|        | Total Financial Assets Measured at Amortised Cost | 110,644,243 | 111,558,106 | 110,915,395 | 111,828,980 |

#### Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments 26.5

|                                                    | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
|----------------------------------------------------|-------------|-------------|-------------|-------------|
| Balance as at 01 January                           | 106,158,878 | 67,992,449  | 106,429,752 | 68,156,417  |
| Reclassification during the year (Note 26.7)       | -           | 24,889,244  | -           | 24,889,244  |
| Net acquisitions and maturities during the year    | (284,659)   | 17,988,809  | (284,381)   | 18,095,715  |
| Expected Credit Losses during the year (Note 26.6) | (1,519,709) | (4,711,624) | (1,519,709) | (4,711,624) |
| Balance as at 31 December                          | 104,354,510 | 106,158,878 | 104,625,662 | 106,429,752 |

#### 26.6 Movements in Expected Credit Loss during the Year

|                                                     | Bank      |                | Group          |           |                  |  |      |
|-----------------------------------------------------|-----------|----------------|----------------|-----------|------------------|--|------|
|                                                     | 2023      | 2023 2022 2023 | 2023 2022 2023 |           | 2023 2022 2023 2 |  | 2022 |
|                                                     | LKR '000  | LKR '000       | LKR '000       | LKR '000  |                  |  |      |
| Balance as at 01 January                            | 5,399,228 | 687,604        | 5,399,228      | 687,604   |                  |  |      |
| Charge / (Write back) to Income Statement (Note 13) | 1,519,709 | 4,711,624      | 1,519,709      | 4,711,624 |                  |  |      |
| Exchange Rate Movement                              | (629,204) | -              | (629,204)      | -         |                  |  |      |
| Balance as at 31 December                           | 6,289,733 | 5,399,228      | 6,289,733      | 5,399,228 |                  |  |      |

#### 26.6.1 Stagewise Movements in Expected Credit Loss during the Year

|                                           | Ba        | nk        | Group     |           |  |
|-------------------------------------------|-----------|-----------|-----------|-----------|--|
| As at 31 December                         | 2023      | 2022      | 2023      | 2022      |  |
|                                           | LKR '000  | LKR '000  | LKR '000  | LKR '000  |  |
| Stage 1                                   |           |           |           |           |  |
| Balance as at 01 January                  | 118       | 687,604   | 118       | 687,604   |  |
| Charge / (Write back) to Income statement | 257       | (687,486) | 257       | (687,486) |  |
| Balance as at 31 December                 | 375       | 118       | 375       | 118       |  |
| Stage 2                                   |           |           |           |           |  |
| Balance as at 01 January                  | 5,399,110 | -         | 5,399,110 | -         |  |
| Charge / (Write back) to Income statement | 1,519,452 | 5,399,110 | 1,519,452 | 5,399,110 |  |
| Exchange Rate Movement                    | (629,204) |           | (629,204) |           |  |
| Balance as at 31 December                 | 6,289,358 | 5,399,110 | 6,289,358 | 5,399,110 |  |

#### 26.6.2 Accounting Treatment for LKR bonds issued instead of the SLDBs

On 1 July 2023, the Sri Lankan Parliament approved the Government's policy on domestic public debt optimization strategy. The Sri Lanka Development Bonds (SLDBs) held by the Bank were subject to this Debt Domestic Optimization (DDO) strategy. Consequently on 15 August 2023, the Bank exchanged its outstanding SLDBs, valued at USD 7 Mn for local currency denominated treasury bonds. These treasury bonds comprise of two new instruments with variable coupons. The Bank received local currency denominated Treasury bonds in exchange of SLDBs.

Following this settlement, the Bank reversed an impairment provision of LKR 904 Mn that has been recognized for SLDBs as at the date of exchange, to the profit or loss. The Bank recognised an impairment loss of LKR 103 Mn on the initial recognition of the LKR denominated Treasury bonds that were received in exchange in August 2023.

Based on the explanation provided in Note 26.1, the LKR denominated Treasury Bonds received in exchanged of the SLDBs referred to above have been classified under Stage 1 from the date of initial recognition and the Expected Credit Loss (ECL) on these instruments has been considered to be effectively zero.

#### 26.6.3 Classification of ISBs and assessment of expected credit allowance

As explained in Note 26.1, the Government of Sri Lanka announced its plans to restructure the ISBs in April 2022 and the negotiations are ongoing with the lenders as of 31 December 2023.

The Government announcement of its restructuring plans was considered to be a Significant Increase in Credit Risk indicator and accordingly, the said ISBs were classified under Stage 2 by the Bank in 2022. As the negotiations are yet to commence, and no further changes have taken place in relation to these ISBs, whilst the macro economic environment have improved relatively to that of last year, the ISBs continue to be reported under Stage 2 as of 31 December.

As at the reporting date the negotiations between GoSL and external creditors (Both market borrowings and bilateral borrowings) are still ongoing. As the final outcome is yet to be known, the Bank has carried out a worst case scenario assessment of expected credit loss on the ISBs on conclusion of the negotiations, based on the assumptions on possible hair cut, features of the new instrument that may be issued and resultant fair value loss. Considering these uncertainties around the final haircut amount, possible fair value loss, as well as the ECL on the new instrument that may be issued. The Bank has made a worst case scenario provision cover of 52% on the outstanding provision as at reporting date which amounted to LKR 6,289 Mn. Accordingly the Bank has made an impairment loss provision of LKR 1,520 Mn during the year to arrive at the said 52% provision cover. This has been included under the Note 13 in the Income Statement.

The above assessment has been carried out based on the facts and circumstances as of 31 December 2023 and the Bank will continue reassess the judgments and assumptions used on an ongoing basis based on facts and circumstances prevailing as of the future reporting dates.

#### 26.7 Reclassification of Debt Portfolio

Considering the unprecedented changes in the macro-economic conditions, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued the "Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio" which provides a temporary practical expedient to permit the entities to reclassify the debt portfolio measured at Fair Value through Other Comprehensive Income (FVOCI) to Amortised cost.

232

The Bank adopted the above SoAT and re-classified its Debt Portfolio from Fair Value Through Other Comprehensive Income (FVOCI) to Amortised Cost (AC) with effect from 01 April 2022. The Bank did not reclassifying any portfolio during the year.

|                                                                                                                 | Bank/Group |
|-----------------------------------------------------------------------------------------------------------------|------------|
|                                                                                                                 | 2022       |
|                                                                                                                 | LKR '000   |
| Fair value of financial assets as at reclassification date                                                      | 22,832,303 |
| Accumulated fair value loss as at reclassification date                                                         | 2,056,941  |
| Total Financial Assets reclassified to Financial Assets Measured at Amortised Cost - Debt and Other Instruments | 24,889,244 |

If the assets lying in the current portfolio had continued to be measured as Fair Value through Other Comprehensive Income, the fair value and the cumulative mark to market loss as at 31st December 2023 would have been LKR 9,495,929,244.00 (LKR 3,796,589,606.00 for 2022) and LKR 411,684,299.00 (LKR 3,371,118,232.00 for 2022) respectively.

#### 27 Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)

|                                                    | Ba         | nk         | Group      |            |  |
|----------------------------------------------------|------------|------------|------------|------------|--|
| As at 31 December                                  | 2023       | 2022       | 2023       | 2022       |  |
|                                                    | LKR '000   | LKR '000   | LKR '000   | LKR '000   |  |
| Quoted Equities (Note 27.1)                        | 1,381,002  | 1,126,819  | 1,381,002  | 1,126,819  |  |
| Unquoted Equities (Note 27.2)                      | 421,853    | 373,802    | 421,853    | 373,802    |  |
| Government Securities - Treasury Bills (Note 26.1) | 26,893,819 | 11,396,357 | 26,893,819 | 11,396,357 |  |
| Government Securities - Treasury Bonds Note 26.1)  | 11,352,037 | 4,239,308  | 11,590,191 | 4,239,308  |  |
| Quoted Debentures (Note 27.3)                      | -          | -          | -          | 49,897     |  |
| Total Financial Assets Measured at FVOCI           | 40,048,711 | 17,136,286 | 40,286,865 | 17,186,183 |  |

#### 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 purposes.

| As at 31 December               |                                | 2023      |               |                                | 2022      |               |
|---------------------------------|--------------------------------|-----------|---------------|--------------------------------|-----------|---------------|
|                                 | No. of<br>Ordinary<br>Equities | Cost      | Fair<br>Value | No. of<br>Ordinary<br>Equities | Cost      | Fair<br>Value |
|                                 |                                | LKR '000  | LKR '000      |                                | LKR '000  | LKR '000      |
| Banks, Finance and Insurance    |                                |           |               |                                |           |               |
| The Finance Company PLC         | 1,003,163                      | 29,393    | -             | 1,003,163                      | 29,393    | -             |
| Diversified Holdings            |                                |           |               |                                |           |               |
| John Keells Holdings PLC        | 527,135                        | 95,168    | 100,683       | 527,135                        | 95,168    | 71,295        |
| Financial Services              |                                |           |               |                                |           |               |
| HNB Finance PLC                 | 233,200,000                    | 2,332,000 | 1,212,640     | 233,200,000                    | 2,332,000 | 979,440       |
| Hotels and Travels              |                                |           |               |                                |           |               |
| John Keells Hotels PLC          | 1,317,311                      | 16,203    | 24,765        | 1,317,311                      | 16,203    | 21,736        |
| Jetwing Symphony PLC            | 3,328,749                      | 49,931    | 27,961        | 3,328,749                      | 49,931    | 34,619        |
| Manufacturing                   |                                |           |               |                                |           |               |
| Chevron Lubricants Lanka PLC    | 120,407                        | 19,329    | 10,873        | 120,407                        | 19,329    | 11,619        |
| Power and Energy                |                                |           |               |                                |           |               |
| Lanka IOC PLC                   | 40,000                         | 1,825     | 4,080         | 40,000                         | 1,825     | 8,110         |
| Total Quoted Equity Investments |                                |           |               |                                |           |               |
| Measured at FVOCI - Bank/Group  |                                | 2,543,849 | 1,381,002     |                                | 2,543,849 | 1,126,819     |

#### 27.2 **Unquoted Equities**

| As at 31 | December |
|----------|----------|

| As at 31 December                                                   | 2023                           |          |               | 2022                           |        |               |  |
|---------------------------------------------------------------------|--------------------------------|----------|---------------|--------------------------------|--------|---------------|--|
|                                                                     | No. of<br>Ordinary<br>Equities | Cost     | Fair<br>Value | No. of<br>Ordinary<br>Equities | Cost   | Fair<br>Value |  |
|                                                                     |                                | LKR '000 | LKR '000      |                                | Rs 000 | LKR '000      |  |
| Bank                                                                |                                |          |               |                                |        |               |  |
| Credit Information Bureau of Sri Lanka                              | 2,900                          | 290      | 63,366        | 2,900                          | 290    | 61,487        |  |
| Lanka Clear (Pvt) Limited                                           | 1,006,601                      | 11,163   | 284,533       | 1,006,601                      | 11,163 | 234,652       |  |
| Lanka Financial Services Bureau Limited                             | 500,000                        | 5,000    | -             | 500,000                        | 5,000  | -             |  |
| Transnational Lanka Records Solutions (Pvt) Limited                 | 1,000,000                      | 10,000   | 73,954        | 1,000,000                      | 10,000 | 77,663        |  |
| Total Unquoted Equity Investments<br>Measured at FVOCI - Bank       |                                | 26,453   | 421,853       |                                | 26,453 | 373,802       |  |
| Subsidiary                                                          |                                |          |               |                                |        |               |  |
| Standard Credit Finance Limited                                     | 8,040,969                      | 44,041   | -             | 8,040,969                      | 44,041 | -             |  |
| Total Unquoted Equity Investments<br>Measured at FVOCI - Subsidiary |                                | 44,041   | -             |                                | 44,041 | -             |  |
| Total Unquoted Equity Investments<br>Measured at FVOCI - Group      |                                | 70,494   | 421,853       |                                | 70,494 | 373,802       |  |

Fair value is based on Net Assets per Share Basis as per the Audited Financial Statements of these Companies as at following dates:

Credit Information Bureau of Sri Lanka - 31 December 2022 LankaClear (Pvt) Limited - 31 March 2023 Lanka Financial Services Bureau Limited - 31 March 2023 Transnational Lanka Records Solutions (Pvt) Limited - 30 June 2023

Dividend received from Quoted and Unquoted Equities Investments measured at FVOCI disclosed in Note 12.

#### 27.3 **Quoted Debentures**

|                                                           | 2023              |            | 2022              |            |
|-----------------------------------------------------------|-------------------|------------|-------------------|------------|
|                                                           | Amortised<br>Cost | Fair Value | Amortised<br>Cost | Fair Value |
|                                                           | LKR '000          | LKR '000   | LKR '000          | LKR '000   |
| LOLC Finance PLC (500,000 Debentures of Rs. 100/- each)   | -                 | -          | 53,091            | 49,897     |
| Total Quoted Debentures Measured at FVOCI -<br>Subsidiary | -                 | -          | 53,091            | 49,897     |
| Total Quoted Debentures Measured at FVOCI -<br>Group      | -                 | -          | 53,091            | 49,897     |

#### 27.4 Analysis of Financial Assets Measured at FVOCI

#### 27.4.1 By Currency

|                                          | Bank       |            | Group      |            |
|------------------------------------------|------------|------------|------------|------------|
|                                          | 2023 2023  |            | 2023       | 2022       |
|                                          | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Sri Lankan Rupee                         | 40,048,711 | 17,136,286 | 40,286,865 | 17,186,183 |
| Total Financial Assets Measured at FVOCI | 40,048,711 | 17,136,286 | 40,286,865 | 17,186,183 |

#### 27.4.2 By Collateralisation

|                                          | Bank       |            | Group      |            |
|------------------------------------------|------------|------------|------------|------------|
|                                          | 2023 2022  |            | 2023       | 2022       |
|                                          | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Pledged as Collateral                    | -          | 393,900    | -          | 393,900    |
| Unencumbered                             | 40,048,711 | 16,742,386 | 40,286,865 | 16,792,283 |
| Total Financial Assets Measured at FVOCI | 40,048,711 | 17,136,286 | 40,286,865 | 17,186,183 |

234

#### 27.5 Financial Assets Measured at FVOCI Consists of

|                                                  | Bank       |             | Gro        | up          |
|--------------------------------------------------|------------|-------------|------------|-------------|
|                                                  | 2023 2022  |             | 2023       | 2022        |
|                                                  | LKR '000   | LKR '000    | LKR '000   | LKR '000    |
| Total Cost/Amortised Cost                        | 39,841,776 | 18,219,139  | 40,126,710 | 18,316,263  |
| Accumulated Fair Value Change recognised through |            |             |            |             |
| -Other comprehensive income                      | 206,935    | (1,082,853) | 160,155    | (1,130,089) |
| -Income statement (Note 27.6)                    | -          | -           | -          | 9           |
| Total Accumulated Fair value Change (Note 27.7)  | 206,935    | (1,082,853) | 160,155    | (1,130,080) |
| Total Financial Assets Measured at FVOCI         | 40,048,711 | 17,136,286  | 40,286,865 | 17,186,183  |

#### 27.6 Movements in Expected Credit Loss allowance During the year

|                                                     | Ba       | nk       | Group    |          |
|-----------------------------------------------------|----------|----------|----------|----------|
| As at 31 December                                   | 2023     | 2022     | 2023     | 2022     |
|                                                     | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Stage 1                                             |          |          |          |          |
| Balance as at 01 January                            | -        | 14,940   | 9        | 14,949   |
| Charge / (Write back) to Income statement (Note 13) | -        | (14,940) | (9)      | (14,940) |
| Balance as at 31 December                           | -        | -        | -        | 9        |

#### 27.7 Accumulated Fair Value Change

|                                   | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
|-----------------------------------|-------------|-------------|-------------|-------------|
| Balance as at 1 January           | (1,082,853) | (276,548)   | (1,130,080) | (312,809)   |
| Fair value change during the year | 1,289,788   | (806,305)   | 1,290,235   | (817,271)   |
| Balance as at 31 December         | 206,935     | (1,082,853) | 160,155     | (1,130,080) |

#### 27.8 Derecognition of Equity Investments Measured at FVOCI

|                                                                            | 2023                                                                      |          | 2022                             |                                             |
|----------------------------------------------------------------------------|---------------------------------------------------------------------------|----------|----------------------------------|---------------------------------------------|
|                                                                            | Fairvalue as at Cumulative<br>Disposal Date Gain or (Loss)<br>on Disposal |          | Fairvalue as at<br>Disposal Date | Cumulative<br>Gain or (Loss)<br>on Disposal |
|                                                                            | LKR '000                                                                  | LKR '000 | LKR '000                         | LKR '000                                    |
| Bank                                                                       |                                                                           |          |                                  |                                             |
| Lanka IOC                                                                  | -                                                                         | -        | 12,817                           | 9,396                                       |
| Total Derecognition of Equity Investments<br>Measured at FVOCI-Bank/ Group | -                                                                         | -        | 12,817                           | 9,396                                       |

## 28 Investment in Subsidiary

|              |                     |                               | 2023         |           |                 | 2022                          |              |           |                 |
|--------------|---------------------|-------------------------------|--------------|-----------|-----------------|-------------------------------|--------------|-----------|-----------------|
|              | Primary<br>Activity | No of<br>Ordinary<br>Equities | Holding<br>% | Cost      | Market<br>Value | No of<br>Ordinary<br>Equities | Holding<br>% | Cost      | Market<br>Value |
|              |                     |                               |              | LKR '000  | LKR '000        |                               |              | LKR '000  | LKR '000        |
| Seylan       | Property            |                               |              |           |                 |                               |              |           |                 |
| Developments | Development/        |                               |              |           |                 |                               |              |           |                 |
| PLC          | Management          | 104,332,112                   | 70.51        | 1,153,602 | 1,502,382       | 104,332,112                   | 70.51        | 1,153,602 | 1,231,119       |
|              |                     |                               |              | 1,153,602 | 1,502,382       |                               |              | 1,153,602 | 1,231,119       |

## 28.1 Non-Controlling Interest (NCI) in Subsidiary, Seylan Developments PLC

|                                                              | 2023      | 2022      |
|--------------------------------------------------------------|-----------|-----------|
|                                                              | LKR' 000  | LKR' 000  |
| NCI (%)                                                      | 29.49     | 29.49     |
| Total Assets                                                 | 6,546,182 | 6,354,869 |
| Total Liabilities                                            | 1,076,608 | 1,066,133 |
| Net Assets                                                   | 5,469,574 | 5,288,736 |
| Carrying Amount of NCI (Note 28.2)                           | 1,316,044 | 1,264,408 |
| Revenue                                                      | 393,801   | 391,369   |
| Profit                                                       | 353,813   | 238,955   |
| Total Comprehensive Income                                   | 358,396   | 222,257   |
| Profit Allocated to NCI                                      | 79,506    | 3,411     |
| Cash Flow from Operating Activities                          | 203,966   | 288,431   |
| Cash Flow from Investing Activities                          | 97,093    | (59,765)  |
| Cash Flow from Financing Activities - Before Dividend to NCI | (125,196) | (146,062) |
| Cash Flow from Financing Activities - Cash Ddvidend to NCI   | (52,362)  | (61,089)  |
| Net Increase/ (Decrease) in Cash and Cash Equivalents        | 123,501   | 21,515    |

## 28.2 Carrying Amount of Non Controlling Interest (NCI)

|                                                                       | 2023      | 2022      |
|-----------------------------------------------------------------------|-----------|-----------|
|                                                                       | LKR' 000  | LKR' 000  |
| Balance as at 01 January                                              | 1,264,408 | 1,328,593 |
| Profit for the year                                                   | 79,506    | 3,411     |
| Other Comprehensive Income, net of Tax                                | 24,492    | (6,507)   |
| Other Transactions with Equity Holders, Recognised Directly in Equity | (52,362)  | (61,089)  |
| Balance as at 31 December                                             | 1,316,044 | 1,264,408 |

#### 29 Group Balances Receivable

|                           | Ban      | K        |
|---------------------------|----------|----------|
|                           | 2023     | 2022     |
|                           | LKR' 000 | LKR' 000 |
| Seylan Developments PLC   | 40,500   | 64,435   |
| Balance as at 31 December | 40,500   | 64,435   |

236

#### 30 Property, Plant and Equipment

| Bank                                 | Freehold<br>Land | Freehold<br>Buildings | Computer<br>Equipment | Office<br>Machines<br>and<br>Equipment | Fixtures,<br>Fittings<br>and<br>Furniture | Motor<br>Vehicles | Leased<br>Assets | 2023<br>Total | 2022<br>Total |
|--------------------------------------|------------------|-----------------------|-----------------------|----------------------------------------|-------------------------------------------|-------------------|------------------|---------------|---------------|
|                                      | LKR'000          | LKR'000               | LKR'000               | LKR'000                                | LKR'000                                   | LKR'000           | LKR'000          | LKR'000       | LKR'000       |
| Cost / Valuation                     |                  |                       |                       |                                        |                                           |                   |                  |               |               |
| Balance as at 01 January             | 1,912,805        | 340,149               | 4,719,673             | 1,447,771                              | 2,271,455                                 | 156,272           | 48,065           | 10,896,190    | 10,721,112    |
| Additions and Improvements           | -                | -                     | 703,615               | 21,528                                 | 29,484                                    | 580               | -                | 755,207       | 192,907       |
| Disposals / Write-Offs               | -                | -                     | (548)                 | (3,627)                                | (360)                                     | (7,881)           | -                | (12,416)      | (17,829)      |
| Balance as at 31 December            | 1,912,805        | 340,149               | 5,422,740             | 1,465,672                              | 2,300,579                                 | 148,971           | 48,065           | 11,638,981    | 10,896,190    |
| Accumulated Deprecia                 | tion             |                       |                       |                                        |                                           |                   |                  |               |               |
| Balance as at 01 January             | -                | 19,660                | 3,541,716             | 1,325,714                              | 2,048,146                                 | 142,348           | 48,065           | 7,125,649     | 6,431,195     |
| Charge for the Year                  | -                | 19,659                | 460,147               | 52,860                                 | 110,618                                   | 7,814             | -                | 651,098       | 712,206       |
| Disposals / Write-Offs               | -                | -                     | (548)                 | (3,627)                                | (360)                                     | (7,881)           | -                | (12,416)      | (17,752)      |
| Balance as at 31 December            | -                | 39,319                | 4,001,315             | 1,374,947                              | 2,158,404                                 | 142,281           | 48,065           | 7,764,331     | 7,125,649     |
| As at 31 December 20                 | 23               |                       |                       |                                        |                                           |                   |                  |               |               |
| Cost / Valuation<br>less Accumulated |                  |                       |                       |                                        |                                           |                   |                  |               |               |
| Depreciation                         | 1,912,805        | 300,830               | 1,421,425             | 90,725                                 | 142,175                                   | 6,690             | -                | 3,874,650     |               |
| Accumulated Impairment               | -                | -                     | -                     | -                                      | -                                         | -                 | -                | -             |               |
| Net Carrying Amount                  | 1,912,805        | 300,830               | 1,421,425             | 90,725                                 | 142,175                                   | 6,690             | -                | 3,874,650     |               |
| Market Value *                       | 1,912,805        | 300,830               |                       |                                        |                                           |                   |                  |               |               |
| As at 31 December 20                 | 22               |                       |                       |                                        |                                           |                   |                  |               |               |
| Net Carrying Amount                  | 1,912,805        | 320,489               | 1,177,957             | 122,057                                | 223,309                                   | 13,924            | -                |               | 3,770,541     |

\* Market value of freehold land and buildings were estimated as a 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 2023 (2022- Nil).

There is a pending case against the Bank in the District Court of Badulla related to property at Bandarawela.

Other than the property mentioned above, there are no restrictions 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, worth LKR 13 Mn and 209 Mn respectively. Bank will decide the future course of action on these two properties.

30.2 Grou

| Group                                    | Freehold<br>Land | Freehold<br>Buildings | Computer<br>Equipment | Office<br>Machines<br>and | and       | Motor<br>Vehicles | Leased<br>Assets | 2023<br>Total | 2022<br>Total |
|------------------------------------------|------------------|-----------------------|-----------------------|---------------------------|-----------|-------------------|------------------|---------------|---------------|
|                                          | 1.1/101000       | 1.1/10/00             | L KBIOOO              | Equipment                 | Furniture | LICEIOCO          | 1.1/1210.000     | LKBIOOO       |               |
|                                          | LKR'000          | LKR'000               | LKR'000               | LKR'000                   | LKR'000   | LKR'000           | LKR'000          | LKR'000       | LKR'000       |
| Cost / Valuation                         |                  |                       |                       |                           |           |                   |                  |               |               |
| Balance as at 01 January                 | 1,912,805        | 2,971,506             | 4,727,973             | 1,657,661                 | 2,289,297 | 156,272           | 48,065           | 13,763,579    | 13,643,459    |
| Additions and Improvements               | -                | -                     | 703,911               | 24,276                    | 29,484    | 580               | -                | 758,251       | 197,090       |
| Net Surplus /(Deficit) on<br>Revaluation | -                | 82,154                | -                     | -                         | -         | -                 | -                | 82,154        | (59,141)      |
| Disposals / Write-Offs                   | -                | -                     | (548)                 | (3,627)                   | (360)     | (7,881)           | -                | (12,416)      | (17,829)      |
| Balance as at 31 December                | 1,912,805        | 3,053,660             | 5,431,336             | 1,678,310                 | 2,318,421 | 148,971           | 48,065           | 14,591,568    | 13,763,579    |
| Accumulated Depreciat                    | tion             |                       |                       |                           |           |                   |                  |               |               |
| Balance as at 01 January                 | -                | 19,660                | 3,547,141             | 1,483,083                 | 2,060,375 | 142,346           | 48,065           | 7,300,670     | 6,579,712     |
| Charge for the Year                      | -                | 58,355                | 461,204               | 75,427                    | 112,043   | 7,814             | -                | 714,843       | 777,708       |
| Revaluation Adjustment on Accumulated    |                  |                       |                       |                           |           |                   |                  |               |               |
| Depreciation                             | -                | (38,696)              | -                     | -                         | -         | -                 | -                | (38,696)      | (38,993)      |
| Disposals / Write-Offs                   | -                | -                     | (548)                 | (3,627)                   | (360)     | (7,881)           | -                | (12,416)      | (17,757)      |
| Balance as at 31 December                | -                | 39,319                | 4,007,797             | 1,554,883                 | 2,172,058 | 142,279           | 48,065           | 7,964,401     | 7,300,670     |
| As at 31 December 202                    | 3                |                       |                       |                           |           |                   |                  |               |               |
| Cost / Valuation<br>less Accumulated     |                  |                       |                       |                           |           |                   |                  |               |               |
| Depreciation                             | 1,912,805        | 3,014,341             | 1,423,539             | 123,427                   | 146,363   | 6,692             | -                | 6,627,167     |               |
| Accumulated impairment                   | -                | -                     | -                     | -                         | -         | -                 | -                | -             |               |
| Net Carrying Amount                      | 1,912,805        | 3,014,341             | 1,423,539             | 123,427                   | 146,363   | 6,692             | -                | 6,627,167     |               |
| Market Value *                           | 1,912,805        | 3,014,341             |                       |                           |           |                   |                  |               |               |
| As at 31 December 202                    | 2                |                       |                       |                           |           |                   |                  |               |               |
| Net Carrying Amount                      | 1,912,805        | 2,951,846             | 1,180,832             | 174,578                   | 228,922   | 13,926            | -                |               | 6,462,909     |

\* Market value of freehold land and buildings were estimated as a 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/ Amortised Assets

The initial cost of Fully Depreciated Property, Plant and Equipment and Fully Amortised Intangible Assets (software and software related) as at 31 December which are still in use as follows;

|                                                       | Bai       | nk        | Gro       | up        |  |
|-------------------------------------------------------|-----------|-----------|-----------|-----------|--|
|                                                       | 2023 2022 |           | 2023      | 2022      |  |
|                                                       | LKR '000  | LKR '000  | LKR '000  | LKR '000  |  |
| Computer Equipment                                    | 2,506,970 | 2,069,892 | 2,507,752 | 2,070,674 |  |
| Office Machines and Equipment                         | 1,198,398 | 1,067,554 | 1,252,920 | 1,120,556 |  |
| Fixtures, Fittings and Furniture                      | 1,849,862 | 1,588,698 | 1,860,254 | 1,597,077 |  |
| Motor Vehicles                                        | 119,521   | 102,577   | 119,521   | 102,577   |  |
| Leased Assets                                         | 48,065    | 48,065    | 48,065    | 48,065    |  |
| Total Fully Depreciated Property, Plant and Equipment | 5,722,816 | 4,876,786 | 5,788,512 | 4,938,949 |  |
| Total Fully Amortised Intangible Assets               | 1,932,690 | 1,738,914 | 1,932,690 | 1,738,914 |  |
| Total Fully Depreciated/ Amortised Assets             | 7,655,506 | 6,615,700 | 7,721,202 | 6,677,863 |  |

#### 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 an independent professionally qualified valuer, Mr. D N D Baranage (GMIV Sri Lanka and MRICS London). The effective date of the revaluation is 31 December 2021 and subsidiary is revalued its land and buildings annually.

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 Statement respectively.

|   | Address                                         | Address Method of Valuation and Rang<br>Significant Unobservable for U<br>Inputs Input |                                                                       | Extent      | Cost/ Valuation |         | Accumulated<br>Depreciation | Net Book<br>Value |  |
|---|-------------------------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------|-------------|-----------------|---------|-----------------------------|-------------------|--|
|   |                                                 |                                                                                        |                                                                       |             | Land Building   |         |                             |                   |  |
|   |                                                 |                                                                                        |                                                                       |             | LKR'000         | LKR'000 | LKR'000                     | LKR'000           |  |
|   | Mt. Lavinia                                     | Market Comparable Method                                                               |                                                                       | 36.30 P     | 154,480         | 17,091  | 2,148                       | 169,423           |  |
|   | 198, Galle Road,<br>Ratmalana                   | Price per perch for land<br>Price per square foot for building                         | LKR 4,000,000 p.p<br>LKR 1,500 p.sq.ft<br>to LKR 3,750 p.sq.ft        |             |                 |         |                             |                   |  |
| 2 | Badulla                                         | Market Comparable Method                                                               |                                                                       | 1 R 5.50 P  | 208,800         | 24,800  | 2,088                       | 231,512           |  |
|   | 10, Cocowatte<br>Road, Badulla                  | Price per perch for land<br>Price per square foot for building                         | LKR 4,500,000 p.p<br>LKR 4,000 p.sq.ft                                |             |                 |         |                             |                   |  |
| 3 | Kochchikade                                     | Market Comparable Method                                                               |                                                                       | 8.00 P      | 20,000          | 20,587  | 2,547                       | 38,040            |  |
|   | 66, Chilaw Road,<br>Kochchikade                 | Price per perch for land<br>Price per square foot for building                         | LKR 2,500,000 p.p<br>LKR 4,500 p.sq.ft                                |             |                 |         |                             |                   |  |
| 1 | Avissawella                                     | Market Comparable Method                                                               |                                                                       | 18.92 P     | 94,600          | 22,140  | 3,182                       | 113,558           |  |
|   | 71, Ratnapura<br>Road, Avissawella              | Price per perch for land<br>Price per square foot for building                         | LKR 5,000,000 p.p<br>LKR 4,000 p.sq.ft                                |             |                 |         |                             |                   |  |
| 5 | Grandpass                                       | Market Comparable Method                                                               |                                                                       | 1 R 6.00 P  | 262,200         | 34,030  | 5,303                       | 290,927           |  |
|   | 401,Prince of<br>Wales Avenue,<br>Colombo 14    | Price per perch for land<br>Quantity allowance<br>Price per square foot for building   | LKR 6,000,000 p.p<br>5%<br>LKR 2,000 p sq. ft<br>to LKR 4,000 p.sq.ft |             |                 |         |                             |                   |  |
| 6 | Bandarawela                                     | Market Comparable Method                                                               |                                                                       | 27.01P      | 135,500         | 16,200  | 2,342                       | 149,358           |  |
| , | Badulla Road,<br>Bandarawela                    | Price per perch for land<br>Price per square foot for building                         | LKR 5,000,000 p.p<br>LKR 3,000 p.sq.ft                                | 27.011      | 100,000         | 10,200  | 2,072                       | 140,000           |  |
| 7 | Sarikkamulla                                    | Market Comparable Method                                                               |                                                                       | 11.56 P     | 13,872          | 11,070  | 1,018                       | 23,924            |  |
|   | 97, Old Galle Road,<br>Sarikkamulla             | Price per perch for land<br>Price per square foot for building                         | LKR 1,200,000 p.p<br>LKR 3,000 p.sq.ft                                |             |                 |         |                             |                   |  |
| 3 | Raddolugama                                     | Market Comparable Method                                                               |                                                                       | 12.08 P     | 12,080          | 12,460  | 1,495                       | 23,045            |  |
|   | 171, National<br>Housing Scheme,<br>Raddolugama | Price per perch for land<br>Price per square foot for building                         | LKR 1,000,000 p.p<br>LKR 3,500 p.sq.ft                                |             |                 |         |                             |                   |  |
| ) | Nuwara-Eliya                                    | Market Comparable Method                                                               |                                                                       | 1 R 36.00 P | 47,880          | 12,295  | 2,078                       | 58,097            |  |
|   | 61, Haddon Hill<br>Road, Nuwara-Eliya           | Price per perch for land<br>Quantity allowance<br>Price per square foot for building   | LKR 700,000 p.p<br>10%<br>LKR 2,750 p.sq.ft                           |             |                 |         |                             |                   |  |
| 0 | Maradagahamula                                  | Market Comparable Method                                                               |                                                                       | 35.00 P     | 35,000          | 25,440  | 3,008                       | 57,432            |  |
|   | 150, Divulapitiya<br>Road,<br>Maradagahamula    | Price per perch for land<br>Price per square foot for building                         | LKR 1,000,000 p.p<br>LKR 4,000 p.sq.ft                                |             |                 |         |                             |                   |  |
| 1 | Anuradhapura                                    | Market Comparable Method                                                               |                                                                       | 1 R 3.65 P  | 54,562          | -       | -                           | 54,562            |  |
|   | 23-A1 Anuradhanura                              | Price per perch for land                                                               | LKR 1,200,000 p.p                                                     |             |                 |         |                             |                   |  |

|    | Address                                  | Idress Method of Valuation and Range of Estimates<br>Significant Unobservable for Unobservable<br>Inputs Inputs |                                        | Extent      | Cost      | / Valuation | Accumulated<br>Depreciation | Net Book<br>Value |
|----|------------------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------|-----------|-------------|-----------------------------|-------------------|
|    |                                          |                                                                                                                 |                                        |             | Land      | Building    |                             |                   |
|    |                                          |                                                                                                                 |                                        |             | LKR'000   | LKR'000     | LKR'000                     | LKR'000           |
| 12 | Embilipitiya                             | Market Comparable Method                                                                                        |                                        | 22.10 P     | 44,020    | 42,075      | 4,741                       | 81,354            |
|    | 73, New Town<br>Road, Embilipitiya       | Price per perch for land<br>Price per square foot for building                                                  | LKR 2,000,000 p.p<br>LKR 3,750 p.sq.ft |             |           |             |                             |                   |
| 13 | Nugegoda                                 | Market Comparable Method                                                                                        |                                        | 14.00 P     | 86,000    | 37,295      | 3,510                       | 119,785           |
|    | 211, High Level<br>Road, Nugegoda        | Price per perch for land                                                                                        | LKR 1,000,000 p.p to                   |             |           |             |                             |                   |
|    |                                          | Drice per equere feet for building                                                                              | LKR 6,000,000 p.p                      |             |           |             |                             |                   |
|    |                                          | Price per square foot for building<br>Depreciation Rate                                                         | LKR 4,750 p.sq.ft<br>10%               |             |           |             |                             |                   |
| 14 | Ratnapura                                | Market Comparable Method                                                                                        | 10/0                                   | 6.13 P      | 37,248    | 11,016      | 1,057                       | 47,207            |
| 17 | 6,Goods Shed                             | Price per perch for land                                                                                        | LKR 4,000,000 p.p                      | 0.101       | 57,240    | 11,010      | 1,007                       | 47,207            |
|    | Road, Ratnapura                          | Price per square foot for building                                                                              | LKR 3,000 p.sq.ft                      |             |           |             |                             |                   |
| 15 | Balangoda                                | Market Comparable Method                                                                                        |                                        | 3 R 22.04 P | 12,563    | -           | -                           | 12,563            |
|    | Pettigala Road,                          | Price per perch for land                                                                                        | LKR 600,000 p.p                        |             |           |             |                             |                   |
|    | Balangoda                                | Quantity allowance                                                                                              | 5%                                     |             |           |             |                             |                   |
| 16 | Deal Place                               | Market Comparable Method                                                                                        |                                        | 19.00 P     | 208,640   | -           | -                           | 208,640           |
|    | 2,Deal Place,<br>Colombo 3               | Price per perch for land                                                                                        | LKR 16,000,000 p.p                     |             |           |             |                             |                   |
| 17 | Gampola                                  | Market Comparable Method                                                                                        |                                        | 13.50 P     | 54,000    | 23,100      | 2,038                       | 75,062            |
|    | 44,Kandy Road,<br>Gampola                | Price per perch for land<br>Price per square foot for building                                                  | LKR 4,000,000 p.p<br>LKR 4,000 p.sq.ft |             |           |             |                             |                   |
| 18 | Koggala                                  | Market Comparable Method                                                                                        |                                        | 20.00 P     | -         | 5,850       | 989                         | 4,861             |
|    | 9, Export<br>Processing Zone,<br>Koggala | Price per square foot for building                                                                              | LKR 3,000 p.sq.ft                      |             |           |             |                             |                   |
| 19 | Negombo                                  | Market Comparable Method                                                                                        |                                        | 29.15 P     | 116,600   | 24,700      | 1,775                       | 139,525           |
|    | 115,Rajapaksa                            | Price per perch for land                                                                                        | LKR 4,000,000 p.p                      |             |           |             |                             |                   |
|    | Broadway,<br>Negombo                     | Price per square foot for building                                                                              | LKR 5,000 p.sq.ft                      |             |           |             |                             |                   |
| 20 | Kandana                                  | Market Comparable Method                                                                                        |                                        | 1A1R 9.84P  | 314,760   | -           | -                           | 314,760           |
|    | 99, Station Road,<br>Kandana             | Price per perch for land                                                                                        | LKR 1,500,000 p.p                      |             |           |             |                             |                   |
|    | Total Freehold La                        | nd and Buildings-Bank                                                                                           |                                        |             | 1,912,805 | 340,149     | 39,319                      | 2,213,635         |
| 21 | Seylan Towers -<br>East Tower            | Investment Method                                                                                               |                                        |             |           |             |                             |                   |
|    | 90,Galle Road,<br>Colombo 3              | Estimated rent income per<br>month per square foot for<br>building                                              | LKR 217.50 p.sq.ft                     |             | -         | 2,713,511   | -                           | 2,713,511         |
|    | Total Freehold Bu                        | ildings-Subsidiary                                                                                              |                                        |             | -         | 2,713,511   | -                           | 2,713,511         |
|    | Total Freehold La                        | nd and Buildings-Group                                                                                          |                                        |             | 1,912,805 | 3,053,660   | 39,319                      | 4,927,146         |

Descriptions of the above valuation techniques, together with narrative description on sensitivity of the fair value measurement to changes in significant unobservable inputs, are given below:

240

| Valuation Technique                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Significant Unobservable<br>Valuation Inputs                                                        | Sensitivity of the Fair<br>Value Measurement to<br>Inputs                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Market Comparable Method                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                     |                                                                                                                                                                       |
| 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 and 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<br>Price per square foot for<br>building<br>Depreciation rate for building | Estimated fair value would<br>get increased / (decreased) if;<br>Price per perch would get<br>higher / (lower)<br>Price per square foot would<br>get higher / (lower) |
| Investment Method                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                     | Depreciation rate for building would get lower / (higher)                                                                                                             |
| 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<br>Years of purchase                                                           | Estimated fair value would<br>get increased / (decreased) if;<br>Gross annual rentals would<br>get higher / (lower)<br>Years purchase would get                       |
| Depreciated Replacement Cost Method                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                     | higher / (lower)                                                                                                                                                      |
| This method involves the capitalisation of the expected cost of construction at an appropriate remaining life of the building.                                                                                                                                                                                                                                                                                                                                                                                                                        | Cost of construction<br>Full life of building<br>Remaining life of building                         | Estimated fair value would<br>get increased / (decreased) if;<br>Cost of construction would<br>get higher / (lower)                                                   |

#### 30.5 Revaluation - Freehold Land and Buildings

The fair value measurements for all of the freehold land and buildings have been categorised as Level 3 fair value measurements.

If freehold land and buildings were stated at historical cost, the amounts would have been as follows:

|                          | Bank     |           |          |          |           |          |  |
|--------------------------|----------|-----------|----------|----------|-----------|----------|--|
|                          |          | 2023      |          | 2022     |           |          |  |
| Properties Revalued      | 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 | -        | (61,467)  | (61,467) | -        | (58,334)  | (58,334) |  |
| Carrying Value           | 462,558  | 64,730    | 527,288  | 462,558  | 67,863    | 530,421  |  |

#### 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.

#### 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. 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 an office and an apartment complex on the year of 1992. The Company pays a nominal rent to the UDA for occupying the land.

|          |                                                      | Ban       | k         | Grou      | ıp        |
|----------|------------------------------------------------------|-----------|-----------|-----------|-----------|
|          |                                                      | 2023      | 2022      | 2023      | 2022      |
|          |                                                      | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
|          | Balance as at 01 January                             | 4,882,318 | 4,791,175 | 2,722,569 | 2,594,737 |
|          | Additions for the Year                               | 757,866   | 551,432   | 757,866   | 551,432   |
|          | Depreciation Charge for the Year                     | (450,115) | (460,289) | (415,452) | (426,586) |
|          | Reversal on Early Termination / Others               | (75,551)  | -         | (329,020) | 2,986     |
|          | Balance as at 31 December                            | 5,114,518 | 4,882,318 | 2,735,963 | 2,722,569 |
| 31.1.1   | Lease Liabilities                                    |           |           |           |           |
|          | Balance as at 01 January                             | 5,101,247 | 4,889,598 | 2,254,558 | 2,007,245 |
|          | Additions for the Year                               | 680,543   | 494,206   | 680,543   | 494,206   |
|          | Accretion of Interest                                | 484,065   | 470,008   | 191,603   | 185,678   |
|          | Payments                                             | (792,238) | (752,565) | (507,121) | (474,202) |
|          | Reversal on Early Termination / Others               | (64,199)  | -         | (374,163) | 41,631    |
|          | Balance as at 31 December                            | 5,409,418 | 5,101,247 | 2,245,420 | 2,254,558 |
| 31.1.2   | Amounts Recognised in Income Statement               |           |           |           |           |
|          | Interest on Lease Liabilities                        | 484,065   | 470,008   | 191,603   | 185,678   |
|          | Recognised in Interest Expenses                      | 484,065   | 470,008   | 191,603   | 185,678   |
|          | Expenses relating to Short-Term and Low-Value Assets | 11,577    | 6,264     | 11,577    | 6,264     |
|          | Depreciation - Right-of-use-Assets                   | 450,115   | 460,289   | 415,452   | 426,586   |
|          | Recognised in Operating Expenses                     | 461,692   | 466,553   | 427,029   | 432,850   |
|          | Total Amount recognised in Income Statement          | 945,757   | 936,561   | 618,632   | 618,528   |
| 31.1.1.3 | Amounts recognised in Statement of Cash Flows        |           |           |           |           |
|          | Repayment of Principal Portion of Lease Liability    | 792,238   | 752,565   | 507,121   | 474,202   |

#### 31.2 Lease Receivable as Lessor

The Group rents 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;

| Maturity Analysis - Contractual Undiscounted Cash Flows | al Undiscounted Cash Flows Bank |          | Group    |          |  |
|---------------------------------------------------------|---------------------------------|----------|----------|----------|--|
|                                                         | 2023 2022                       |          | 2023     | 2022     |  |
|                                                         | LKR '000                        | LKR '000 | LKR '000 | LKR '000 |  |
| Less than one year                                      | -                               | -        | 61,684   | 79,111   |  |
| Between one and five years                              | -                               | -        | 15,499   | 15,116   |  |
|                                                         | -                               | -        | 77,183   | 94,227   |  |

#### 32 Investment Properties

|                                        | Bai      | nk       | Gro       | up        |
|----------------------------------------|----------|----------|-----------|-----------|
|                                        | 2023     | 2022     | 2023      | 2022      |
|                                        | LKR '000 | LKR '000 | LKR '000  | LKR '000  |
| Cost                                   |          |          |           |           |
| Balance as at 01 January               | -        | -        | 1,256,039 | 1,212,952 |
| Additions during the Year              | -        | -        | 31,213    | 43,087    |
| Cost as at 31 December (Note 32.1)     | -        | -        | 1,287,252 | 1,256,039 |
| Provision for Impairment               | -        | -        | (71,462)  | (71,462)  |
| Cost less Impairment as at 31 December | -        | -        | 1,215,790 | 1,184,577 |
| Accumulated Depreciation               |          |          |           |           |
| Balance as at 01 January               | -        | -        | 297,897   | 271,232   |
| Charge for the Year                    | -        | -        | 33,674    | 26,665    |
| Balance as at 31 December              | -        | -        | 331,571   | 297,897   |
| Carrying Value as at 31 December       | -        | -        | 884,219   | 886,680   |

242

#### 32.1 Investment Properties (Group) - 2023

|              | Group                |                                                  |                                                                                                                                                                                         |  |  |  |  |
|--------------|----------------------|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|
| Extent       | Date of<br>Valuation | Cost                                             | Market<br>Value                                                                                                                                                                         |  |  |  |  |
|              |                      | LKR '000                                         | LKR '000                                                                                                                                                                                |  |  |  |  |
| 111,191sq.ft | 31/12/2023           | 1,213,540                                        | 1,638,096                                                                                                                                                                               |  |  |  |  |
| 0A 1R 05P    | 31/12/2023           | 3,361                                            | 5,200                                                                                                                                                                                   |  |  |  |  |
|              |                      | 70,351                                           | -                                                                                                                                                                                       |  |  |  |  |
|              |                      | 1,287,252                                        |                                                                                                                                                                                         |  |  |  |  |
|              | 111,191sq.ft         | ExtentDate of<br>Valuation111,191sq.ft31/12/2023 | Valuation           LKR '000           111,191sq.ft         31/12/2023         1,213,540           0A 1R 05P         31/12/2023         3,361           0         1         1         1 |  |  |  |  |

\* Full provision for impairment has been made.

Group has recorded LKR 104,154,805.00 (2022: LKR 103,704,324.00) as rental income for the year ended 31 December 2023.

Group has incurred LKR 29,238,092.00 (2022: LKR 25,506,079.00) as direct operating expenses and LKR 8,858,400.00 (2022: LKR 10,798,269.00) as repair and maintenance for the year ended 31 December 2023.

There were no direct expenses incurred for the properties, which do not generate rental income.

## Methods and Assumptions used in the Fair Valuation of Investment Properties

Subsidiary-Sevlan Developments PLC

| Property                                                | Name and<br>Qualifications of<br>the Valuer                                   | Valuation Technique                                                                                                                                                                                                                                                                                                                         | Significant<br>Unobservable Inputs                                                                                                                             | Inter-Relationship<br>Between Key<br>Unobservable Inputs<br>and Fair Value<br>Measurement             |
|---------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Seylan Towers -West Tower<br>90, Galle Road, Colombo 3. | Sunil Fernando &<br>Associates (Pvt) Ltd.<br>Chartered Valuation<br>Surveyors | Market rental based Income<br>Method of valuation and<br>Depreciated Replacement<br>Value basis of valuation have<br>been adopted. As the subject<br>property is of two mix uses,<br>commercial and residential, a                                                                                                                          | Rentals of two similar<br>residential apartment<br>buildings have been<br>taken as comparable<br>residential market rents<br>(LKR 625,000 and LKR<br>675,000). | There is a direct<br>relationship between the<br>estimated fair value and<br>market rents.            |
|                                                         |                                                                               | prudent investor is expected to<br>make his bid to purchase on<br>two different yields based on<br>two different risks attached to<br>the commercial and residential                                                                                                                                                                        | All risk rates for<br>residential segment of<br>the subject property has<br>been taken at 4.25%<br>and 6%.                                                     | There is an inverse<br>relationship between the<br>estimated fair value and<br>all risk rates.        |
|                                                         |                                                                               | uses of the property.                                                                                                                                                                                                                                                                                                                       | Current replacement<br>cost of construction is<br>estimated as LKR 33,150<br>per sq. ft.                                                                       | Estimated fair value of a building would increase if replacement cost gets higher.                    |
|                                                         |                                                                               |                                                                                                                                                                                                                                                                                                                                             | Full life of the building is<br>taken as 100 years and<br>the remaining life is taken<br>as 65 years limiting them<br>to the conditions in lease<br>agreement. | Increase in lifetime of<br>the building will result<br>in to increase in the<br>estimated fair value. |
|                                                         |                                                                               |                                                                                                                                                                                                                                                                                                                                             | Land value is taken at<br>LKR 19,000,000 per<br>perch.                                                                                                         | Estimated fair value of<br>land would increase if<br>the market value of the<br>land gets higher.     |
| Moratuwa Lake Villas,<br>St.Peter's Road, Moratuwa.     | Sunil Fernando &<br>Associates (Pvt) Ltd.<br>Chartered Valuation<br>Surveyors | <ul> <li>The valuation based on;</li> <li>observable inputs such<br/>as ARR, cost of sale,<br/>interest rates and cost of<br/>construction.</li> <li>the interest rate for<br/>capitalisation derived from<br/>the market sector and<br/>the risk yield a third party<br/>market participant accepts<br/>for such an investment.</li> </ul> | The available evidence of<br>land values in the locality<br>was considered.                                                                                    | Estimated fair value<br>would increase if the<br>market value of the land<br>gets higher.             |

#### 33 Intangible Assets

| Software and Software Related | Bank/Gr   | oup       |
|-------------------------------|-----------|-----------|
|                               | 2023      | 2022      |
|                               | LKR' 000  | LKR' 000  |
| Cost                          |           |           |
| Balance as at 01 January      | 2,881,071 | 2,778,399 |
| Additions for the Year        | 210,914   | 102,672   |
| Balance as at 31 December     | 3,091,985 | 2,881,071 |
| Accumulated Amortisation      |           |           |
| Balance as at 01 January      | 2,370,925 | 2,185,505 |
| Amortisation for the Year     | 184,071   | 185,420   |
| Balance as at 31 December     | 2,554,996 | 2,370,925 |
| Net Carrying Amount           | 536,989   | 510,146   |

244

There were no restrictions 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 Deferred Tax Liabilities / (Assets)

|                                                                                                                   | Bank        |             | Group       |             |
|-------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
|                                                                                                                   | 2023        | 2022        | 2023        | 2022        |
|                                                                                                                   | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| Balance as at 01 January                                                                                          | (3,242,641) | 257,574     | (2,684,538) | 582,395     |
| Recognised in the Profit or Loss (Note 16.1.2)                                                                    |             |             |             |             |
| Charge / (Reversal) for the Year                                                                                  | (239,848)   | (3,704,103) | (235,348)   | (3,446,050) |
| Charge / (Reversal) for the Year - Impact on Changes in Tax Rate                                                  | -           | (22,338)    | -           | (39,640)    |
|                                                                                                                   | (239,848)   | (3,726,441) | (235,348)   | (3,485,690) |
| Recognised in Other Comprehensive Income                                                                          |             |             |             |             |
| Effect on Revaluation of Property, Plant & Equipment                                                              | -           | -           | 36,255      | (104,501)   |
| Effect on Revaluation of Property, Plant & Equipment - Impact on Changes in Tax Rate                              |             | 94,603      | -           | 193,370     |
| Effect on Net Fair Value Losses/(Gains) on Financial Investment measured at FVOCI                                 | 310,683     | 139,613     | 312,463     | 138,019     |
| Effect on Net Fair Value Losses/(Gains) on Financial Investment measured at FVOCI - Impact on Changes in Tax Rate |             | (7,990)     | -           | (8,131)     |
| Effect on Reclassification Portfolio                                                                              | -           | (493,666)   | -           | (493,666)   |
|                                                                                                                   | 310,683     | (267,440)   | 348,718     | (274,909)   |
| Effect on Reclassification Portfolio                                                                              | -           | 493,666     | -           | 493,666     |
| Recognised in Equity                                                                                              |             |             |             |             |
| Balance as at 31 December (Notes 34.1)                                                                            | (3,171,806) | (3,242,641) | (2,571,168) | (2,684,538) |

As per the Inland Revenue (Amendment) Act No. 45 of 2022, the Income Tax rate has been increased from 24% to 30%. Accordingly deferred tax has been computed at 30%. The net deferred tax movement for the year 2022 includes the impact on change in tax rate amounting to LKR 145.60Mn from group deferred tax.

#### 34.1 Analysis of Deferred Tax Assets and Liabilities

|                                   |                         | Ba                                    | nk                      |             |                         | Gro         | oup                     |             |
|-----------------------------------|-------------------------|---------------------------------------|-------------------------|-------------|-------------------------|-------------|-------------------------|-------------|
|                                   | 202                     | 23                                    | 202                     | 2           | 20                      | 23          | 202                     | 2           |
|                                   | Temporary<br>Difference | Тах                                   | Temporary<br>Difference | Tax         | Temporary<br>Difference | Тах         | Temporary<br>Difference | Тах         |
|                                   | LKR' 000                | LKR' 000                              | LKR' 000                | LKR' 000    | LKR' 000                | LKR' 000    | LKR' 000                | LKR' 000    |
| Deferred Tax -                    |                         |                                       |                         |             |                         |             |                         |             |
| Liabilities                       |                         |                                       |                         |             |                         |             |                         |             |
| Property, Plant and               |                         |                                       |                         |             |                         |             |                         |             |
| Equipment                         | 947,890                 | 284,367                               | 978,154                 | 293,446     | 1,096,239               | 328,872     | 1,127,009               | 338,103     |
| Lease Receivables                 | 438,506                 | 131,552                               | 949,098                 | 284,729     | 438,502                 | 131,551     | 949,095                 | 284,729     |
| Revaluation Gain                  |                         |                                       |                         |             |                         |             |                         |             |
| Brought Forward                   | -                       | -                                     | -                       | -           | 1,595,001               | 478,500     | 1,595,001               | 478,500     |
| Reserve on Land                   |                         |                                       |                         |             |                         |             |                         |             |
| Revaluation                       | 640,288                 | 192,086                               | 640,288                 | 192,086     | 640,288                 | 192,086     | 640,288                 | 192,086     |
| Reserve on Building               |                         |                                       |                         |             |                         |             |                         |             |
| Revaluation                       | 107,894                 | 32,368                                | 107,894                 | 32,368      | 107,894                 | 32,368      | 107,894                 | 32,368      |
| Revaluation Surplus               |                         |                                       |                         |             |                         |             |                         |             |
| on Land                           | 828,531                 | 248,559                               | 828,531                 | 248,559     | 828,531                 | 248,559     | 828,531                 | 248,559     |
| Other Provisions                  | -                       | -                                     | 16,654                  | 4,996       | -                       | -           | 16,653                  | 4,996       |
| Right-of-use Assets<br>(SLFRS 16) | 5,114,518               | 1,534,355                             | 4,851,621               | 1,455,486   | 1,024,241               | 307,271     | 761,344                 | 228,403     |
| Fair value changes                |                         |                                       |                         |             |                         |             |                         |             |
| recognized through OCI            | 1,369,394               | 410,818                               | 333,790                 | 100,137     | 1,390,867               | 417,260     | 349,330                 | 104,799     |
|                                   | 9,447,021               | 2,834,105                             | 8,706,030               | 2,611,807   | 7,121,563               | 2,136,467   | 6,375,145               | 1,912,543   |
| Deferred Tax - Assets             |                         |                                       |                         |             |                         |             |                         |             |
| Leave Encashment                  |                         |                                       |                         |             |                         |             |                         |             |
| Provision (Note 43.2)             | 357,314                 | 107,194                               | 252,450                 | 75,735      | 357,310                 | 107,193     | 252,447                 | 75,734      |
| Other Provisions                  | 4,105                   | 1,232                                 | -                       | -           | 4,107                   | 1,232       | -                       | -           |
| Enhanced Gratuity                 | 2,158,579               | 647,574                               | 1,568,424               | 470,527     | 2,158,581               | 647,574     | 1,568,424               | 470,527     |
| Lease Liabilities (SLFRS          | _,,                     | 0.1.,01.1                             | 1,000,121               |             | _,,                     | ,           | 1,000,121               | 11 0,021    |
| 16)                               | 5,409,418               | 1,622,824                             | 5,101,247               | 1,530,374   | 954,857                 | 286,454     | 579,137                 | 173,741     |
| Expected Credit Loss              | 0,400,410               | 1,022,024                             | 0,101,247               | 1,000,074   | 504,001                 | 200,404     | 010,101                 | 170,741     |
| Allowances *                      | 12,090,289              | 3,627,087                             | 12,592,708              | 3,777,812   | 12,090,291              | 3,627,087   | 12,592,711              | 3,777,813   |
| Reversal of Revaluation           |                         | -,,                                   | ,,.                     | -,,         | ,,                      | -,,         | ,,.                     | -,,         |
| Loss on Property, Plant           |                         |                                       |                         |             |                         |             |                         |             |
| & Equipment                       |                         | _                                     | -                       | -           | 126,984                 | 38,095      | 330,887                 | 99,266      |
| - 1. p                            | 20,019,705              | 6,005,911                             | 19,514,829              | 5,854,448   | 15,692,130              | 4,707,635   | 15,323,606              | 4,597,081   |
| Net (Taxable)                     |                         | 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 | , ,                     | . , -       |                         |             | , ,,                    |             |
| / Deductible                      |                         |                                       |                         |             |                         |             |                         |             |
| Temporary                         |                         |                                       |                         |             |                         |             |                         |             |
| Differences                       | (10,572,684)            | (3,171,806)                           | (10,808,799)            | (3,242,641) | (8,570,567)             | (2,571,168) | (8,948,461)             | (2,684,538) |

\* This amount includes the total impairment loss provision of LKR 4,596 Mn made for ISBs as at reporting date as described in Note 26.6.3. Accordingly, a deferred tax asset for the value of LKR 1,379 Mn has been recognised against the said provision (excluding the provision relating to interest) based on the current interpretation of the Tax Law and information available as at reporting date.

#### 34.1.1 Movement in Temporary Differences

|                                                        | Bank          |                |                           |               |               |               |                |                           |               |               |
|--------------------------------------------------------|---------------|----------------|---------------------------|---------------|---------------|---------------|----------------|---------------------------|---------------|---------------|
|                                                        |               |                | 2023                      |               |               | 2022          |                |                           |               |               |
|                                                        | Balance as at | Recognized in  | Recognized                | Recognized in | Balance as at | Balance as at | Recognized in  | Recognized                | Recognized in | Balance as at |
|                                                        | 01 January    | profit or loss | in Other<br>Comprehensive | Equity        | 31 December   | 01 January    | profit or loss | in Other<br>Comprehensive | Equity        | 31 December   |
|                                                        |               |                | Income                    |               |               |               |                | Income                    |               |               |
|                                                        | LKR '000      | LKR '000       | LKR '000                  | LKR '000      | LKR '000      | LKR '000      | LKR '000       | LKR '000                  | LKR '000      | LKR '000      |
| Taxable Temporary<br>Differences                       |               |                |                           |               |               |               |                |                           |               |               |
| Property, Plant and Equipment                          | 978,154       | (30,264)       | -                         | -             | 947,890       | 1,045,894     | (67,740)       | -                         | -             | 978,154       |
| Lease Receivables                                      | 949,098       | (510,592)      | -                         | -             | 438,506       | 1,345,235     | (396,137)      | -                         |               | 949,098       |
| Reserve on Land<br>Revaluation                         | 640,288       | -              | -                         | -             | 640,288       | 640,288       |                | -                         |               | 640,288       |
| Reserve on Building<br>Revaluation                     | 107,894       |                | -                         | -             | 107,894       | 107,894       | -              |                           |               | 107,894       |
| Revaluation Surplus<br>on Land                         | 828,531       | -              | -                         | -             | 828,531       | 828,531       |                |                           |               | 828,531       |
| Other Provisions                                       | 16,654        | (16,654)       |                           |               | -             | -             | 16,654         |                           |               | 16,654        |
| Right-of-use Assets-<br>(SLFRS 16)                     | 4,851,622     | 262,896        | -                         | -             | 5,114,518     | 4,741,073     | 110,549        |                           |               | 4,851,622     |
| Fair value changes<br>recognized through OCI           | 333,790       |                | 1,035,604                 |               | 1,369,394     |               |                | 333,790                   |               | 333,790       |
|                                                        | 8,706,031     | (294,614)      | 1,035,604                 |               | 9,447,021     | 8,708,915     | (336,674)      | 333,790                   | -             | 8,706,031     |
| Deductible Temporary<br>Differences                    |               |                |                           |               |               |               |                |                           |               |               |
| Leave Encashment<br>Provision (Note 43.2)              | 252,450       | 104,864        |                           | -             | 357,314       | 248,862       | 3,588          | -                         | -             | 252,450       |
| Other Provisions                                       |               | 4,105          | -                         | -             | 4,105         | 140,565       | (140,565)      | -                         | -             | -             |
| Enhanced Gratuity                                      | 1,568,424     | 590,155        | -                         | -             | 2,158,579     | 1,753,481     | (185,057)      | -                         | -             | 1,568,424     |
| Lease Liabilities<br>(SLFRS 16)                        | 5,101,247     | 308,171        |                           | -             | 5,409,418     | 4,889,598     | 211,649        |                           |               | 5,101,247     |
| Expected Credit Loss<br>Allowances                     | 12,592,708    | (502,419)      | -                         | -             | 12,090,289    | 471,987       | 12,120,721     | -                         |               | 12,592,708    |
| Fair value changes<br>recognized through OCI           |               | _              | _                         | _             | _             | 131,198       |                | (131,198)                 | -             | -             |
|                                                        | 19,514,829    | 504,876        | -                         | -             | 20,019,705    | 7,635,691     | 12,010,336     | (131,198)                 | -             | 19,514,829    |
| Net (Taxable) /<br>Deductible Temporary<br>Differences | (10,808,798)  | (799,490)      | 1,035,604                 |               | (10,572,684)  | 1,073,224     | (12,347,010)   | 464,988                   |               | (10,808,798)  |

#### 34.1.2 Movement in Temporary Differences

|                                                                   | Group                       |                              |                                         |                         |                              |                             |                              |                                         |                         |                              |
|-------------------------------------------------------------------|-----------------------------|------------------------------|-----------------------------------------|-------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------------------|-------------------------|------------------------------|
|                                                                   | 2023 2022                   |                              |                                         |                         |                              |                             |                              |                                         |                         |                              |
|                                                                   | Balance as at<br>01 January | Recognized in profit or loss | Recognized<br>in Other<br>Comprehensive | Recognized in<br>Equity | Balance as at<br>31 December | Balance as at<br>01 January | Recognized in profit or loss | Recognized<br>in Other<br>Comprehensive | Recognized in<br>Equity | Balance as at<br>31 December |
|                                                                   | LKR '000                    | LKR '000                     | Income                                  | LKR '000                | LKR '000                     | LKR '000                    | LKR '000                     | Income<br>LKR '000                      | LKR '000                | LKR '000                     |
| Deferred Tax Liabilities<br>on                                    |                             |                              |                                         |                         |                              | Livit 000                   | LINI 000                     | Lini ooo                                | ENT 000                 | ENT 000                      |
| Property, Plant and<br>Equipment                                  | 1,127,009                   | (30,770)                     |                                         |                         | 1,096,239                    | 1,195,169                   | (68,160)                     |                                         |                         | 1,127,009                    |
| Lease Receivables                                                 | 949,095                     | (510,593)                    |                                         |                         | 438,502                      | 1,345,232                   | (396,137)                    |                                         |                         | 949,095                      |
| Revaluation Gain Brought                                          | 343,033                     | (310,333)                    |                                         |                         | 400,002                      | 1,040,202                   | (000,107)                    |                                         |                         | 343,033                      |
| Forward                                                           | 1,595,001                   | -                            | -                                       | -                       | 1,595,001                    | 1,595,001                   | -                            | -                                       | -                       | 1,595,001                    |
| Reserve on Land<br>Revaluation                                    | 640,288                     | -                            | -                                       | -                       | 640,288                      | 640,288                     | -                            | -                                       | -                       | 640,288                      |
| Reserve on Building<br>Revaluation                                | 107,894                     | -                            |                                         |                         | 107,894                      | 107,894                     |                              | -                                       |                         | 107,894                      |
| Revaluation Surplus<br>on Land                                    | 828,531                     | -                            |                                         |                         | 828,531                      | 828,531                     |                              |                                         |                         | 828,531                      |
| Right-of-use Assets<br>(SLFRS 16)                                 | 761,344                     | 262,897                      | -                                       | -                       | 1,024,241                    | 15,174                      | 746,170                      | -                                       | -                       | 761,344                      |
| Reversal of Revaluation<br>Loss on Property, Plant &<br>Equipment | -                           | -                            | -                                       | -                       | -                            | 51,116                      | -                            | (51,116)                                | -                       | -                            |
| Other Provisions                                                  | 16,653                      | (16,653)                     |                                         |                         | -                            | -                           | 16,653                       |                                         |                         | 16,653                       |
| Fair value changes recognized through OCI                         | 349,330                     | -                            | 1,041,537                               | -                       | 1,390,867                    | -                           | -                            | 349,330                                 |                         | 349,330                      |
|                                                                   | 6,375,145                   | (295,119)                    | 1,041,537                               | -                       | 7,121,563                    | 5,778,405                   | 298,526                      | 298,214                                 |                         | 6,375,145                    |
| Deferred Tax Assets on                                            |                             |                              |                                         |                         |                              |                             |                              |                                         |                         |                              |
| Leave Encashment<br>Provision (Note 43.2)                         | 252,447                     | 104,863                      | -                                       | -                       | 357,310                      | 248,860                     | 3,587                        | -                                       | -                       | 252,447                      |
| Other Provisions                                                  |                             | 4,107                        |                                         | -                       | 4,107                        | 140,567                     | (140,567)                    |                                         |                         |                              |
| Enhanced Gratuity                                                 | 1,568,424                   | 590,157                      | -                                       | -                       | 2,158,581                    | 1,753,481                   | (185,057)                    |                                         | -                       | 1,568,424                    |
| Lease Liabilities (SLFRS 16)                                      | 579,137                     | 375,720                      |                                         | -                       | 954,857                      | 579,137                     | _                            |                                         | -                       | 579,137                      |
| Tax Losses Carried<br>Forward                                     | -                           | -                            | -                                       | -                       | -                            | 22,213                      | (22,213)                     | _                                       | -                       |                              |
| Expected Credit Loss<br>Allowances                                | 12,592,711                  | (502,420)                    | -                                       | -                       | 12,090,291                   | 471,988                     | 12,120,723                   | _                                       | -                       | 12,592,711                   |
| Reversal of Revaluation<br>Loss on Property, Plant &<br>Equipment | 330,887                     | (83,053)                     | (120,850)                               | -                       | 126,984                      | -                           | -                            | 330,887                                 | _                       | 330,887                      |
| Fair value changes recognized through OCI                         |                             | -                            | _                                       |                         |                              | 142,266                     | -                            | (142,266)                               | <u>.</u>                | _                            |
|                                                                   | 15,323,606                  | 489,374                      | (120,850)                               | -                       | 15,692,130                   | 3,358,512                   | 11,776,473                   | 188,621                                 | -                       | 15,323,606                   |
| Net (Taxable) /<br>Deductible Temporary<br>Differences            |                             |                              |                                         |                         |                              |                             |                              |                                         |                         |                              |
| Differences                                                       | (8,948,461)                 | (784,493)                    | 1,162,387                               | -                       | (8,570,567)                  | 2,419,893                   | (11,477,947)                 | 109,593                                 | -                       | (8,948,461)                  |

#### 35 Other Assets

|                                            | Ba         | Bank       |            | up         |
|--------------------------------------------|------------|------------|------------|------------|
|                                            | 2023       | 2022       | 2023       | 2022       |
|                                            | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Deposits & Prepayments                     | 1,051,349  | 951,599    | 1,066,610  | 970,400    |
| Clearing House Balance                     | 5,332,204  | 3,406,604  | 5,332,204  | 3,406,604  |
| Inventories                                | 195,825    | 202,167    | 208,973    | 216,854    |
| Sundry Debtors                             | 2,688,471  | 1,557,790  | 2,688,471  | 1,557,790  |
| Other Receivables                          | 3,024,398  | 5,637,368  | 3,024,398  | 5,637,368  |
| Due from Trust Companies                   | 2,211      | 23         | 2,211      | 23         |
| Prepaid Staff Cost                         | 1,558,231  | 1,659,511  | 1,558,752  | 1,660,121  |
| Other Debtors                              | 2,519,005  | 1,440,695  | 2,525,143  | 1,472,159  |
| Total Other Assets                         | 16,371,694 | 14,855,757 | 16,406,762 | 14,921,319 |
| Expected Credit Loss Allowance (Note 35.1) | -          | (347,246)  | -          | (347,246)  |
| Total Other Assets-Net                     | 16,371,694 | 14,508,511 | 16,406,762 | 14,574,073 |

248

## 35.1 Movements in Expected Credit Loss During the year

| Stage 3                                             |           |         |           |         |
|-----------------------------------------------------|-----------|---------|-----------|---------|
| Balance as at 01 January                            | 347,246   | -       | 347,246   | -       |
| Charge / (Write back) to Income statement (Note 13) | (347,246) | 347,246 | (347,246) | 347,246 |
| Balance as at 31 December                           | -         | 347,246 | -         | 347,246 |

#### 36 Due to Banks

|                                                  | Bank/Group |            |  |
|--------------------------------------------------|------------|------------|--|
| As at December                                   | 2023       | 2022       |  |
|                                                  | LKR '000   | LKR '000   |  |
| Refinance Borrowings                             | 6,067,882  | 6,341,465  |  |
| Borrowings from Local Banks                      | 867,192    | 479        |  |
| Borrowings from Foreign Banks                    | 209,425    | 325,252    |  |
| Borrowings from Development Finance Institutions | 4,952,257  | 5,490,834  |  |
| Total Due to Banks                               | 12,096,756 | 12,158,030 |  |

#### 37 Financial Liabilities at Amortised Cost - Due to Depositors

|        |                                            | Bank/Group  |             |  |  |
|--------|--------------------------------------------|-------------|-------------|--|--|
|        | As at December                             | 2023        | 2022        |  |  |
|        |                                            | LKR '000    | LKR '000    |  |  |
|        | Total Due to Depositors                    | 590,698,330 | 547,315,755 |  |  |
| 37.1   | Analysis of Due to Depositors              |             |             |  |  |
| 37.1.1 | By Product                                 |             |             |  |  |
|        | Local Currency                             |             |             |  |  |
|        | Demand Deposits                            | 35,126,646  | 29,498,758  |  |  |
|        | Savings Deposits                           | 113,274,031 | 100,498,708 |  |  |
|        | Time Deposits                              | 328,328,460 | 309,006,995 |  |  |
|        | Certificates of Deposit                    | 966,920     | 1,034,256   |  |  |
|        | Total Due to Depositors - Local Currency   | 477,696,057 | 440,038,717 |  |  |
|        | Foreign Currency                           |             |             |  |  |
|        | Demand Deposits                            | 5,119,577   | 6,197,250   |  |  |
|        | Savings Deposits                           | 23,126,823  | 26,911,406  |  |  |
|        | Time Deposits                              | 84,755,873  | 74,168,382  |  |  |
|        | Total Due to Depositors - Foreign Currency | 113,002,273 | 107,277,038 |  |  |
|        | Total Due to Depositors by Product         | 590,698,330 | 547,315,755 |  |  |

SUSTAINABLE RESULTS

# NOTES TO THE FINANCIAL STATEMENTS

|        |                                              | Bank/G      | roup        |
|--------|----------------------------------------------|-------------|-------------|
|        |                                              | 2023        | 2022        |
|        |                                              | LKR' 000    | LKR' 000    |
| 7.1.2  | By Currency                                  |             |             |
|        | Sri Lankan Rupee                             | 477,696,057 | 440,038,717 |
|        | United States Dollar                         | 96,726,261  | 90,534,266  |
|        | Great Britain Pound                          | 5,264,174   | 5,033,220   |
|        | Euro                                         | 3,300,732   | 2,991,649   |
|        | Australian Dollar                            | 5,942,274   | 7,186,983   |
|        | Japanese Yen                                 | 655,855     | 743,998     |
|        | Canadian Dollar                              | 322,791     | 352,433     |
|        | Singapore Dollar                             | 617,145     | 263,449     |
|        | Other currencies                             | 173,041     | 171,040     |
|        | Total Due to Depositors by Currency          | 590,698,330 | 547,315,755 |
| 87.1.3 | By Customer Category                         |             |             |
|        | Banks                                        | 6,559,022   | 2,844,131   |
|        | Finance Companies                            | 1,256,706   | 1,184,852   |
|        | Other Customers                              | 582,882,602 | 543,286,772 |
|        | Total Due to Depositors by Customer Category | 590,698,330 | 547,315,755 |
| 87.1.4 | By Maturity                                  |             |             |
|        | Due within One Year                          | 548,751,514 | 504,681,299 |
|        | Due after One Year                           | 41,946,816  | 42,634,456  |
|        |                                              |             |             |

### 38 Financial Liabilities at Amortised Cost - Due to Debt Securities Holders

|                                                    | Bank/G    | Bank/Group |  |  |
|----------------------------------------------------|-----------|------------|--|--|
|                                                    | 2023      | 2022       |  |  |
|                                                    | LKR' 000  | LKR' 000   |  |  |
| Securities Sold under Repurchase Agreements (Repo) | 6,862,998 | 11,944,370 |  |  |
|                                                    | 6,862,998 | 11,944,370 |  |  |

#### 39 Financial Liabilities at Amortised Cost - Due to Other Borrowers

|                                                                       | Bank/    | Bank/Group |  |
|-----------------------------------------------------------------------|----------|------------|--|
|                                                                       | 2023     | 2022       |  |
|                                                                       | LKR' 000 | LKR' 000   |  |
| Refinance Borrowings - Other Institutions (Coconut Cultivation Board) | 16,151   | 7,483      |  |
|                                                                       | 16,151   | 7,483      |  |

#### 40 Group Balances Payable

|                         | Bank     | Bank/Group |  |  |
|-------------------------|----------|------------|--|--|
|                         | 2023     | 2022       |  |  |
|                         | LKR' 000 | LKR' 000   |  |  |
| Seylan Developments PLC | 115,823  | 202,382    |  |  |
|                         | 115,823  | 202,382    |  |  |

249

#### 41. Debt Securities Issued

#### 41.1 Fixed Rate Debentures

|             |            |                              |                |                      |            |            | Bank / Group |            |            |  |
|-------------|------------|------------------------------|----------------|----------------------|------------|------------|--------------|------------|------------|--|
| Issue       | Interest   | Colombo                      | Subordinated/  | Interest             | Allotment  | Maturity   | Face Value   | Amortis    | ed Cost    |  |
|             | Rate       | Stock<br>Exchange<br>Listing | Unsubordinated | Payable<br>Frequency | Date       | Date       |              | 2023       | 2022       |  |
|             |            |                              |                |                      |            |            | LKR '000     | LKR '000   | LKR '000   |  |
| 2016-2023   | 13.75% p.a | Listed                       | Subordinated   | Semi -<br>Annually   | 15.07.2016 | 14.07.2023 | 3,272,280    | -          | 3,481,840  |  |
| 2018-2023   | 12.85% p.a | Listed                       | Subordinated   | Semi -<br>Annually   | 29.03.2018 | 28.03.2023 | 3,910,000    | -          | 3,936,085  |  |
| 2018-2025   | 13.20% p.a | Listed                       | Subordinated   | Semi -<br>Annually   | 29.03.2018 | 28.03.2025 | 715,000      | 739,306    | 739,306    |  |
| 2018-2028   | 13.50% p.a | Listed                       | Subordinated   | Semi -<br>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  | 4,141,410  |  |
| 2019-2024   | 14.50% p.a | Listed                       | Subordinated   | Semi -<br>Annually   | 18.04.2019 | 17.04.2024 | 1,226,600    | 1,263,146  | 1,263,146  |  |
| 2021-2026   | 9.75% p.a  | Listed                       | Subordinated   | Annually             | 12.04.2021 | 12.04.2026 | 5,352,020    | 5,729,447  | 5,729,447  |  |
| 2021-2026   | 9.25% p.a  | Listed                       | Subordinated   | Quarterly            | 12.04.2021 | 12.04.2026 | 647,980      | 661,281    | 661,281    |  |
| 2023- 2028  | 28.00% p.a | Listed                       | Subordinated   | Annually             | 02.05.2023 | 02.05.2028 | 3,851,882    | 4,572,871  | -          |  |
| 2023- 2028  | 25.00% p.a | Listed                       | Subordinated   | Quarterly            | 02.05.2023 | 02.05.2028 | 1,148,118    | 1,195,301  | -          |  |
| Total Deben | tures      |                              |                |                      |            |            |              | 19,967,701 | 21,617,455 |  |

|      |                           | Bank / Group |                   |            |                   |  |  |  |
|------|---------------------------|--------------|-------------------|------------|-------------------|--|--|--|
|      | Face Value                |              | Amortised<br>Cost | Face Value | Amortised<br>Cost |  |  |  |
|      |                           | 2023 2023 20 |                   |            | 2022              |  |  |  |
| 41.2 | Debentures due            | LKR '000     | LKR '000          | LKR '000   | LKR '000          |  |  |  |
|      | As at 31 December         |              |                   |            |                   |  |  |  |
|      | - Payable within one year | 5,000,000    | 5,404,555         | 7,182,280  | 7,417,925         |  |  |  |
|      | - Payable after one year  | 13,324,000   | 14,563,146        | 13,324,000 | 14,199,530        |  |  |  |
|      | Total Debentures          | 18,324,000   | 19,967,701        | 20,506,280 | 21,617,455        |  |  |  |

#### 41.3 Utilization of funds raised through Debentures issued in May 2023 is as follows:

| Objective<br>Number | Objective as per Prospectus                                                                                                               | Proposed Date of<br>Utilization as per<br>Prospectus                                                           | Amount<br>allocated<br>as per<br>Prospectus<br>in LKR | Amount<br>Allocated<br>from<br>Proceeds<br>in LKR (A) | % of Total<br>Proceeds | Amount<br>utilized<br>in LKR<br>(B) | % of<br>Utilized<br>against<br>allocation<br>(B/A) | Details<br>if not<br>fully<br>utilized |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|------------------------|-------------------------------------|----------------------------------------------------|----------------------------------------|
| 1                   | To strengthen the Tier 2 Capital<br>base of the Bank as per BASEL<br>III requirements by the issue of<br>Subordinated Debentures.         | With effect from the<br>Date of Allotment                                                                      |                                                       |                                                       |                        |                                     |                                                    |                                        |
| 2                   | Grow the Lending Portfolio,<br>especially in segments such as<br>Small and Medium Enterprises<br>(SME) and Export Oriented<br>Industries. | Over a period of Twelve<br>Months from the<br>Date of Allotment or<br>31 December 2023<br>whichever is earlier | > 5 Bn                                                | 5 Bn                                                  | 100                    | 5 Bn                                | 100                                                | N/A                                    |
| 3                   | Reduce Maturity Gaps in the Assets and Liabilities of the Bank.                                                                           | With effect from the<br>Date of Allotment                                                                      |                                                       |                                                       |                        |                                     |                                                    |                                        |

#### 42 Current Tax Liabilities

|                                                               | Bank                   |                        | Group                  |                        |
|---------------------------------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                                               | 2023                   | 2022                   | 2023                   | 2022                   |
|                                                               | LKR '000               | LKR '000               | LKR '000               | LKR '000               |
| Balance as at 01 January<br>Charge for the Year (Note 16.1.1) | 5,128,484<br>4,063,720 | 1,623,966<br>5,643,038 | 5,179,000<br>4,110,333 | 1,611,832<br>5,704,578 |
| (Over) / Under Provisions                                     | -                      | -                      | (6,156)                | -                      |
| Payments                                                      | (6,493,992)            | (2,138,520)            | (6,520,672)            | (2,138,520)            |
| WHT credits                                                   | (9,959)                | -                      | (42,662)               | -                      |
| Adjustments                                                   | -                      | -                      | -                      | 1,110                  |
| Balance as at 31 December                                     | 2,688,253              | 5,128,484              | 2,719,843              | 5,179,000              |

#### 43 Other Liabilities

|                                                               | Bank       |            | Group      |            |
|---------------------------------------------------------------|------------|------------|------------|------------|
|                                                               | 2023       | 2022       | 2023       | 2022       |
|                                                               | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Accrued Expenses                                              | 2,361,749  | 1,323,588  | 2,388,815  | 1,340,050  |
| Margin Accounts                                               | 924,399    | 1,030,803  | 924,399    | 1,030,803  |
| Deposit Funding Accounts                                      | 5,245,848  | 2,948,163  | 5,245,848  | 2,948,163  |
| Dividend Payable                                              | 18,750     | 18,758     | 50,748     | 48,141     |
| Provision for Defined Benefit Obligations (Net) (Note 43.1.1) | 2,513,333  | 1,316,918  | 2,509,574  | 1,308,548  |
| Sundry Creditors                                              | 2,049,380  | 2,316,119  | 2,049,380  | 2,316,119  |
| Value Added Tax and Other Statutory Payables                  | 784,187    | 417,501    | 788,626    | 424,407    |
| Cheques Payable                                               | 939,612    | 339,089    | 939,612    | 339,089    |
| Leave Encashment Provision (Note 43.2)                        | 357,314    | 252,450    | 357,314    | 252,450    |
| Expected Credit Loss Allowance on Undrawn Credit              |            |            |            |            |
| Commitments and Financial Guarantees (Note 43.3)              | 1,547,358  | 1,195,082  | 1,547,358  | 1,195,082  |
| Other Creditors                                               | 2,849,225  | 2,814,856  | 2,854,298  | 2,782,391  |
| Total Other Liabilities                                       | 19,591,155 | 13,973,327 | 19,655,972 | 13,985,243 |

#### 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 has 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.

An actuarial valuation was carried out as at 31 December 2023 by Mr. M. Poopalanathan, AIA, Messers Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries.

|        |                                                                 | Bank        |             | Group       |             |
|--------|-----------------------------------------------------------------|-------------|-------------|-------------|-------------|
|        |                                                                 | 2023        | 2022        | 2023        | 2022        |
|        |                                                                 | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| 43.1.1 | The Amount Recognized in the Statement of<br>Financial Position |             |             |             |             |
|        | Present Value of Defined Benefit Obligations (Note 43.1.3)      | 5,965,787   | 4,169,265   | 5,980,262   | 4,178,505   |
|        | Fair Value of Plan Assets (Note 43.1.4)                         | (3,452,454) | (2,852,347) | (3,470,688) | (2,869,957) |
|        | Provision for Defined Benefit Obligations                       | 2,513,333   | 1,316,918   | 2,509,574   | 1,308,548   |
| 43.1.2 | Plan Assets                                                     |             |             |             |             |
|        | Balance with Banks                                              | 142,515     | 39,572      | 142,588     | 39,766      |
|        | Investment in Treasury Bills, Bonds and Repo                    | 2,279,105   | 1,773,721   | 2,293,105   | 1,773,721   |
|        | Investments in Fixed Deposits                                   | 170,942     | 453,666     | 175,103     | 471,082     |
|        | Expected Proceeds from Sale of Shares to be Transfered          |             |             |             |             |
|        | (Note 43.1.7)                                                   | 615         | 3,067       | 615         | 3,067       |
|        | Investment in Shares                                            | 859,277     | 582,321     | 859,277     | 582,321     |
|        |                                                                 | 3,452,454   | 2,852,347   | 3,470,688   | 2,869,957   |

Plan Assets are held by an approved external Gratuity Trust Fund.

|        |                                                                              | Bank        |           | Group       |           |
|--------|------------------------------------------------------------------------------|-------------|-----------|-------------|-----------|
|        |                                                                              | 2023        | 2022      | 2023        | 2022      |
|        |                                                                              | LKR '000    | LKR '000  | LKR '000    | LKR '000  |
| 43.1.3 | Movement in the Present Value of Defined Benefit<br>Obligations (PV DBO)     |             |           |             |           |
|        | Liability for Defined Benefit Obligations as at 01 January                   | 4,169,265   | 3,927,171 | 4,178,505   | 3,936,542 |
|        | Current Service Cost                                                         | 190,485     | 202,577   | 190,998     | 203,157   |
|        | Interest Cost                                                                | 771,314     | 431,989   | 773,070     | 433,020   |
|        | Actuarial (Gains)/Loss on PV DBO (Note 43.1.5)                               | 1,668,445   | (36,965)  | 1,673,524   | (38,511)  |
|        | Benefits Paid by the Plan                                                    | (833,722)   | (355,507) | (835,835)   | (355,703) |
|        | Liability for Defined Benefit Obligations as at 31 December                  | 5,965,787   | 4,169,265 | 5,980,262   | 4,178,505 |
| 43.1.4 | Movement in Plan Assets                                                      |             |           |             |           |
|        | Fair Value of Plan Assets as at 01 January                                   | 2,852,347   | 2,909,181 | 2,869,957   | 2,925,192 |
|        | Expected Return on Plan Assets                                               | 527,117     | 319,837   | 530,463     | 321,598   |
|        | Expected Proceeds from Sale of Trust Company Shares (Note 43.1.7)            | 615         | 3,067     | 615         | 3,067     |
|        | Reversal of Expected Proceeds from Sale of Shares                            |             |           |             |           |
|        | to be Transferred                                                            | (3,067)     | (1,568)   | (3,067)     | (1,568)   |
|        | Contribution Paid into Plan *                                                | 246,423     | 236,538   | 246,423     | 236,538   |
|        | Benefits Paid by the Plan                                                    | (833,722)   | (355,507) | (835,835)   | (355,703) |
|        | Actuarial Gains/(Losses) on Plan Assets (43.1.5)                             | 662,741     | (259,201) | 662,132     | (259,167) |
|        | Fair Value of Plan Assets as at 31 December                                  | 3,452,454   | 2,852,347 | 3,470,688   | 2,869,957 |
|        | * Expected contribution for 2024-LKR 283.39 Mn                               |             |           |             |           |
| 43.1.5 | Actuarial (Gains) or Losses                                                  |             |           |             |           |
|        | Actuarial (Gains)/Losses for Year - Obligation                               | 1,668,445   | (36,965)  | 1,673,524   | (38,511)  |
|        | Actuarial (Gains)/Losses for Year - Plan Assets                              | (662,741)   | 259,201   | (662,132)   | 259,167   |
|        |                                                                              | 1,005,704   | 222,236   | 1,011,392   | 220,656   |
| 43.1.6 | Amount Recognised in the Income Statement                                    |             |           |             |           |
|        | Current Service Cost                                                         | 190,485     | 202,577   | 190,998     | 203,157   |
|        | Interest Cost                                                                | 771,314     | 431,989   | 773,070     | 433,020   |
|        | Expected Return on Plan Assets                                               | (527,117)   | (319,837) | (530,463)   | (321,598) |
|        | Amount recognized in the Income Statement as Personnel<br>Expenses (Note 15) | 434,682     | 314,729   | 433,605     | 314,579   |
|        | Amount Recognized in the Income Statement for Additional                     | (070,000)   | 100.000   | (070.000)   | 100.000   |
|        | Gratuity (Note 15/Note 43.1.7)                                               | (279,283)   | 162,386   | (279,283)   | 162,386   |
|        |                                                                              | 155,399     | 477,115   | 154,322     | 476,965   |
| 43.1.7 | Amount Recognised in the Income Statement for<br>Additional Gratuity Expense |             |           |             |           |
|        | Payments made to Ex. Staff Members                                           | 17,242      | 65,393    | 17,242      | 65,393    |
|        | Provision for unclaimed enhanced gratuity by Ex. Staff Members               | (22,022)    | 77,623    | (22,022)    | 77,623    |
|        | Expected Proceeds from Sale of Shares to be transferred                      | (615)       | (3,067)   | (615)       | (3,067)   |
|        | (Increase)/Decrease in Value of Expected Proceeds Booked in                  |             |           |             |           |
|        | Previous Years                                                               | (273,888)   | 22,437    | (273,888)   | 22,437    |
|        |                                                                              | (279,283)   | 162,386   | (279,283)   | 162,386   |
| 43.1.8 | Amount Recognised in the Other Comprehensive Income                          |             |           |             |           |
|        | Actuarial Gains/(Losses) Recognized in the year                              | (1,005,704) | (222,236) | (1,011,392) | (220,656) |
|        |                                                                              | (1,005,704) | (222,236) | (1,011,392) | (220,656) |

|        |                          | Bank                                                                     | /Group                                                                   |
|--------|--------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|
|        |                          | 2023                                                                     | 2022                                                                     |
| 43.1.9 | Actuarial Assumptions    |                                                                          |                                                                          |
|        | Demographic Assumptions  |                                                                          |                                                                          |
|        | Mortality in service     | A 1967/70 Mortality Table issued by the<br>Institute of Actuaries London | A 1967/70 Mortality Table issued by the<br>Institute of Actuaries London |
|        | Retirement Age *         | 60 Years                                                                 | 60 Years                                                                 |
|        | Financial Assumptions ** |                                                                          |                                                                          |
|        | Discount Rate            | 12.90%*** (Subsidiary 12%)                                               | 18.50% (Subsidiary 19%)                                                  |
|        |                          |                                                                          |                                                                          |
|        | Salary Increment         | 15.00% (Subsidiary 10%)                                                  | 9.50% (Subsidiary 10.50%)                                                |
|        |                          | Next increment due on 01 January<br>2024                                 | Next increment due on 01 January 2023                                    |

\* As per the Minimum Retirement Age of Workers Act No. 28 of 2021.

\*\* Will be re-visited based on Market condition.

\*\*\* Based on the Treasury Bonds / Bills average market yield.

#### 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

|                                                |                                                        | 2023                                                                                                                          |                                                                                                                  |
|------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Increase / (Decrease)<br>in Discount Rate<br>% | Increase / (Decrease) in<br>Salary Increment Rate<br>% | Sensitivity Effect on Other<br>Comprehensive Income<br>Statement Increase/ (Decrease)<br>in Charge for the year<br>(LKR' 000) | Sensitivity Effect on<br>Employment Benefit Obligation<br>Increase/ (Decrease)<br>in the Liability<br>(LKR' 000) |
| 1                                              | **                                                     | (351,837)                                                                                                                     | (351,837)                                                                                                        |
| (1)                                            | **                                                     | 389,630                                                                                                                       | 389,630                                                                                                          |
| *                                              | 1                                                      | 425,735                                                                                                                       | 425,735                                                                                                          |
| *                                              | (1)                                                    | (389,270)                                                                                                                     | (389,270)                                                                                                        |

\* Discount Rate is Fixed at 12.90%

\*\* Salary Increment is 15.00%

#### Subsidiary

|                                                |                                                        | 2023                                                                                                                          |                                                                                                                  |
|------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Increase / (Decrease)<br>in Discount Rate<br>% | Increase / (Decrease) in<br>Salary Increment Rate<br>% | Sensitivity Effect on Other<br>Comprehensive Income<br>Statement Increase/ (Decrease)<br>in Charge for the year<br>(LKR' 000) | Sensitivity Effect on<br>Employment Benefit Obligation<br>Increase/ (Decrease)<br>in the Liability<br>(LKR' 000) |
| 1                                              | **                                                     | (730)                                                                                                                         | (730)                                                                                                            |
| (1)                                            | **                                                     | 796                                                                                                                           | 796                                                                                                              |
| *                                              | 1                                                      | 875                                                                                                                           | 875                                                                                                              |
| *                                              | (1)                                                    | (814)                                                                                                                         | (814)                                                                                                            |

\* Discount Rate is Fixed at 12%

\*\* Salary Increment is 10%

#### 43.1.11 Maturity Profile of the Defined Benefit Obligation

| Bank                                                    |                            |
|---------------------------------------------------------|----------------------------|
| Future Working Life Time                                | Defined Benefit Obligation |
|                                                         | LKR '000                   |
| Within next 12 months                                   | 614,750                    |
| Between 1-2 years                                       | 1,032,646                  |
| Between 2-5 years                                       | 961,222                    |
| Between 5-10 years                                      | 2,345,415                  |
| Beyond 10 Years                                         | 1,011,753                  |
| Total                                                   | 5,965,786                  |
| Weighted Average Duration of Defined Benefit Obligation | 6.9 years                  |
|                                                         |                            |

#### Subsidiary

| Future Working Life Time                                | Defined Benefit Obligation |
|---------------------------------------------------------|----------------------------|
|                                                         | LKR '000                   |
| Within next 12 months                                   | 1,459                      |
| Between 1-2 years                                       | 2,740                      |
| Between 2-5 years                                       | 2,947                      |
| Between 5-10 years                                      | 6,161                      |
| Beyond 10 Years                                         | 1,169                      |
| Total                                                   | 14,476                     |
| Weighted Average Duration of Defined Benefit Obligation | 5.8 years                  |

|      |                                                 | Ba       | Bank     |          | up       |
|------|-------------------------------------------------|----------|----------|----------|----------|
|      |                                                 | 2023     | 2022     | 2023     | 2022     |
|      |                                                 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| 43.2 | Leave Encashment Provision                      |          |          |          |          |
|      | Balance as at 01 January                        | 252,450  | 248,862  | 252,450  | 248,862  |
|      | Leave Encashment during the year                | (9,173)  | -        | (9,173)  | -        |
|      | Amount Charged / (Reversed) to Income Statement |          |          |          |          |
|      | during the year                                 | 114,037  | 3,588    | 114,037  | 3,588    |
|      | Balance as at 31 December                       | 357,314  | 252,450  | 357,314  | 252,450  |

#### Actuarial Assumptions (Refer Note 43.1.9) 43.2.1

#### 43.2.2 Sensitivity of Assumptions Employed in Actuarial Valuation

| Bank<br>2023                                   |                                                        |                                                                                                        |                                                                                                               |  |  |
|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|--|--|
| Increase / (Decrease)<br>in Discount Rate<br>% | Increase / (Decrease) in<br>Salary Increment Rate<br>% | Sensitivity Effect on Income<br>Statement Increase/ (Decrease)<br>in Charge for the year<br>(LKR' 000) | Sensitivity Effect on Employment<br>Benefit Obligation Increase/<br>(Decrease) in the Liability<br>(LKR' 000) |  |  |
| 1                                              | **                                                     | (21,952)                                                                                               | (21,952)                                                                                                      |  |  |
| (1)                                            | **                                                     | 24,544                                                                                                 | 24,544                                                                                                        |  |  |
| *                                              | 1                                                      | 26,750                                                                                                 | 26,750                                                                                                        |  |  |
| *                                              | (1)                                                    | (24,224)                                                                                               | (24,224)                                                                                                      |  |  |

\* Discount Rate is Fixed at 12.90%

\*\* Salary Increment is 15.00%

#### 43.3 Expected Credit Loss Allowance on Undrawn Credit Commitments and Financial Guarantees

|        |                                                                       | Bank/Gro  | Bank/Group |  |  |
|--------|-----------------------------------------------------------------------|-----------|------------|--|--|
|        |                                                                       | 2023      | 2022       |  |  |
|        |                                                                       | LKR '000  | LKR '000   |  |  |
|        | Balance as at 01 January                                              | 1,195,082 | 1,334,591  |  |  |
|        | Charge/(Write back) to Income Statement (Note 13)                     | 352,276   | (139,509)  |  |  |
|        | Balance as at 31 December                                             | 1,547,358 | 1,195,082  |  |  |
| 43.3.1 | Stagewise Movements in Expected Credit Loss Allowance during the year |           |            |  |  |
|        | Stage 1                                                               |           |            |  |  |
|        | Balance as at 01 January                                              | 1,177,288 | 1,313,972  |  |  |
|        | Charge/(Write back) to Income Statement                               | (322,170) | (136,684)  |  |  |
|        | Balance as at 31 December                                             | 855,118   | 1,177,288  |  |  |
|        | Stage 2                                                               |           |            |  |  |
|        | Balance as at 01 January                                              | 10,495    | 5,440      |  |  |
|        | Charge/(Write back) to Income Statement                               | 55,606    | 5,055      |  |  |
|        | Balance as at 31 December                                             | 66,101    | 10,495     |  |  |
|        | Stage 3                                                               |           |            |  |  |
|        | Balance as at 01 January                                              | 7,299     | 15,179     |  |  |
|        | Charge/(Write back) to Income Statement                               | 618,840   | (7,880)    |  |  |
|        | Balance as at 31 December                                             | 626,139   | 7,299      |  |  |

#### 44 Stated Capital

|                           |                                | Bank/Group                         |            |                                |                                    |            |  |  |
|---------------------------|--------------------------------|------------------------------------|------------|--------------------------------|------------------------------------|------------|--|--|
|                           |                                | 2023<br>LKR '000                   |            |                                | 2022                               |            |  |  |
|                           |                                |                                    |            |                                | LKR '000                           |            |  |  |
|                           | Ordinary<br>Shares -<br>Voting | Ordinary<br>Shares -<br>Non-Voting | Total      | Ordinary<br>Shares -<br>Voting | Ordinary<br>Shares -<br>Non-Voting | Total      |  |  |
| Balance as at 01 January  | 12,314,065                     | 7,612,388                          | 19,926,453 | 11,521,263                     | 6,802,619                          | 18,323,882 |  |  |
| Issued for Scrip Dividend | 480,599                        | 501,621                            | 982,220    | 792,802                        | 809,769                            | 1,602,571  |  |  |
| Balance as at 31 December | 12,794,664                     | 8,114,009                          | 20,908,673 | 12,314,065                     | 7,612,388                          | 19,926,453 |  |  |

#### 44.1 Movements in Number of Shares

|                           | 2023                           |                                    |             | 2022                           |                                    |             |  |
|---------------------------|--------------------------------|------------------------------------|-------------|--------------------------------|------------------------------------|-------------|--|
|                           | Ordinary<br>Shares -<br>Voting | Ordinary<br>Shares -<br>Non-Voting | Total       | Ordinary<br>Shares -<br>Voting | Ordinary<br>Shares -<br>Non-Voting | Total       |  |
| Balance as at 01 January  | 282,704,760                    | 295,071,313                        | 577,776,073 | 264,267,493                    | 269,923,190                        | 534,190,683 |  |
| Issued for Scrip Dividend | 14,011,606                     | 23,661,379                         | 37,672,985  | 18,437,267                     | 25,148,123                         | 43,585,390  |  |
| Balance as at 31 December | 296,716,366                    | 318,732,692                        | 615,449,058 | 282,704,760                    | 295,071,313                        | 577,776,073 |  |

#### 45 Statutory Reserve Fund

|                               | Bank/Group |           |  |
|-------------------------------|------------|-----------|--|
|                               | 2023       | 2022      |  |
|                               | LKR '000   | LKR '000  |  |
| Balance as at 01 January      | 2,568,162  | 2,332,549 |  |
| Transferred during the Year * | 312,811    | 235,613   |  |
| Balance as at 31 December     | 2,880,973  | 2,568,162 |  |

\* 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

46.1

|                                                                      | Ba        | Bank        |           | Group       |  |
|----------------------------------------------------------------------|-----------|-------------|-----------|-------------|--|
|                                                                      | 2023      | 2022        | 2023      | 2022        |  |
|                                                                      | 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)                                      | 1,374,219 | 1,374,219   | 2,329,017 | 2,269,369   |  |
| General Reserve (Note 46.3)                                          | 33,787    | 33,787      | 33,787    | 33,787      |  |
| Fair Value through Other Comprehensive Income<br>Reserve (Note 46.4) | (203,999) | (1,183,105) | (233,618) | (1,215,647) |  |
| Cash Flow Hedge Reserve (Note 46.5)                                  | -         | -           | -         | -           |  |
| Investment Fund Reserve (Note 46.6)                                  | 248,767   | 248,767     | 248,767   | 248,767     |  |
| Total Other Reserves                                                 | 1,870,795 | 891,689     | 3,051,187 | 2,009,510   |  |
| Movement in Capital Reserve                                          |           |             |           |             |  |
| Balance as at 1st January                                            | 418,021   | 418,021     | 673,234   | 673,234     |  |
| Balance as at 31st December                                          | 418,021   | 418,021     | 673,234   | 673,234     |  |

**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).

#### 46.2 Movement in Revaluation Reserve

|                                                                      | Bank      |           | Group     |           |
|----------------------------------------------------------------------|-----------|-----------|-----------|-----------|
|                                                                      | 2023      | 2022      | 2023      | 2022      |
|                                                                      | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Balance as at 1st January                                            | 1,374,219 | 1,468,822 | 2,269,369 | 2,374,135 |
| Surplus/(Deficit) on Revaluation during the Year                     | -         | -         | 120,850   | (20,148)  |
| Deferred Tax Impact on Revaluation (Surplus)/Deficit during the Year | -         | -         | (36,255)  | 6,044     |
| Deferred Tax Impact on Tax Rate Change                               | -         | (94,603)  | -         | (94,913)  |
| Transferred to Non-Controlling Interest                              | -         | -         | (24,947)  | 4,251     |
| Balance as at 31st December                                          | 1,374,219 | 1,374,219 | 2,329,017 | 2,269,369 |

In addition to the Bank's Revaluation Reserve, Group includes the surplus on revaluation of Property, Plant and Equipment of the Subsidiary.

|      |                             | Bank      |          | Group    |          |
|------|-----------------------------|-----------|----------|----------|----------|
|      |                             | 2023 2022 |          | 2023 2   |          |
|      |                             | LKR '000  | LKR '000 | LKR '000 | LKR '000 |
| 46.3 | Movement in General Reserve |           |          |          |          |
|      | Balance as at 1st January   | 33,787    | 33,787   | 33,787   | 33,787   |
|      | Balance as at 31st December | 33,787    | 33,787   | 33,787   | 33,787   |

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.

46.5

46.6

#### 46.4 Movement in Fair Value through Other Comprehensive Income Reserve

|                                                                                                                                  | Bank        |             | Group       |             |
|----------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
|                                                                                                                                  | 2023        | 2022        | 2023        | 2022        |
|                                                                                                                                  | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| Balance as at 1st January                                                                                                        | (1,183,105) | (245,179)   | (1,215,647) | (271,212)   |
| Net Gains (loss) on investments in debt instruments measured at fair value through other comprehensive income                    | 987,554     | (1,633,614) | 993,479     | (1,644,580) |
| Net Change in fair value on investments in equity instruments<br>measured at fair value through other comprehensive income       | 302,235     | (1,220,234) | 302,235     | (1,220,234) |
| Deferred Tax Impact on Net Fair Value (Gain)/Loss (Note 34)                                                                      | (310,683)   | 362,043     | (312,463)   | 363,778     |
| Net Gains on Disposal Equity Investments transferred to<br>Retained Earnings (Note 27.8)                                         | -           | (9,396)     | -           | (9,396)     |
| Reclassification of Debt instruments measured at Fair Value through Other Comprehensive Income (Note 26.6)                       | -           | 2,056,941   | -           | 2,056,941   |
| Deferred Tax impact on Reclassification of Debt instruments measured at Fair Value through Other Comprehensive Income (Note 34 ) | -           | (493,666)   | -           | (493,666)   |
| Transferred to Non-Controlling Interest                                                                                          | -           | -           | (1,222)     | 2,722       |
| Balance as at 31 December                                                                                                        | (203,999)   | (1,183,105) | (233,618)   | (1,215,647) |
| Movement in Cash Flow Hedge Reserve                                                                                              |             |             |             |             |
| Balance as at 1st January                                                                                                        | -           | (84,246)    | -           | (84,246)    |
| Transferred to Income Statement                                                                                                  | -           | 84,246      | -           | 84,246      |
| Balance as at 31 December                                                                                                        | -           | -           | -           | -           |
| Movement in Investment Fund Reserve                                                                                              |             |             |             |             |
| Balance as at 1st January                                                                                                        | 248,767     | 608,756     | 248,767     | 608,756     |
| Transferred to Retained Earnings                                                                                                 | -           | (359,989)   | -           | (359,989)   |
| Balance as at 31 December                                                                                                        | 248,767     | 248,767     | 248,767     | 248,767     |

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 01 October 2014.

| Transfers to the Investment Fund Reserve                    | LKR '000  |
|-------------------------------------------------------------|-----------|
| 8% on the Value addition attributable to Financial Services | 1,257,105 |
| 5% of Taxable Profits                                       | 409,598   |
|                                                             | 1,666,703 |

| Utilization of Investment Fund Reserve                         |                        |                                |                       |                                      |
|----------------------------------------------------------------|------------------------|--------------------------------|-----------------------|--------------------------------------|
| Qualifying Investments                                         |                        |                                |                       |                                      |
| Long Term Government Securities with maturity period over 7    |                        | Maturity Value                 | Date of               | Interest Rate                        |
| Years                                                          |                        | (LKR)                          | Maturity              | %                                    |
| Treasury Bond                                                  |                        | 230,000,000                    | 01.07.2028            | 9.00                                 |
| Total Investment in Government Securities                      |                        | 230,000,000                    |                       |                                      |
| Qualifying Loans                                               |                        |                                |                       |                                      |
| Purpose                                                        | No of loans<br>granted | Amount<br>outstanding<br>(LKR) | Tenure of the<br>Ioan | Interest rate                        |
| Construction of hotels and for related purpose                 | 1                      | 51,874,000                     | 10 years              | 5 year<br>Treasury Bond<br>rate + 2% |
| Total Qualifying Loans                                         |                        | 51,874,000                     |                       |                                      |
| Total Investment in Government Securities and Qualifying Loans |                        | 281,874,000                    |                       |                                      |

#### 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. Potential expected credit loss allowance on undrawn credit commitments and financial guarantees have been recorded and which are disclosed in Note 43.3.

|      |                                                     | Ba          | nk          | Group       |             |
|------|-----------------------------------------------------|-------------|-------------|-------------|-------------|
|      | As at 31 December                                   | 2023        | 2022        | 2023        | 2022        |
|      |                                                     | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| 47.1 | Contingencies                                       |             |             |             |             |
|      | Acceptances                                         | 7,917,084   | 11,902,376  | 7,917,084   | 11,902,376  |
|      | Standby Letters of Credit                           | 146,496     | 378,230     | 146,496     | 378,230     |
|      | Guarantees                                          | 55,805,472  | 69,644,645  | 55,805,472  | 69,644,645  |
|      | Documentary Credit                                  | 7,099,253   | 4,354,920   | 7,099,253   | 4,354,920   |
|      | Bills for Collection                                | 5,093,891   | 6,001,743   | 5,093,891   | 6,001,743   |
|      | Forward Exchange Contracts (Net)                    | 53,691      | (563,439)   | 53,691      | (563,439)   |
|      | Total Contingent Liabilities                        | 76,115,887  | 91,718,475  | 76,115,887  | 91,718,475  |
| 47.2 | Commitments                                         |             |             |             |             |
|      | Undrawn Credit commitments                          | 89,057,981  | 75,687,415  | 89,057,981  | 75,687,415  |
|      | Capital Commitments (Note 50.1)                     | 666,936     | 235,260     | 685,552     | 237,051     |
|      | Total Commitments                                   | 89,724,917  | 75,922,675  | 89,743,533  | 75,924,466  |
|      | <b>Total Contingent Liabilities and Commitments</b> | 165,840,804 | 167,641,150 | 165,859,420 | 167,642,941 |

#### 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 initiated claims / counter claims against the Bank.

#### **Civil Cases**

#### 1. CHC 157/2001(1) - (SC (CHC) APP 01/10)

Plaintiff filed action against Seylan Bank for dishonoring 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 29 February 2024.

#### 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 dishonoring cheques and not establishing 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. Arguments on 19 March 2024.

#### 3. CHC 559/10/MR (SC CHC (APP) 45/2018)

Plaintiff has claimed damages of LKR 5.0 Mn stating that the Bank has wrongfully refused to issue US Dollars for travel purposes. Case dismissed on 10 April 2018 and plaintiff has appealed against the Judgement. Notice of appeal filed on 25 April 2018 and the matter is listed for hearing on 07 June 2024.

#### 4. 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. Matter is fixed for inquiry on 27 March 2024.

#### 5. 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. Arguments on 29 February 2024.

#### 6. DC MOUNT LAVINIA 4246/03/M (WP/HCCA/MT/03/18/F)

Action filed claiming damages of LKR 2.0 Mn alleging wrongful seizure of goods in execution of a writ by the Bank. Judgement delivered against the Bank on 06 November 2017 and the Bank has appealed against the said Judgement by filing Civil Appellate Case No. WP/ HCCA /MT 03/18 (F) and same is fixed for Arguments on 08 May 2024.

#### 7. SC/HC/LA/18/2022

The plaintiff company has filed the case bearing No. DC Colombo DMR 1674/15 (CHC 90/2020 MR) 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. This action was dismissed on 11 February 2022. Plaintiff appealed on the said dismissal. Appeal case will be supported on 14 October 2024.

#### 8. CHC 713/19 MR (DC COLOMBO DMR 1675/15)

The plaintiff 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 he has been remanded. Case will be called on 05 March 2024.

#### 9. 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. Judgment delivered in favour of the plaintiff. Bank appealed against the judgment. To be mentioned on 07 May 2024.

#### 10. 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 11 March 2024.

#### 11. 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 49.02 Mn. Bank filed a cross claim for LKR 6.24 Mn. On 17 December 2021, case was dismissed as well as the cross claim. Both parties appealed against the judgment. Appeal not yet listed.

#### 12. CHC CIVIL 253 /2017/MR

The case bearing HC Civil 253/17/MR has been instituted by the plaintiff and obtained a stay order preventing the Bank from paying USD 1.37 Mn on a Letter of Credit. While the summons had not been served on the 3rd defendant who is the banker 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 under case No. SC Appeal 157/2019. The Judgment was delivered on 23 February 2022. Now the main case is fixed for summons returnable for 3rd defendant on 12 June 2024.

#### 13. 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. This case is fixed for Examiner of Question Document report on 24 April 2024.

#### 14. 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 3.88 Mn. Further Trial on 03 May 2024.

#### 15. DC COLOMBO 4237/18/DMR

A case was filed under case No. HC (Civil) 311/14/MR by the Bank 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 200.0 Mn as damages for instituting the said case No. HC(Civil) 311/14/MR. This Case will be called on 04 March 2024.

#### 16. DC MATARA SPL/1151

Plaintiff is a customer and he claims that on a verbal agreement reached with the Bank, he deposited LKR 7.91 Mn into his own account with the intention of purchasing a property acquired by the Bank under a Certificate of Sale. However, as the previous owner had settled the dues, Bank had released the property to previous owner / mortgagor of the property by cancelling the said Certificate of Sale.

Plaintiff filed the above action to get a court declaration to the effect that there had been an agreement to sell between him and the Bank and claiming LKR 5.0 Mn as damages, for not selling the property. The Case is fixed for Trial on 20 March 2024.

#### 17. DC COLOMBO DSP 220/22

Bank had obtained and additional Mortgage Bond over a property that has been mortgaged to Bank of Ceylon. This property had been acquired by Bank of Ceylon under a Certificate of Sale. Bank of Ceylon filed this action against the Seylan Bank to get the Mortgage Bond executed in favour of Seylan Bank cancelled. The Case is fixed for Trail on 30 May 2024.

#### 18. DC COLOMBO DSP 486/2022

Bank had issued two Letters of Guarantee in favour of the plaintiff at the request of the customer. Customer subsequently tendered the Original Guarantee issued by the Bank with a written request of the Beneficiary to cancel the Guarantee. Beneficiary (Plaintiff) also produced a claim over the Guarantees producing a document similar to original Guarantee issued by the Bank. This case has been instituted seeking a court direction on the Bank to honour the claims made by the plaintiff. Case is fixed for Answer on 09 May 2024.

#### 19. CHC/334/2022

A funds transfer has been done from USA through Visa network, where the transaction was confirmed by Visa as fraudulent. Plaintiff instituted this case claiming that the Bank has unlawfully blocked and seized USD 500,000.00 credit which is equivalent to LKR 93.5 Mn and plead the court to make a declaration that the plaintiff is the lawful owner of the said amount and make available the same to him by a Judgment of the CHC. Case is fixed for Trial on 25 March 2024.

#### 20. CHC 347/2022 MR

Customer is engaged in export of rubber and related products and also engaged in the imports and distribution of burnt charcoal (clinker) which are used for cement industry. Due to the scarcity of the foreign exchange in the country, Bank was unable to sell the foreign exchange to the customer on the required dates to settle the customer's import liabilities. Customer has filed this case against the Bank claiming damages for exchange losses. Case is fixed for Trial on 21 May 2024.

#### 21. DC NUGEGODA 5303/2023 M

Plaintiff has obtained a Leasing facility from Bank. He has made issues over charges made by the Bank and defamed the Bank in various manners. Bank filed a case in DC Colombo under the case No. DMR 2647/2022 to prevent the customer from defaming the Bank. In the meantime, customer has filed this action in DC Nugegoda seeking a stay order preventing Bank from recovering his lease rentals. Court has issued only notices of Interim Injunction. Case is fixed for Order on 30 May 2024.

#### 22. DC AKKARAIPATHTHU MB/65/2019

Bank filed a Mortgaged Bond action in DC Kalmunai (Case No. MB 65/2019) and got the decree infavour of Seylan Bank. Subject property was sold at the public auction. The purchaser has filed a petition under the same case, in DC Akkarapaththu to obtain a refund of the auction charges (LKR 106,850.00) as cost of advertising and that had been recovered from him. Consideration of Claim on 26 February 2024.

#### 23. DC NUGEGODA/M/5308/23

Plaintiffs had prematurely uplifted 25 fixed deposits that they placed with the Bank worth of LKR 255 Mn. Bank has paid interest at a reduced rate due to premature upliftment and plaintiffs initiated this action to recover further interest on the fixed deposits uplifted. Answer on 01 April 2024.

#### 24. DC PANADURA/37/2023/SC, DC PANADURA/38/2023/SC and DC PANADURA/39/2023/SC

According to the plaints 1st and 2nd defendant along with plaintiffs (at that time being 3 different minors) had placed fixed deposits and later 1st and 2nd defendants had withdrawn the fixed deposits without the knowledge and consent of the plaintiffs. Each Minor (now being majors) had filed three separate cases claiming the withdrawn amounts. Bank has been made a party alleging that bank had acted collusively with 1st and 2nd defendants. Summons returnable on 01 March 2024.

#### 25. DC COLOMBO DMR 342/23

Plaintiff has deposited a LKR 30.0 Mn cheque to her savings account, which had got returned due to lack of funds. Due to a system issue the reversal of cheque return had been debited to a different account. Due to this reason the cheque return had been posted to the Plaintiff's account subsequently and not on the same day. Client has withdrawn LKR 10.0 Mn and is claiming the balance of LKR 20.0 Mn from the Bank. Answer on 25 June 2024.

#### 26. DC COLOMBO DMR 1730/2023

Plaintiff is a Foreign Exchange Broker of another company where both parties are customers of the Bank. There was a dispute between the parties with regard to the broker's commission. Plaintiff filed a case against the Bank and the said company under the case No. CHC 225/2016 MR and the Bank was made a party to refrain from release of funds held in favour of the said company. On 25 March 2022 Courts delivered Exparte Judgment in favour of plaintiff. The Plaintiff filed this case against the Bank demanding the damages for the delay occurred when transferring the funds during the Writ execution. Answer to be filed on 15 March 2024.

#### 27. DC KULIYAPITIYA 7326 M

Plaintiff has established Letters of Credit and due to a shortage of Foreign exchange within the country during the LC settlement period, Bank had been able to sell foreign exchange to the plaintiff as and when it received/ collected foreign exchange to settle the import liabilities. Due to this, client filed this action to prevent the Bank recovering any further funds from the Plaintiff. The case will be called for Objections on 25 March 2024.

#### 28. CA (WRIT) 124/21

Petitioner has filed this action seeking a writ of mandamus and a prohibition on releasing the compensation on the property that had been acquired by the Land Development Authority. (Where a portion has been mortgaged to Seylan Bank and the facilities related to same being overdue). The matter is fixed for Arguments on 02 August 2024.

#### 29. CA APPLICATION NO. COC/29/2023

The plaintiff in the above action being an occupant of one of the apartments which was to be auctioned in four auctions scheduled, filed a case against the Bank in Commercial High Court bearing No. CHC 227/23/MR and obtained an enjoining order to stay the auctions. The enjoining order was conveyed by Courts after the conclusions of two auctions. This application filed on contempt of Court since the Bank took steps to complete the formalities of concluding auctions upon the vacation of the stay order. The case is to be supported on 15 March 2024.

#### 30. DC COLOMBO 1998/2023/DMR

Plaintiff being an ex-staff member has instituted this action against the Bank claiming damages from the Bank for having being indicted in the High Court on a fraud that had taken place in 1993. Case is fixed for notice returnable on 02 August 2024.

#### Cross Claims made against the Bank on Cases filed by the Bank

#### 31. DC RATNAPURA 12734/M

Bank has filed this case in DC Ratnapura to recover the dues, there is a cross claim of LKR 2.5 Mn made by the defendant. The Case is fixed for Further Trial on 12 June 2024.

#### 32. CHC 331/11/MR

Bank has initiated legal action to recover the dues of a lease facility. Customer has filed the answer with a cross claim of LKR 100.0 Mn. To be mentioned 0n 28 March 2024.

#### 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, 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**

#### 33. Cases Against Share Owning Trust Companies and the Bank, Cases filed by Ex-employees and Bank against orders of Commissioner General of Labour and other Court Orders.

Filed DTR 003/2016 to DTR 006/2016 against the share owning trust companies, Seybest (Private) Limited, Seyfest (Private) Limited and Seyshop (Private) Limited and the Bank in District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Court made order that all points of issues of the cases will be decided after concluding recording of all evidence. DTR 003/2016 and DTR 004/2016 cases due for Defendant / Bank / Trust company evidence on 19 March 2024. Cross examination of plaintiffs / hearing of the cases DTR 005/2016 and DTR 006/2016 are due on 06 March 2024.

Filed DTR 154/2016 to DTR 158/2016 against the share owning trust companies Esots (Private) Limited, Sesot (Private) Limited, Sotse (Private) Limited and Seybest (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 and both parties Appealed to Supreme Court. The Supreme Court appeals were settled where it was agreed Bank Head of Human Resources will reply the interrogatories instead of Chairman and replies to interrogatories filed. The cases DTR 156/2016 to be heard on 28 March 2024 and the cases DTR 155/2016, DTR 157/2016 and DTR 158/2016 to be heard on 10 May 2024 for consideration of interrogatories.

DTR 007/2017 and DTR 008/2017 filed by 59 ex-employees against the Bank and Seyfest (Private) Limited and Sesot (Private) Limited. The reliefs 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. Amended Plaint filed and amended answer of the Bank and Trust companies filed. Pre-trial or settlement due on 21 March 2024.

Filed DTR 002/2018 to DTR 004/2018 against the share owning trust companies 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. Amended Plaint filed and amended answer of the Bank and Trust companies filed. Pre-trial or settlement due on 21 March 2024.

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:

262

- 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.

The ex-employee filed objections to this application. Counter affidavit of the Bank in reply to the objections filed and all pleadings completed. Arguments / submissions concluded on 18 January 2024 and Judgement due on 29 February 2024.

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 balance sheet 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 Tax Assessments Received by the Bank

- Bank has received Income Tax Assessments under the assessment numbers 0201516001, 0201617002-2, 0201718002-2, 0201819002-2, 0201920002-2 commencing from the year of assessment 2015 /2016 to 2019/2020. Bank has partly resolved the assessed values through the appellate procedure and the remaining exposure are being followed up,
- Bank has also received VAT on Financial Services Assessments (VATFS/BFSU/2019/1006, 7501920002-2, 7502021002-2), NBT on Financial Service Assessments (NBTFS/BFSU/2022/819, NBTFS/BFSU/2022/820, NBTFS/BFSU/2022/821, NBTFS/ BFSU/2022/822), Debt Repayment Levy (DRL) Assessments (DRL/ASMT/1920/37/D-3613) and VAT Assessments (7001620001-2, 7001630002-2 and 7001640002-2). These assessments are for the financial years 2016, 2019 and 2020. Some of the assessments have been partly cleared while others are to be sorted through the appellate procedure.

Based on the assessment carried out by the Management in consultation with the Tax consultant, the Bank is of the view that the above Assessments can be resolved through the appellate process and the residual impact, if any, is not expected to have a material impact on the Financial Statements.

#### 50 Capital Commitments

Capital expenditure approved by the Board of Directors for which provision, has not been made in these Financial Statements amounted to approximately;

|      |                                 | Ba       | nk       | Group    |          |
|------|---------------------------------|----------|----------|----------|----------|
|      | For the year ended 31 December  | 2023     | 2022     | 2023     | 2022     |
|      |                                 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| 50.1 | Approved and Contracted for     | 666,936  | 235,260  | 685,552  | 237,051  |
|      |                                 |          |          |          |          |
| 50.2 | Approved but not Contracted for | 1,850    | 21,308   | 3,211    | 21,308   |

#### 51. Events after the Reporting Period

#### 51.1 Proposed final dividend

The Board of Directors of the Bank recommended a final dividend of LKR 2.50 per share on both voting and non-voting shares of the Bank, to be paid by way of LKR 1.00 cash dividend per share and LKR 1.50 scrip dividend per share for the financial year 2023.

Further, this dividend is to be approved at the Annual General Meeting to be held on 28 March 2024. This proposed final dividend has not been recognized as a liability as at 31 December 2023. Final dividend proposed for the year 2023 amounts to LKR 1,538,622,645.00.

Compliance with Sections 56 and 57 of Companies Act No 7 of 2007- As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the section 57, prior to recommending the final dividend.

#### 51.2 Share Repurchase – Seylan Developments PLC

On 01 November 2023, the Bank's subsidiary Seylan Developments PLC made an announcement to Repurchase it's own Shares at a ratio of 1 share for every 10 shares held by the Ordinary shareholders of the Company. The total number of ordinary shares expected to repurchase from the share repurchase is 14,796,486 at a price of LKR 21.64 per ordinary share. The total value expected from the share repurchase transaction is amounting to LKR 320.20 Mn.

The share repurchase offer is opened to shareholders on 14 February 2024 and proposed to be closed on 28 February 2024.

#### 52. 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.

#### 52.1 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 52.2 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.

|        |                                  | Ba     | nk     | Group  |        |
|--------|----------------------------------|--------|--------|--------|--------|
|        | For the Year ended 31 December   | 2023   | 2022   | 2023   | 2022   |
|        |                                  | LKR Mn | LKR Mn | LKR Mn | LKR Mn |
| 52.1.1 | Compensation of KMP              |        |        |        |        |
|        | Short -Term Employment Benefits  | 139.95 | 164.87 | 144.14 | 168.26 |
|        | Post - Employment Benefits       | 9.11   | 12.13  | 9.11   | 12.13  |
|        | Total                            | 149.06 | 177.00 | 153.25 | 180.39 |
|        | Other Non - Cash Benefits to KMP | 1.23   | 1.15   | 1.23   | 1.15   |

#### 52.1.2 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 dependants of the KMP or the KMP's domestic partner. CFM are related parties to the Bank / Group.

#### 52.1.2.1 Statement of Financial Position - Bank /Group

| As at 31 December                           | 2023   | 2022   |  |
|---------------------------------------------|--------|--------|--|
|                                             | LKR Mn | LKR Mn |  |
| ASSETS                                      |        |        |  |
| Loans and Advances                          | 21.91  | 102.89 |  |
| Credit Cards                                | 0.45   | 1.68   |  |
| Securities Purchased Under Resale Agreement |        | -      |  |
| Total                                       | 22.36  | 104.57 |  |
| LIABILITIES                                 |        |        |  |
| Deposits                                    | 142.99 | 254.54 |  |
| Other Investments                           | 35.00  | 98.00  |  |
| Total                                       | 177.99 | 352.54 |  |

#### 52.1.2.2 Contingencies and Commitment - Bank /Group

| As at 31 December  | 2023   | 2022   |
|--------------------|--------|--------|
|                    | LKR Mn | LKR Mn |
| Undrawn facilities | 11.64  | 35.53  |
| Total              | 11.64  | 35.53  |

Expected credit loss allowance (Stage 01) as at 31 December 2023 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.

#### 52.1.2.3 Accommodation as a percentage of Bank's Regulatory capital

| As at 31 December                                      | 2023 | 2022 |
|--------------------------------------------------------|------|------|
| Direct and Indirect Accommodation (%)*                 | 0.05 | 0.22 |
| * Includes Securities Purchased Under Resale Agreement |      |      |

#### 52.1.2.4 Income Statement - Bank /Group

| For the year ended 31 December | 2023   | 2022   |  |
|--------------------------------|--------|--------|--|
|                                | LKR Mn | LKR Mn |  |
| Income (Interest and Other)    | 4.79   | 7.97   |  |
| Interest Expenses              | 63.52  | 35.71  |  |
| Compensation to KMP-Bank       | 150.29 | 178.15 |  |
| Compensation to KMP-Group      | 154.48 | 181.54 |  |

#### 52.1.2.5 Shareholding of KMP and CFM

| As at 31 December                                    | 2023   | 2022    |
|------------------------------------------------------|--------|---------|
| Investment in Bank Shares -Voting (No.of Shares)     | 821    | 71,480  |
| Investment in Bank Shares -Non Voting (No.of Shares) | 33,931 | 242,749 |
| Dividend Paid (LKR Mn)                               | 0.06   | 0.87    |

#### 52.2 Other Related Party Transactions

The Bank / Group had the following financial dealings during the year 2023 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.

#### 52.2.1 Transactions with Other Related Parties/Common Directorships

|     |                             | Subsi  | diary  | and Post- E | Share Trust Companies<br>and Post- Employment<br>Benefit Plans * |        | State Institutions |             | Shareholders with<br>Significant Influence |          | Common<br>Directorship<br>Entities |  |
|-----|-----------------------------|--------|--------|-------------|------------------------------------------------------------------|--------|--------------------|-------------|--------------------------------------------|----------|------------------------------------|--|
|     | As at 31 December           | 2023   | 2022   | 2023        | 2022                                                             | 2023   | 2022               | 2023        | 2022                                       | 2023     | 2022                               |  |
|     |                             | LKR Mn | LKR Mn | LKR Mn      | LKR Mn                                                           | LKR Mn | LKR Mn             | LKR Mn      | LKR Mn                                     | LKR Mn   | LKR Mn                             |  |
| 1.1 | Statement of Financial      |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | Position - Bank / Group     |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | ASSETS                      |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | Loans and Advances          | -      | 24.23  | -           | -                                                                | -      | -                  | 18,908.51** | 12,842.04                                  | 1,931.73 | 1,298.84                           |  |
|     | Other Receivable-Rent       |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | Deposit                     | 40.50  | 40.20  | -           | -                                                                | -      | -                  | -           | -                                          | -        | -                                  |  |
|     | Equities (Quoted)           | -      | -      | -           | -                                                                | -      | -                  |             |                                            | -        | 2,332.00                           |  |
|     | Debentures (Quoted)         | -      | -      | -           | -                                                                | -      | -                  | - ***       | 50.00***                                   | -        | 565.25                             |  |
|     | Interest and Other          | -      | -      | 2.21        | 0.02                                                             | -      | -                  | 133.93      | 78.78                                      | 1.67     | 17.26                              |  |
|     | Receivable                  |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | Total                       | 40.50  | 64.43  | 2.21        | 0.02                                                             | -      | -                  | 19,042.44   | 12,970.82                                  | 1,933.40 | 4,213.35                           |  |
|     | LIABILITIES                 |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | Deposit                     | 79.89  | 66.49  | 934.77      | 3,883.40                                                         | 507.05 | 6.64               | 6,717.56    | 4,033.77                                   | 1,141.81 | 881.74                             |  |
|     | Securities Sold Under       | -      | -      | 869.90      | 1,345.00                                                         | -      | -                  | -           | -                                          | -        | -                                  |  |
|     | Repurchase Agreements       |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | Other Instruments including | 29.00  | 129.00 | 13,349.97   | 8,519.37                                                         | 250.00 | 2,057.28           | -           | -                                          | -        | -                                  |  |
|     | Debentures                  |        |        |             |                                                                  |        |                    |             |                                            |          |                                    |  |
|     | Interest and Other Payable  | 6.93   | 6.89   | 508.99      | 662.70                                                           | -      | -                  | 53.85       | 18.64                                      | 26.67    | 19.32                              |  |
|     | Total                       | 115.82 | 202.38 | 15,663.63   | 14,410.47                                                        | 757.05 | 2,063.92           | 6,771.41    | 4,052.41                                   | 1,168.48 | 901.06                             |  |

#### 52.2.1.2 Contingencies and Commitment - Bank / Group

| Non - Funded Facilities | -      | -      | - | - | - | - | 1,122.89 | 1,944.78 | 184.00   | -        |
|-------------------------|--------|--------|---|---|---|---|----------|----------|----------|----------|
| Undrawn Facilities      | 175.00 | 150.77 | - | - | - | - | 4,491.60 | 4,350.41 | 2,143.89 | 2,413.67 |
| Total                   | 175.00 | 150.77 | - | - | - | - | 5,614.49 | 6,295.19 | 2,327.89 | 2,413.67 |

#### 52.2.1.3 Accommodation as a Percentage of Bank's Regulatory Capital

| Direct and Indirect |      |      |   |   |       |       |       |      |      |
|---------------------|------|------|---|---|-------|-------|-------|------|------|
| Accommodation (%)   | 0.25 | 0.28 | - | - | <br>- | 34.96 | 30.23 | 6.07 | 6.74 |

#### 52.2.1.4 Income Statement - Bank / Group

| Income   | 126.94 | 146.98 | -        | -        | -      | -      | 2,133.51 | 1,749.32 | 67.88 | 184.89 |
|----------|--------|--------|----------|----------|--------|--------|----------|----------|-------|--------|
| Expenses | 455.78 | 302.57 | 2,322.21 | 1,355.22 | 228.53 | 413.31 | 521.19   | 343.83   | 37.61 | 74.54  |

#### 52.2.1.5 Other Transactions - Bank / Group

| Other Payments (43.1.4) | <br>- | 246.42 | 236.54 | <br>- | - | - | <br>- |
|-------------------------|-------|--------|--------|-------|---|---|-------|

#### 52.2.1.6 Shareholding of Other Related Parties

| Investment in Bank Shares<br>- Voting (No.of Shares)     |  | 19,868,657 | 18,930,419 | 96,756,071 | 92,187,037 | 69,421,133  | 66,370,566  | - | -      |
|----------------------------------------------------------|--|------------|------------|------------|------------|-------------|-------------|---|--------|
| Investment in Bank Shares<br>- Non Voting (No.of Shares) |  | -          | -          | 31,228,726 | 31,227,893 | 167,255,646 | 154,839,289 | - | 59,401 |
| Dividend Paid (LKR Mn)                                   |  | 69.19      | 53.09      | 246.83     | 344.22     | 441.94      | 610.65      | - | 0.16   |

\* Includes Seylan Bank Employees' Provident Fund and Gratuity Trust Fund.

\*\* Includes LKR 5.4 Bn cash back facility.

\*\*\* Includes Quoted Debenture investment held by Seylan Developments PLC (500,000 Debentures @ LKR.100/- each). The debenture redeemed during this year.

#### 52.2.2 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.

#### 52.2.2.1 Voting Share Holding by State Institutions in Seylan Bank PLC.

|                                                                               | No of Shares-Voting |
|-------------------------------------------------------------------------------|---------------------|
| Sri Lanka Insurance Corporation Limited [includes General Fund and Life Fund] | 44,507,444          |
| Employees' Provident Fund                                                     | 29,248,850          |
| Bank of Ceylon                                                                | 16,690,292          |
| Employees' Trust Fund Board                                                   | 6,309,485           |

#### 52.2.2.2 Non-Voting Share Holding by State Institutions in Seylan Bank PLC.

|                                                                               | No of Shares-Non Voting |
|-------------------------------------------------------------------------------|-------------------------|
| Employees' Provident Fund                                                     | 17,001,074              |
| Sri Lanka Insurance Corporation Limited [includes General Fund and Life Fund] | 10,472,957              |
| Employees' Trust Fund Board                                                   | 3,754,695               |

#### 52.2.2.3 Central Bank of Sri Lanka

| Relationship with the Bank | Nature of the Transactions                                                                          | LKR '000   |
|----------------------------|-----------------------------------------------------------------------------------------------------|------------|
| Government Related Entity  | Treasury Bills                                                                                      | 67,786,541 |
|                            | Treasury Bonds including Sri Lanka Development Bonds and Sri<br>Lanka International Sovereign Bonds | 91,328,452 |
|                            | Securities Purchased Under Resale Agreement                                                         | 817,150    |
|                            | Securities Sold Under Repurchase Agreements - Repo (Note 38)                                        | 6,862,998  |
|                            | Interest Income (Note 8.3)                                                                          | 25,285,431 |
|                            | Interest Expenses (Note 8.3)                                                                        | 689,394    |
|                            | Annual License Fees                                                                                 | 29,656     |
|                            | Sri Lanka Deposit Insurance Fund Contribution (Note 14)                                             | 696,749    |
|                            | Balance with Central Bank of Sri Lanka (Note 21)                                                    | 7,028,281  |

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.

#### 53 Maturity Analysis

#### 53.1 Assets - Bank

An analysis of the total assets employed as at 31 December 2023 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

|                                                                                              | Up to 3<br>Months | 3 to 12<br>Months | 1 to 3<br>Years | 3 to 5<br>Years | More than<br>5 Years | Total as at<br>31.12.2023 |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|-----------------|-----------------|----------------------|---------------------------|
|                                                                                              | LKR '000          | LKR '000          | LKR '000        | LKR '000        | LKR '000             | LKR '000                  |
| Interest Earning Assets                                                                      |                   |                   |                 |                 |                      |                           |
| Loans and Advances                                                                           | 216,367,004       | 95,245,373        | 74,417,202      | 32,587,855      | 18,915,036           | 437,532,470               |
| Placements with Banks and<br>Finance Companies                                               | 22,064,672        | -                 | -               | -               | -                    | 22,064,672                |
| Government of Sri Lanka<br>Treasury Bills/Bonds,<br>Sovereign Bonds and US<br>Treasury Bills | 71,228,765        | 39,777,357        | 33,706,146      | 14,379,520      | 9,694,161            | 168,785,949               |
| Investments in Debentures                                                                    | 19,509            | 33,250            | 266,231         | 66,500          | 365,644              | 751,134                   |
| Securities Purchased under                                                                   | ,                 | ,200              |                 |                 |                      | ,                         |
| Resale Agreements                                                                            | 817,150           | -                 | -               |                 | -                    | 817,150                   |
| Balances with Banks                                                                          | 31,815,850        | 580,788           | -               | -               |                      | 32,396,638                |
| Total Interest Earning Assets                                                                | 342,312,950       | 135,636,768       | 108,389,579     | 47,033,875      | 28,974,841           | 662,348,013               |
| Non Interest Earning Assets                                                                  |                   |                   |                 |                 |                      |                           |
| Cash in Hand                                                                                 | 12,296,717        | -                 | -               | -               | -                    | 12,296,717                |
| Balances with Central Bank of Sri Lanka                                                      | 7,028,281         | -                 | -               | -               | -                    | 7,028,281                 |
| Balances with Banks                                                                          | 4,157,788         | -                 | -               | -               | -                    | 4,157,788                 |
| Investments in Equities                                                                      |                   | 1,802,855         | -               | -               | 1,153,602            | 2,956,457                 |
| Group Balances Receivable                                                                    | -                 | 500               | -               |                 | 40,000               | 40,500                    |
| Property, Plant & Equipment/<br>Intangible Assets/ Right of<br>Use Assets                    |                   |                   |                 |                 | 0 500 157            | 0 500 157                 |
| Deferred Tax Assets                                                                          |                   | 2 171 006         | -               |                 | 9,526,157            | 9,526,157                 |
| Derivative Financial                                                                         | -                 | 3,171,806         | -               | -               | -                    | 3,171,806                 |
| Instruments                                                                                  | 88,022            | -                 | -               | -               | -                    | 88,022                    |
| Other Assets                                                                                 | 16,370,157        | 60                | 2               | 204             | 1,271                | 16,371,694                |
| Total Non Interest Earning<br>Assets                                                         | 39,940,965        | 4,975,221         | 2               | 204             | 10,721,030           | EE 627 422                |
|                                                                                              | 33,340,303        | 4,975,221         | 2               | 204             | 10,721,030           | 55,637,422                |

#### 53.2 Liabilities & Equity - Bank

An analysis of the total Liabilities & Equity as at 31 December 2023 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

|                                                                              | Up to 3<br>Months | 3 to 12<br>Months | 1 to 3<br>Years | 3 to 5<br>Years | More Than<br>5 Years | Total as at 31.12.2023 |
|------------------------------------------------------------------------------|-------------------|-------------------|-----------------|-----------------|----------------------|------------------------|
|                                                                              | LKR '000          | LKR '000          | LKR '000        | LKR '000        | LKR '000             | LKR '000               |
| Interest Bearing Liabilities                                                 |                   | 1                 |                 |                 |                      |                        |
| Financial Liabilities at<br>Amortised Cost due to<br>Depositors              | 211,819,392       | 296,685,899       | 11,628,579      | 20,162,593      | 10,155,644           | 550,452,107            |
| Financial Liabilities at<br>Amortised Cost due to Debt<br>Securities Holders | 6,841,827         | 21,171            | -               | -               |                      | 6,862,998              |
| Due to Banks and Other<br>Borrowings                                         | 1,162,539         | 4,896,175         | 6,054,193       | -               | -                    | 12,112,907             |
| Debt Securities Issued                                                       | 563,789           | 6,079,912         | 6,715,000       | 6,609,000       | -                    | 19,967,701             |
| Group Balances Payable                                                       | 86,548            | 29,000            | -               | -               | -                    | 115,548                |
| Lease Liabilities                                                            | 79,167            | 206,354           | 529,336         | 548,522         | 4,046,039            | 5,409,418              |
| Total Interest Bearing<br>Liabilities                                        | 220,553,262       | 307,918,511       | 24,927,108      | 27,320,115      | 14,201,683           | 594,920,679            |
| Non Interest Bearing<br>Liabilities                                          |                   |                   |                 |                 |                      |                        |
| Demand Deposits                                                              | 40,246,223        | -                 | -               | -               | -                    | 40,246,223             |
| Other Liabilities                                                            | 19,572,405        | -                 | -               | -               | -                    | 19,572,405             |
| Derivative Financial<br>Instruments                                          | 21,193            | 11,076            | -               | -               | -                    | 32,269                 |
| Current Tax Liabilities                                                      | 2,688,253         | -                 | -               | -               | -                    | 2,688,253              |
| Dividend Payable                                                             | 18,750            | -                 | -               | -               | -                    | 18,750                 |
| Group Balances Payable                                                       | 275               | -                 | -               | -               | -                    | 275                    |
| Equity                                                                       | -                 | -                 | -               | -               | 60,506,581           | 60,506,581             |
| Total Non Interest<br>Bearing Liabilities and                                |                   |                   |                 |                 |                      |                        |
| Equity                                                                       | 62,547,099        | 11,076            | -               | -               | 60,506,581           | 123,064,756            |
| Total Liabilities and Equity                                                 | 283,100,361       | 307,929,587       | 24,927,108      | 27,320,115      | 74,708,264           | 717,985,435            |

#### 53.3 Assets - Group

An analysis of the total assets employed as at 31 December 2023 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

|                                                                                              | Up to 3<br>Months | 3 to 12<br>Months | 1 to 3<br>Years | 3 to 5<br>Years | More than<br>5 Years | Total as at<br>31.12.2023 |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|-----------------|-----------------|----------------------|---------------------------|
|                                                                                              | LKR '000          | LKR '000          | LKR '000        | LKR '000        | LKR '000             | LKR '000                  |
| Interest Earning Assets                                                                      |                   |                   |                 |                 |                      |                           |
| Loans and Advances                                                                           | 216,367,004       | 95,245,373        | 74,417,202      | 32,587,855      | 18,915,036           | 437,532,470               |
| Placements with Banks and<br>Finance Companies                                               | 22,064,672        | -                 | -               | -               | -                    | 22,064,672                |
| Government of Sri Lanka<br>Treasury Bills/Bonds,<br>Sovereign Bonds and US<br>Treasury Bills | 71,738,071        | 39,777,357        | 33,706,146      | 14.379.520      | 9,694,161            | 169,295,255               |
| Investments in Debentures                                                                    | 19,509            | 33,250            | 266,231         | 66,500          | 365,644              | 751,134                   |
| Securities Purchased under<br>Resale Agreements                                              | 817,150           | -                 | -               | -               | -                    | 817,150                   |
| Balances with Banks                                                                          | 31,815,850        | 580,788           | -               | -               | -                    | 32,396,638                |
| Total Interest Earning Assets                                                                | 342,822,256       | 135,636,768       | 108,389,579     | 47,033,875      | 28,974,841           | 662,857,319               |
| Non Interest Earning Assets                                                                  |                   |                   |                 |                 |                      |                           |
| Cash in Hand                                                                                 | 12,296,757        | -                 | -               | -               | -                    | 12,296,757                |
| Balances with Central Bank of Sri Lanka                                                      | 7,028,281         | -                 | -               | -               | -                    | 7,028,281                 |
| Balances with Banks                                                                          | 4,157.788         | -                 | -               | -               | -                    | 4,157,788                 |
| Investments in Equities                                                                      | -                 | 1,802,855         | -               | -               | -                    | 1,802,855                 |
| Investment Properties                                                                        |                   | -                 | -               |                 | 884,219              | 884,219                   |
| Property, Plant & Equipment/<br>Intangible Assets/ Right of                                  |                   |                   |                 |                 |                      |                           |
| Use Assets                                                                                   | -                 | -                 | -               | -               | 9,900,119            | 9,900,119                 |
| Deferred Tax Assets                                                                          | -                 | 2,571,168         | -               | -               | -                    | 2,571,168                 |
| Derivative Financial<br>Instruments                                                          | 88,022            | -                 | -               | -               | -                    | 88,022                    |
| Other Assets                                                                                 | 16,405,225        | 60                | 2               | 204             | 1,271                | 16,406,762                |
| Total Non Interest<br>Earning Assets                                                         | 39,976,073        | 4,374,083         | 2               | 204             | 10,785,609           | 55,135,971                |
| Total Assets                                                                                 | 382,798,329       | 140,010,851       | 108,389,581     | 47,034,079      | 39,760,450           | 717,993,290               |

#### 53.4 Liabilities & Equity - Group

An analysis of the total Liabilities & Equity as at 31 December 2023 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

|                                               | Up to 3<br>Months | 3 to 12<br>Months | 1 to 3<br>Years | 3 to 5<br>Years | More than<br>5 Years | Total as at 31.12.2023 |
|-----------------------------------------------|-------------------|-------------------|-----------------|-----------------|----------------------|------------------------|
|                                               | LKR '000          | LKR '000          | LKR '000        | LKR '000        | LKR '000             | LKR '000               |
| Interest Bearing Liabilities                  |                   |                   |                 |                 |                      |                        |
| Financial Liabilities at                      |                   |                   |                 |                 |                      |                        |
| Amortised Cost due to                         |                   |                   |                 |                 |                      |                        |
| Depositors                                    | 211,819,392       | 296,685,899       | 11,628,579      | 20,162,593      | 10,155,644           | 550,452,107            |
| Financial Liabilities at                      |                   |                   |                 |                 |                      |                        |
| Amortised Cost due to Debt                    | 0.041.007         | 01 171            |                 |                 |                      | c 000 000              |
| Securities Holders                            | 6,841,827         | 21,171            | -               |                 | -                    | 6,862,998              |
| Due to Banks and Other                        | 1 160 520         | 4 906 175         | 6 054 102       |                 |                      | 10 110 007             |
| Borrowings<br>Debt Securities Issued          | 1,162,539         | 4,896,175         | 6,054,193       | -               | -                    | 12,112,907             |
|                                               | 563,789           | 6,079,912         | 6,715,000       | 6,609,000       | -                    | 19,967,701             |
| Lease Liabilities                             | 79,054            | 205,998           | 527,614         | 547,053         | 885,701              | 2,245,420              |
| Total Interest Bearing<br>Liabilities         | 220,466,601       | 307,889,155       | 24,925,386      | 27,318,646      | 11,041,345           | 591,641,133            |
| Liabilities                                   | 220,400,001       | 307,009,133       | 24,920,300      | 21,310,040      | 11,041,345           | 091,041,100            |
| Non Interest Bearing<br>Liabilities           |                   |                   |                 |                 |                      |                        |
| Demand Deposits                               | 40,246,223        | -                 | -               | -               | -                    | 40,246,223             |
| Other Liabilities                             | 19,605,224        | -                 | -               | -               | -                    | 19,605,224             |
| Derivative Financial<br>Instruments           | 21,193            | 11,076            | -               | -               | -                    | 32,269                 |
| Current Tax Liabilities                       | 2,719,843         | -                 | -               | -               | -                    | 2,719,843              |
| Dividend Payable                              | 50,748            | -                 | -               | -               | -                    | 50,748                 |
| Equity                                        | -                 | -                 | -               | -               | 62,381,806           | 62,381,806             |
| Non - Controlling Interest                    | -                 | -                 | -               | -               | 1,316,044            | 1,316,044              |
| Total Non Interest<br>Bearing Liabilities and |                   |                   |                 |                 |                      |                        |
| Equity                                        | 62,643,231        | 11,076            | -               | -               | 63,697,850           | 126,352,157            |
| Total Liabilities and Equity                  | 283,109,832       | 307,900,231       | 24,925,386      | 27,318,646      | 74,739,195           | 717,993,290            |

#### 54 Segment Reporting (Group)

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, SME & 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.

|                                                                | Ban         | king        | Trea        | sury         | Prop<br>Invest |           | Unallo<br>Elimin |             | То           | tal          |
|----------------------------------------------------------------|-------------|-------------|-------------|--------------|----------------|-----------|------------------|-------------|--------------|--------------|
|                                                                | 2023        | 2022        | 2023        | 2022         | 2023           | 2022      | 2023             | 2022        | 2023         | 2022         |
|                                                                | LKR '000    | LKR '000    | LKR '000    | LKR '000     | LKR '000       | LKR '000  | LKR '000         | LKR '000    | LKR '000     | LKR '000     |
| Interest Income                                                | 96,302,462  | 71,373,020  | 12,456,083  | 15,223,257   | 108,329        | 61,784    | (1,698,472)      | (551,724)   | 107,168,402  | 86,106,337   |
| Less: Interest Expenses                                        | 61,815,649  | 39,495,176  | 5,079,379   | 5,886,291    | 2,203          | 959       | (180,682)        | (163,206)   | 66,716,549   | 45,219,220   |
| Net Interest Income                                            | 34,486,813  | 31,877,844  | 7,376,704   | 9,336,966    | 106,126        | 60,825    | (1,517,790)      | (388,518)   | 40,451,853   | 40,887,117   |
| Fee and Commission Income                                      | 7,585,798   | 6,648,542   | 153,351     | 22,718       | -              | -         | 11,853           | 25,799      | 7,751,002    | 6,697,059    |
| Less : Fee and Commission<br>Expenses                          | 237,519     | 206,316     | 33,467      | 28,802       | 3,251          | 734       |                  |             | 274,237      | 235,852      |
| Net Fee and Commission                                         |             |             | ,           |              |                |           |                  |             |              |              |
| Income                                                         | 7,348,279   | 6,442,226   | 119,884     | (6,084)      | (3,251)        | (734)     | 11,853           | 25,799      | 7,476,765    | 6,461,207    |
| Net Gains/(Losses) from<br>Trading                             |             | -           | 818,206     | (446,958)    | -              | -         | -                | -           | 818,206      | (446,958)    |
| Net Gains from Derecognition<br>of Financial Assets            |             | -           | 150,289     | 34,149       |                | -         |                  | -           | 150,289      | 34,149       |
| Net Other Operating Income                                     | 678,576     | 800,448     | 295,579     | 3,660,582    | 463,049        | 565,861   | (489,270)        | (583,454)   | 947,934      | 4,443,437    |
| Inter Segment Revenue                                          | (74,922)    | (70,989)    | (505)       | -            |                | -         | 75,427           | 70,989      |              | -            |
| Total Operating Income                                         | 42,438,746  | 39,049,529  | 8,760,157   | 12,578,655   | 565,924        | 625,952   | (1,919,780)      | (875,184)   | 49,845,047   | 51,378,952   |
| Less : Depreciation and                                        |             | , ,         |             |              |                | ,         |                  | . , ,       |              |              |
| Amortisation Expenses                                          | 766,289     | 761,440     | 14,890      | 14,167       | 1,245          | 1,185     | 565,616          | 639,587     | 1,348,040    | 1,416,379    |
| Less : Impairment Charges                                      | 15,694,705  | 21,424,165  | 1,310,241   | 5,008,911    | -              | -         | (9)              | -           | 17,004,937   | 26,433,076   |
| Less : Operating Expenses, VAT<br>& SSCL on Financial Services | 16,039,654  | 13,070,977  | 1,832,596   | 1,304,526    | 119,410        | 97,195    | 3,230,959        | 2,260,141   | 21,222,619   | 16,732,839   |
| Reportable Segment Profit<br>Before Income Tax                 | 9,938,098   | 3,792,947   | 5,602,430   | 6,251,051    | 445.269        | 527,572   | (5,716,346)      | (3,774,912) | 10,269,451   | 6,796,658    |
| Less : Income Tax Expenses                                     |             | -, - ,-     |             | -1 - 1       |                |           | (-) -))          | (** ** *    | 3,868,829    | 2,218,888    |
| Profit for the Year                                            |             |             |             |              |                |           |                  |             | 6,400,622    | 4,577,770    |
| Profit Attributable To:                                        |             |             |             |              |                |           |                  |             |              |              |
| Equity Holders of The Bank                                     |             |             |             |              |                |           |                  |             | 6,321,116    | 4,574,359    |
| Non-Controlling Interests                                      |             |             |             |              |                |           |                  |             | 79,506       | 3,411        |
| Profit for the Year                                            |             |             |             |              |                |           |                  |             | 6.400.622    | 4,577,770    |
| Other Comprehensive<br>Income Net of Income Tax                |             |             |             |              |                |           |                  |             | 56,454       |              |
| Other Information                                              |             |             |             |              |                |           |                  |             | 50,454       | (2,746,463)  |
|                                                                | 470.050.514 | 460 101 400 | 222 605 260 | 106 276 020  | 6 5 41 012     | 6 257 904 | 17 797 479       | 01 000 050  | 700 044 050  | 602 004 660  |
| Reportable Segment Assets                                      | 470,959,514 | 468,181,492 | 233,605,360 | 100,370,930  | 6,541,912      | 6,357,894 | 17,737,472       | 21,888,352  | 720,044,200  | 682,804,668  |
| Segment Accumulated<br>Amortisation                            | (7,492,833) | (2,555,766) | (80,208)    | (68,268)     | 4,270          | (3,025)   | (3,282,197)      | (7,342,433) | (10,850,968) | (9,969,492)  |
| Total Assets                                                   | ( , , ,     | 465,625,726 | ,           | 186,308,662  | 6,546,182      | 6,354,869 | (3,262,197)      | 14,545,919  | 717,993,290  |              |
| Reportable Segment Liabilities                                 | 403,400,001 | 403,023,720 | 200,020,102 | 100,300,002  | 0,340,102      | 0,334,009 | 14,433,273       | 14,040,010  | 717,555,250  | 072,033,170  |
| & Equity                                                       | 601,993,174 | 563,425,953 | 89,348,927  | 85,595,633   | 6,546,182      | 6,354,869 | 20,105,007       | 17,458,721  | 717,993,290  | 672,835,176  |
| Total Liabilities & Equity                                     | 601,993,174 | 563,425,953 | 89,348,927  | 85,595,633   | 6,546,182      | 6,354,869 | 20,105,007       | 17,458,721  | 717,993,290  | 672,835,176  |
| Cash Flows from Operating Activities                           | 65,927,382  | 45,612,314  | 6,927,561   | 11,274,129   | 203,966        | 288,432   | (5,170,794)      | (3,063,823) | 67,888,115   | 54,111,052   |
| Cash Flows from Investing<br>Activities                        | (294,393)   | (270,149)   | (1,490,863) | (11,223,517) | 97,093         | (59,765)  | (753,642)        | (201,717)   | (2,441,805)  | (11,755,147) |
| Cash Flows from Financing<br>Activities                        | (792,238)   | (753,451)   | (4,676,757) | (2,589,596)  | (177,558)      | (207,151) | 517,269          | 438,987     | (5,129,284)  | (3,111,211)  |
| Capital Expenditure                                            | (304,046)   | (285,214)   | (11,744)    | (7,799)      | (34,257)       | (47,275)  | (650,331)        | (2,562)     | (1,000,378)  | (342,849)    |

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 existing reporting segments and concluded that no material change is required.

#### 55 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 & 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.

The leased land has also been depreciated accordingly in the Consolidated Financial Statements and categorized under Right-of-Use Assets.

|                                                                                                                  | Adjustments | Group Impact | Non Controlling<br>Interest Impact |
|------------------------------------------------------------------------------------------------------------------|-------------|--------------|------------------------------------|
|                                                                                                                  | LKR '000    | LKR '000     | LKR '000                           |
| Adjustments to Revaluation Gains / (Losses) on Investment<br>Properties, Deferred Tax and on SLFRS 16            |             |              |                                    |
| Reversal of Revaluation Gain recognized in the Statement of<br>Comprehensive Income by SD in 2023                | (76,539)    | (53,968)     | (22,571)                           |
| Reversal of Deferred Tax recognized in the Statement of<br>Comprehensive Income by SD in 2023                    | (8,402)     | (5,924)      | (2,478)                            |
| Gain on Revaluation of East Tower in 2023 adjusted to Revaluation Reserves in Consolidated Financial Statements. | 120,850     | 85,211       | 35,639                             |
| Deferred Tax on Revaluation Gain of East Tower in 2023 recognized in Consolidated Financial Statements.          | (36,255)    | (25,563)     | (10,692)                           |
| Adjustment on SLFRS 16 in the Consolidated Financial Statements                                                  | 104,318     | 73,555       | 30,763                             |
|                                                                                                                  | 103,972     | 73,311       | 30,661                             |
| Charging of Depreciation                                                                                         |             |              |                                    |
| Depreciation Charges Adjusted in Consolidated Financial Statements                                               |             |              |                                    |
| for 2023                                                                                                         | (103,584)   | (73,037)     | (30,547)                           |
|                                                                                                                  | (103,584)   | (73,037)     | (30,547)                           |

# Annexures

Statement of Comprehensive Income in US Dollars | 274 Statement of Financial Position in US Dollars | 275 Investor Information | 276 Branch and ATM Network | 281 Ten Years at a Glance | 282 Summary of Performance Indicators | 283 Geographical Analysis | 284 Global Reporting Initiative (GRI) Content Index | 285 Alphabetical Index | 291 Glossary | 292 Sinhala Translation of Chairman's Message (கலைக்குஇல்லீ கூடுத்தில்) | 297 Tamil Translation of Chairman's Message (தலைவரின் செய்தி) | 298 Corporate Information | 299

# STATEMENT OF COMPREHENSIVE INCOME IN US DOLLARS

|                                                                                 |                  | Bank     |          |          | Group    |          |
|---------------------------------------------------------------------------------|------------------|----------|----------|----------|----------|----------|
| For the Year ended 31 December                                                  | 2023             | 2022     | Change   | 2023     | 2022     | Change   |
|                                                                                 | USD '000         | USD '000 | %        | USD '000 | USD '000 | %        |
| Gross Income                                                                    | 360,134          | 266,636  | 35.07    | 360,326  | 266,687  | 35.11    |
| Interest Income                                                                 | 330,235          | 237,032  | 39.32    | 330,512  | 237,136  | 39.38    |
| Less: Interest Expenses                                                         | 206,709          | 125,380  | 64.87    | 205,757  | 124,533  | 65.22    |
| Net Interest Income                                                             | 123,526          | 111,652  | 10.63    | 124,755  | 112,603  | 10.79    |
| Fee and Commission Income                                                       | 23,905           | 18,444   | 29.61    | 23,904   | 18,444   | 29.60    |
| Less: Fee and Commission Expenses                                               | 836              | 648      | 29.01    | 845      | 650      | 30.00    |
| Net Fee and Commission Income                                                   | 23,069           | 17,796   | 29.63    | 23,059   | 17,794   | 29.59    |
| Net Gains/(Losses) from Trading                                                 | 2,523            | (1,231)  | 304.96   | 2,523    | (1,231)  | 304.96   |
| Net Gains from Derecognition of Financial Assets                                | 464              | 94       | 393.62   | 464      | 94       | 393.62   |
| Net Other Operating Income                                                      | 3,007            | 12,297   | (75.55)  | 2,923    | 12,244   | (76.13)  |
| Total Operating Income                                                          | 152,589          | 140,608  | 8.52     | 153,724  | 141,504  | 8.64     |
| Less: Impairment Charges                                                        | 52,444           | 72,796   | (27.96)  | 52,444   | 72,796   | (27.96)  |
| Net Operating Income                                                            | 100,145          | 67,812   | 47.68    | 101,280  | 68,708   | 47.41    |
| Less: Operating Expenses                                                        | 100,140          | 07,012   | 1.00     | 101,200  | 00,700   | 1.11     |
| Personnel Expenses                                                              | 28,218           | 21,933   | 28.66    | 28,356   | 22,052   | 28.59    |
| Depreciation and Amortisation Expenses                                          | 3,964            | 3,740    | 5.99     | 4,157    | 3,901    | 6.56     |
|                                                                                 | 24,739           |          | 52.31    | 24.959   |          | 52.22    |
| Other Expenses                                                                  |                  | 16,243   | 35.80    | 1        | 16,397   | 35.71    |
| Total Operating Expenses Operating Profit before Taxes                          | 56,921<br>43,224 | 41,916   | 66.91    | 57,472   | 42,350   | 66.20    |
|                                                                                 |                  | 25,896   |          | 43,808   | 26,358   |          |
| Less: Value Added Tax on Financial Services                                     | 10,655           | 7,289    | 46.18    | 10,655   | 7,289    | 46.18    |
| Less: Social Security Contribution Levy                                         | 1,482            | 350      | 323.43   | 1,482    | 350      | 323.43   |
| Profit before Income Tax                                                        | 31,087           | 18,257   | 70.27    | 31,671   | 18,719   | 69.19    |
| Less: Income Tax Expense                                                        | 11,793           | 5,279    | 123.39   | 11,931   | 6,112    | 95.21    |
| Profit for the Year                                                             | 19,294           | 12,978   | 48.67    | 19,740   | 12,607   | 56.58    |
| Profit Attributable to:                                                         | 40.004           | 10.070   | 40.07    | 40.405   | 10 500   |          |
| - Equity Holders of the Bank                                                    | 19,294           | 12,978   | 48.67    | 19,495   | 12,598   | 54.75    |
| - Non-controlling Interest                                                      | -                | -        | -        | 245      | 9        | 2,622.22 |
| Profit for the Year                                                             | 19,294           | 12,978   | 48.67    | 19,740   | 12,607   | 56.58    |
| Basic/Diluted Earnings per Share (USD)                                          | 0.03             | 0.02     | 56.80    | 0.03     | 0.02     | 58.35    |
| Other Comprehensive Income, Net of Tax                                          |                  |          |          |          |          |          |
| Items that are or may be reclassified to Income Statement                       |                  |          |          |          |          |          |
| Net Movement of Cash Flow Hedge Reserve                                         | -                | 232      | (100.00) | -        | 232      | (100.00) |
| Net Gains/(Losses) on Investments in Debt Instruments measured at Fair          |                  |          |          |          |          |          |
| Value through Other Comprehensive Income                                        | 3,046            | (4,501)  | 167.67   | 3,064    | (4,529)  | 167.65   |
| Deferred Tax effect relating to Items that are or may be reclassified to Income |                  |          |          |          |          |          |
| Statement                                                                       | (914)            | 1,082    | (184.47) | (919)    | 1,087    | (184.54) |
| Items that will never be reclassified to Income Statement                       |                  |          |          |          |          |          |
| Net Change in Fair Value on investments in Equity Instruments measured at       |                  |          |          |          |          |          |
| Fair Value through Other Comprehensive Income                                   | 932              | (3,360)  | 127.74   | 932      | (3,363)  | 127.71   |
| Revaluation of Property, Plant and Equipment                                    | -                | -        | -        | 373      | (55)     | 778.18   |
| Actuarial Gains/(Losses) on Defined Benefit Obligations                         | (3,102)          | (612)    | (406.86) | (3,119)  | (607)    | (413.84) |
| Deferred Tax effect relating to Items that will never be reclassified to Income |                  |          |          |          |          |          |
| Statement                                                                       | (44)             | (345)    | 87.25    | (157)    | (330)    | 52.42    |
| Other Comprehensive Income for the Year, Net of Tax                             | (82)             | (7,504)  | 98.91    | 174      | (7,565)  | 102.30   |
| Total Comprehensive Income for the Year                                         | 19,212           | 5,474    | 250.97   | 19,914   | 5,042    | 294.96   |
| Total Comprehensive Income Attributable to:                                     |                  |          |          |          |          |          |
| - Equity Holders of the Bank                                                    | 19,212           | 5,474    | 250.97   | 19,593   | 5,051    | 287.90   |
| - Non-controlling Interest                                                      | -                | -        | -        | 321      | (9)      | 3,666.67 |
| Total Comprehensive Income for the Year                                         | 19,212           | 5,474    | 250.97   | 19,914   | 5,042    | 294.96   |

Exchange rate of USD 1 was LKR 324.25 as at 31 December 2023 (LKR 363.11 as at 31 December 2022).

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     |          |
|---------------------------------------------------------|-----------|------------|----------|-----------|-----------|----------|
|                                                         | 2023      | 2022       | Change   | 2023      | 2022      | Change   |
|                                                         | USD '000  | USD '000   | %        | USD '000  | USD '000  | %        |
| Assets                                                  |           |            |          |           |           |          |
| Cash and Cash Equivalents                               | 150,659   | 110,860    | 35.90    | 150,659   | 110,860   | 35.90    |
| Balances with Central Bank of Sri Lanka                 | 21,676    | 46,223     | (53.11)  | 21,676    | 46,223    | (53.11)  |
| Placements with Banks and Finance Companies             | 68,048    | 5,010      | 1,258.24 | 68,048    | 5,010     | 1,258.24 |
| Derivative Financial Instruments                        | 271       | ,          |          |           | 1,430     |          |
|                                                         | 2/1       | 1,430      | (81.05)  | 271       | 1,430     | (81.05)  |
| Financial Assets recognised through Profit or Loss      | 05 504    | 40.071     | 74.70    | 05 504    | 40.071    | 74.70    |
| - Measured at Fair Value                                | 85,594    | 48,971     | 74.79    | 85,594    | 48,971    | 74.79    |
| - Designated at Fair Value                              | -         | -          | -        |           | -         | -        |
| Financial Assets at Amortised Cost                      |           | 4 000 07 4 |          |           | 4 000 074 | 10.00    |
| - Loans and Advances                                    | 1,349,368 | 1,223,374  | 10.30    | 1,349,368 | 1,223,374 | 10.30    |
| - Debt and Other Instruments                            | 321,833   | 292,360    | 10.08    | 322,670   | 293,106   | 10.09    |
| Financial Assets measured at Fair Value through Other   | 100 510   | 17 100     | 101 70   | 101.010   | 17.001    | 100 50   |
| Comprehensive Income                                    | 123,512   | 47,193     | 161.72   | 124,246   | 47,331    | 162.50   |
| Investment in Subsidiary                                | 3,558     | 3,177      | 11.99    |           | -         | -        |
| Group Balances Receivable                               | 125       | 177        | (29.38)  | -         | -         | -        |
| Property, Plant and Equipment                           | 11,950    | 10,384     | 15.08    | 20,438    | 17,799    | 14.83    |
| Right-of-use Assets                                     | 15,773    | 13,446     | 17.31    | 8,438     | 7,498     | 12.54    |
| Investment Properties                                   | -         | -          | -        | 2,727     | 2,442     | 11.67    |
| Intangible Assets                                       | 1,656     | 1,405      | 17.86    | 1,656     | 1,405     | 17.86    |
| Deferred Tax Assets                                     | 9,782     | 8,930      | 9.54     | 7,930     | 7,393     | 7.26     |
| Other Assets                                            | 50,491    | 39,957     | 26.36    | 50,599    | 40,137    | 26.07    |
| Total Assets                                            | 2,214,296 | 1,852,897  | 19.50    | 2,214,320 | 1,852,979 | 19.50    |
| Liabilities                                             |           |            |          |           |           |          |
| Due to Banks                                            | 37,307    | 33,483     | 11.42    | 37,307    | 33,483    | 11.42    |
| Derivative Financial Instruments                        | 100       | 2,497      | (96.00)  | 100       | 2,497     | (96.00)  |
| Financial Liabilities at Amortised Cost                 | 100       | 2,437      | (30.00)  | 100       | 2,437     | (30.00)  |
| - Due to Depositors                                     | 1,821,737 | 1,507,300  | 20.86    | 1,821,737 | 1,507,300 | 20.86    |
| - Due to Depositors                                     |           | 32,895     | (35.66)  |           | 32,895    | (35.66)  |
|                                                         | 21,166    |            |          | 21,166    | 21        |          |
| - Due to Other Borrowers                                | 50        | 21         | 138.10   | 50        | - 21      | 138.10   |
| Group Balances Payable                                  | 357       | 557        | (35.91)  |           |           | -        |
| Debt Securities Issued                                  | 61,581    | 59,534     | 3.44     | 61,581    | 59,534    | 3.44     |
| Current Tax Liabilities                                 | 8,291     | 14,124     | (41.30)  | 8,388     | 14,263    | (41.19)  |
| Lease Liabilities                                       | 16,683    | 14,049     | 18.75    | 6,925     | 6,209     | 11.53    |
| Other Liabilities                                       | 60,419    | 38,482     | 57.01    | 60,619    | 38,515    | 57.39    |
| Total Liabilities                                       | 2,027,691 | 1,702,942  | 19.07    | 2,017,873 | 1,694,717 | 19.07    |
| Equity                                                  |           |            |          |           |           |          |
| Stated Capital                                          | 64,483    | 54,877     | 17.50    | 64,483    | 54,877    | 17.50    |
| Statutory Reserve Fund                                  | 8,885     | 7,073      | 25.62    | 8,885     | 7,073     | 25.62    |
| Retained Earnings                                       | 107,467   | 85,550     | 25.62    | 109,610   | 87,296    | 25.56    |
| Other Reserves                                          | 5,770     | 2,455      | 135.03   | 9,410     | 5,534     | 70.04    |
| Total Equity Attributable to Equity Holders of the Bank | 186,605   | 149,955    | 24.44    | 192,388   | 154,780   | 24.30    |
| Non-controlling Interest                                | -         | -          | -        | 4,059     | 3,482     | 16.57    |
| Total Equity                                            | 186,605   | 149,955    | 24.44    | 196,447   | 158,262   | 24.13    |
| Total Equity and Liabilities                            | 2,214,296 | 1,852,897  | 19.50    | 2,214,320 | 1,852,979 | 19.50    |
| Contingent Liabilities and Commitments                  | 511,460   | 461,681    | 10.78    | 511,517   | 461,686   | 10.79    |
|                                                         | 007,110   | 401,001    | 15.38    | 011,017   | 401,000   | 10.13    |

Exchange rate of USD 1 was LKR 324.25 as at 31 December 2023 (LKR 363.11 as at 31 December 2022).

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 2023**

|                                                                                          | 20                       | 23             |              | oldings of the<br>ers in 2022 |
|------------------------------------------------------------------------------------------|--------------------------|----------------|--------------|-------------------------------|
|                                                                                          | No of Shares             | Percentage (%) | No of Shares | Percentage (%)                |
| 1 Brown & Company PLC A/C NO. 1                                                          | 31,086,943               | 10.48          | 29,618,949   | 10.48                         |
| 2 Sri Lanka Insurance Corporation Ltd - General Fu                                       | ind 29,671,631           | 10.00          | 28,270,471   | 10.00                         |
| 3 Employees Provident Fund                                                               | 29,248,850               | 9.86           | 27,867,655   | 9.86                          |
| 4 Mr K D D Perera                                                                        | 28,166,399               | 9.49           | 26,836,320   | 9.49                          |
| 5 Sampath Bank PLC/LOLC Investments Ltd                                                  | 27,762,508               | 9.36           | 26,451,501   | 9.36                          |
| 6 National Development Bank PLC                                                          | 25,888,088               | 8.72           | 24,665,595   | 8.72                          |
| 7 Seylan Bank PLC A/C No. 04 - Employees' Gratui<br>Trust Fund                           | ity<br><b>19,573,513</b> | 6.60           | 18,225,523   | 6.45                          |
| 8 Bank of Ceylon No.1 Account                                                            | 16,690,292               | 5.62           | 15,902,140   | 5.62                          |
| 9 Sri Lanka Insurance Corporation Ltd - Life Fund                                        | 14,835,813               | 5.00           | 14,135,233   | 5.00                          |
| 10 Peoples Leasing & Finance PLC/Don and Don<br>Holdings (Private) Limited               | 11,338,671               | 3.82           | 10,803,234   | 3.82                          |
| 11 Sampath Bank PLC/Brown and Company PLC                                                | 10,082,252               | 3.40           | 9,606,146    | 3.40                          |
| 12 Employees Trust Fund Board                                                            | 6,309,485                | 2.13           | 6,011,538    | 2.13                          |
| 13 Don and Don Holdings (Private) Limited                                                | 5,349,919                | 1.80           | -            | -                             |
| 14 NDB Capital Holdings Limited Account No.02                                            | 3,005,354                | 1.01           | 2,863,435    | 1.01                          |
| 15 Sisil Investment Holdings (Private) Limited                                           | 2,806,071                | 0.95           | 2,673,563    | 0.95                          |
| 16 Mr M J Fernando (Deceased)                                                            | 1,498,311                | 0.50           | 1,427,558    | 0.50                          |
| 17 Mr K R B Fernando                                                                     | 1,283,864                | 0.43           | 1,223,238    | 0.43                          |
| 18 Capital Alliance PLC                                                                  | 982,318                  | 0.33           | -            | -                             |
| 19 Mr R R Leon                                                                           | 933,190                  | 0.31           | 1,337,803    | 0.47                          |
| 20 Dr J L B Kotelawala                                                                   | 679,835                  | 0.23           | 647,732      | 0.23                          |
| Total shares held by the top 20 holders                                                  | 267,193,307              | 90.04          |              |                               |
| Balance shares held by other 10,155 ordinary voti<br>shareholders as at 31 December 2023 | ng<br>29,523,059         | 9.96           |              |                               |
| Total ordinary voting shares issued by the bank                                          | 296,716,366              | 100.00         | 282,704,760  |                               |
| Total ordinary voting shareholders                                                       | 10,175                   |                | 10,078       |                               |

#### Notes :

- \* Brown & Company PLC and LOLC Investments Ltd collectively hold 23.43% of the issued capital of the Bank. This joint shareholding limit has been approved by the Central Bank of Sri Lanka vide their letter dated 14 September 2011, subject to the joint holding of Brown & Company PLC A/C and LOLC Investments Ltd to be reduced from 23.43% to 15% level 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 & Company 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.

|     |                                                                                          | 20           | 23             |              | oldings of the<br>ers in 2022 |
|-----|------------------------------------------------------------------------------------------|--------------|----------------|--------------|-------------------------------|
|     |                                                                                          | No of Shares | Percentage (%) | No of Shares | Percentage (%)                |
| 1   | L O L C Holdings PLC                                                                     | 164,472,386  | 51.60          | 152,262,646  | 51.60                         |
| 2   | Employees' Provident Fund                                                                | 17,001,074   | 5.33           | 15,738,986   | 5.33                          |
| 3   | Don and Don Holdings (Private) Limited                                                   | 8,571,297    | 2.69           | 9,874,165    | 3.35                          |
| 4   | Sri Lanka Insurance Corporation Ltd - Life Fund                                          | 8,222,957    | 2.58           | 9,882,823    | 3.35                          |
| 5   | Akbar Brothers Pvt Ltd A/C No. 1                                                         | 6,810,259    | 2.14           | 6,337,096    | 2.15                          |
| 6   | Auerbach Grayson and Company LLC                                                         | 4,366,382    | 1.37           | 4,053,725    | 1.37                          |
| 7   | Peoples Leasing & Finance PLC/Don and Don<br>Holdings (Private) Limited                  | 4,330,473    | 1.36           | 4,008,997    | 1.36                          |
| 8   | Employees Trust Fund Board                                                               | 3,754,695    | 1.18           | 3,522,251    | 1.19                          |
| 9   | Merrill J Fernando & Sons (Pvt) Limited                                                  | 3,540,466    | 1.11           | 3,277,637    | 1.11                          |
| 10  | Mr R R Leon                                                                              | 3,224,829    | 1.01           | 2,706,900    | 0.92                          |
| 11  | L O L C Technology Services Limited                                                      | 2,783,260    | 0.87           | 2,576,643    | 0.87                          |
| 12  | Mr N Balasingam                                                                          | 2,493,566    | 0.78           | 2,308,455    | 0.78                          |
| 13  | LOLC Finance PLC/Don and Don Holdings (Pvt) Ltd                                          | 2,493,211    | 0.78           | -            | -                             |
| 14  | Sri Lanka Insurance Corporation Ltd - General Fund                                       | 2,250,000    | 0.71           | 2,083,833    | 0.71                          |
| 15  | Mr R Gautam                                                                              | 1,806,307    | 0.57           | 1,665,010    | 0.56                          |
| 16  | Mr M J Fernando (Deceased)                                                               | 1,745,005    | 0.55           | 1,615,464    | 0.55                          |
| 17  | J B Cocoshell (Pvt) Ltd                                                                  | 1,700,495    | 0.53           | -            | -                             |
| 18  | Ms S Durga                                                                               | 1,471,329    | 0.46           | 1,371,362    | 0.46                          |
| 19  | Dr S Yaddehige                                                                           | 1,452,925    | 0.46           | 1,387,883    | 0.47                          |
| 20  | Odyssey Capital Partners (Private) Limited                                               | 1,324,357    | 0.42           | -            | -                             |
| Tot | al shares held by the top 20 holders                                                     | 243,815,273  | 76.50          |              |                               |
|     | ance shares held by other 7,111 ordinary non-<br>ing shareholders as at 31 December 2023 | 74,917,419   | 23.50          |              |                               |
| Tot | al ordinary non-voting shares issued by the Bank                                         | 318,732,692  | 100.00         | 295,071,313  |                               |
| Tot | al ordinary non-voting shareholders                                                      | 7,131        |                | 7,309        |                               |

#### TWENTY LARGEST ORDINARY NON-VOTING SHAREHOLDERS AS AT 31 DECEMBER 2023

#### SHAREHOLDINGS OF DIRECTORS AS AT 31 DECEMBER 2023

Directors' shareholdings including the Director/Chief Executive Officer's holding as at 31 December 2023 are given on page 151 of the Report of the Board of Directors.

#### INFORMATION ON SHARE PRICES AND DIVIDEND PER SHARE

|                      |       |     | ORDINARY SHARES (QUOTED) |             |                     |             |  |  |  |  |
|----------------------|-------|-----|--------------------------|-------------|---------------------|-------------|--|--|--|--|
|                      |       |     | Voting (SE)              | (B-N)       | Non-Voting (SEYB-X) |             |  |  |  |  |
|                      |       |     | 2023                     | 2022        | 2023                | 2022        |  |  |  |  |
| No. of shares issued |       |     | 296,716,366              | 282,704,760 | 318,732,692         | 295,071,313 |  |  |  |  |
| Dividend (per share) | Cash  | LKR | Proposed : 1.00          | Paid : -    | Proposed : 1.00     | Paid : -    |  |  |  |  |
|                      | Scrip | LKR | Proposed : 1.50          | Paid : 2.00 | Proposed : 1.50     | Paid : 2.00 |  |  |  |  |
| Share Prices         |       |     |                          |             |                     |             |  |  |  |  |
| Highest              |       | LKR | 60.50                    | 47.00       | 48.20               | 37.00       |  |  |  |  |
| Lowest               |       | LKR | 25.00                    | 26.00       | 15.30               | 14.00       |  |  |  |  |
| Last traded          |       | LKR | 43.90                    | 31.60       | 35.50               | 16.20       |  |  |  |  |

## **INVESTOR INFORMATION**

#### COMPLIANCE WITH MINIMUM PUBLIC HOLDING REQUIREMENT

#### VOTING (SEYB-N)

| Period           | Option under which the<br>Bank is compliant | Float adjusted market capitalization | Public Holding<br>Percentage | No. of Public shareholders |
|------------------|---------------------------------------------|--------------------------------------|------------------------------|----------------------------|
| As at 31/12/2022 | Option 4                                    | LKR 4.9 Bn                           | 54.85%                       | 10,056                     |
| As at 31/12/2023 | Option 3                                    | LKR 7.1 Bn                           | 54.87%                       | 10,154                     |

#### NON-VOTING (SEYB-X)

| Period           | Option under which the<br>Bank is compliant | Float adjusted market<br>capitalization | Public Holding<br>Percentage | No. of Public shareholders |
|------------------|---------------------------------------------|-----------------------------------------|------------------------------|----------------------------|
| As at 31/12/2023 | Option 3                                    | LKR 5.3 Bn                              | 47.46%                       | 7,125                      |

#### ANALYSIS OF THE DISTRIBUTION OF SHAREHOLDERS AS AT 31 DECEMBER 2023

| Range of Shareholding      | No. of Shareholders | No. of Shares | Percentage (%) of Shareholding |
|----------------------------|---------------------|---------------|--------------------------------|
| 1 - 1,000                  | 7,420               | 1,658,781     | 0.560                          |
| 1,001 - 10,000             | 2,295               | 6,680,456     | 2.251                          |
| 10,001 - 100,000           | 398                 | 9,951,523     | 3.354                          |
| 100,001 - 1,000,000        | 45                  | 13,827,642    | 4.660                          |
| 1,000,001 & Above          | 17                  | 264,597,964   | 89.175                         |
| Total                      | 10,175              | 296,716,366   | 100.000                        |
| Resident/Non Resident      |                     |               |                                |
| Resident                   | 10,043              | 294,368,889   | 99.21                          |
| Non-Resident               | 132                 | 2,347,477     | 0.79                           |
| Individuals/Institutions   |                     |               |                                |
| Individuals                | 9,844               | 53,593,256    | 18.06                          |
| Companies/Institutions     | 331                 | 243,123,110   | 81.94                          |
| ORDINARY NON-VOTING SHARES |                     |               |                                |
| Range of Shareholding      | No. of Shareholders | No. of Shares | Percentage (%) of Shareholding |
| 1 - 1,000                  | 3,540               | 1,062,129     | 0.333                          |
| 1,001 - 10,000             | 2,573               | 9,110,679     | 2.859                          |
| 10,001 - 100,000           | 853                 | 25,235,249    | 7.917                          |
| 100,001 - 1,000,000        | 142                 | 35,965,127    | 11.284                         |
| 1,000,001 & Above          | 23                  | 247,359,508   | 77.607                         |
| Total                      | 7,131               | 318,732,692   | 100.000                        |
| Resident/Non Resident      |                     |               |                                |
|                            |                     |               |                                |

| Desident                 | 7.007 | 202 000 740 | 04.75 |
|--------------------------|-------|-------------|-------|
| Resident                 | 7,067 | 302,006,746 | 94.75 |
| Non-Resident             | 64    | 16,725,946  | 5.25  |
|                          |       |             |       |
| Individuals/Institutions |       |             |       |
| Individuals              | 6,800 | 66,480,291  | 20.86 |
| Companies/ Institutions  | 331   | 252,252,401 | 79.14 |
|                          |       |             |       |

#### **DEBENTURES 2018**

| Listed on CSE in April 2018 )<br>(SEYB D432, D433, D434) |                         | 5 Year De<br>12.85<br>Semi-a | Type A<br>5 Year Debentures<br>12.85%p.a.<br>Semi-annual<br>(redeemed on 29.03.2023) |                       | e B<br>ebentures<br>%p.a.<br>annual | Type C<br>10 Year Debentures<br>13.50%p.a.<br>Semi-annual |                    |
|----------------------------------------------------------|-------------------------|------------------------------|--------------------------------------------------------------------------------------|-----------------------|-------------------------------------|-----------------------------------------------------------|--------------------|
|                                                          |                         | 2023                         | 2022                                                                                 | 2023                  | 2022                                | 2023                                                      | 2022               |
| No. of Debenture issue                                   | No. of Debenture issued |                              | 39,100,000                                                                           |                       | ),000                               | 16,090,000                                                |                    |
| Debenture Prices                                         |                         |                              |                                                                                      |                       |                                     |                                                           |                    |
| Highest                                                  | LKR                     | Net                          | Net treated in                                                                       | Networked             |                                     |                                                           | Net treded in      |
| Lowest                                                   | LKR                     | Not<br>Applicable            | Not traded in 2022                                                                   | Not traded<br>in 2023 | Not traded in 2022                  | Not traded<br>in 2023                                     | Not traded in 2022 |
| Last traded                                              | LKR                     | Applicable                   | 2022                                                                                 | 111 2023              | 2022                                | 11 2023                                                   | 2022               |

#### **DEBENTURES 2019**

| (Listed on CSE in April 2019)<br>(SEYB D458, D459) |      | 5 Year De | %p.a.              | Type B<br>5 Year Debentures<br>14.50%p.a.<br>Semi-annual |                    |  |  |
|----------------------------------------------------|------|-----------|--------------------|----------------------------------------------------------|--------------------|--|--|
|                                                    |      | 2023      | 2022               | 2023                                                     | 2022               |  |  |
| No. of Debentures is                               | sued | 37,73     | 4,000              | 12,266,000                                               |                    |  |  |
| Debenture Prices                                   |      |           |                    |                                                          |                    |  |  |
| Highest                                            | LKR  | 107.49    |                    |                                                          |                    |  |  |
| Lowest                                             | LKR. | 98.00     | Not traded in 2022 | Not traded in 2023                                       | Not traded in 2022 |  |  |
| Last traded                                        | LKR  | 107.97    |                    |                                                          |                    |  |  |

#### **DEBENTURES 2021**

| (Listed on CSE in April 2021)<br>(SEYB D508, D509) |       | Typ<br>5 Year De<br>9.75%<br>Ann | 6 p.a.             | Type B<br>5 Year Debentures<br>9.25% p.a.<br>Quarterly |                    |  |  |
|----------------------------------------------------|-------|----------------------------------|--------------------|--------------------------------------------------------|--------------------|--|--|
|                                                    |       | 2023                             | 2022               | 2023                                                   | 2022               |  |  |
| No. of Debentures i                                | ssued | 53,52                            | 0,200              | 6,479,800                                              |                    |  |  |
| Debenture Prices                                   |       |                                  |                    |                                                        |                    |  |  |
| Highest                                            | LKR   | 100.00                           |                    |                                                        |                    |  |  |
| Lowest                                             | LKR   | 100.00                           | Not traded in 2022 | Not traded in 2023                                     | Not traded in 2022 |  |  |
| Last traded                                        | LKR   | 100.00                           |                    |                                                        |                    |  |  |

#### **DEBENTURES 2023**

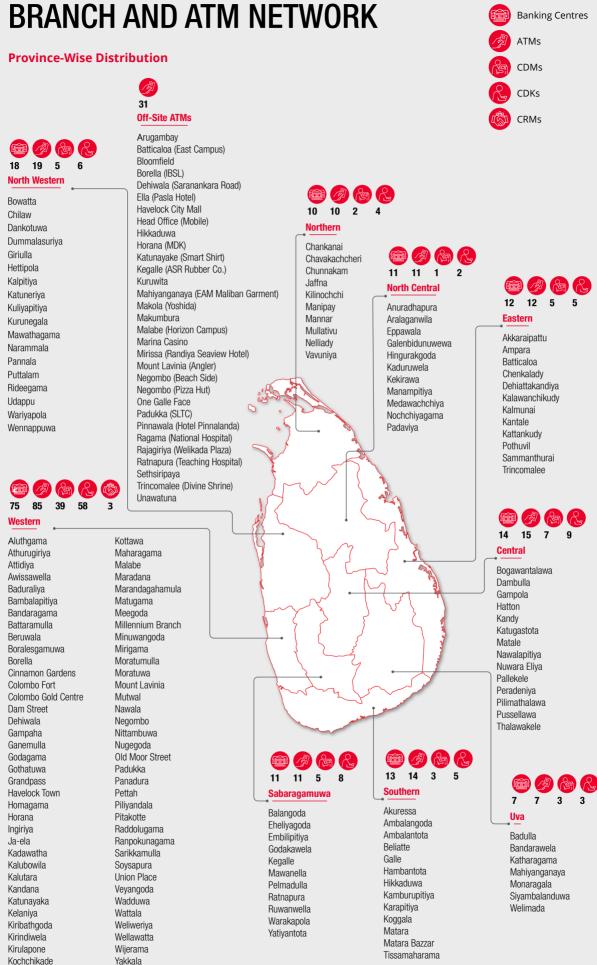
| (Listed on CSE in May 2023)<br>(SEYB D0546, D0547) |      | 5Year De<br>28.00<br>Anr | e A<br>ebentures<br>%p.a.<br>nual<br>02.05.2023) | Type B<br>5 Year Debentures<br>25.00%<br>Quarterly<br>(Allotment on 02.05.2023) |                |  |
|----------------------------------------------------|------|--------------------------|--------------------------------------------------|---------------------------------------------------------------------------------|----------------|--|
|                                                    |      | 2023                     | 2023 2022                                        |                                                                                 | 2022           |  |
| No. of Debentures is:                              | sued | 38,51                    | 8,825                                            | 11,481,175                                                                      |                |  |
| Debenture Prices                                   |      |                          |                                                  |                                                                                 |                |  |
| Highest                                            | LKR  | 100.00                   |                                                  | 100.00                                                                          |                |  |
| Lowest                                             | LKR  | 100.00                   | Not Applicable                                   | 100.00                                                                          | Not Applicable |  |
| Last traded                                        | LKR  | 100.00                   |                                                  | 100.00                                                                          |                |  |

# **INVESTOR INFORMATION**

|                                                                                                                      | 2023    | 2022    |
|----------------------------------------------------------------------------------------------------------------------|---------|---------|
| Debt (Debentures) / Equity Ratio (Times)                                                                             | 0.33    | 0.40    |
| )ebt (Debentures plus Long term Debt) / Equity Ratio (Times)                                                         | 0.41    | 0.50    |
| nterest Cover (Times)                                                                                                | 4.45    | 3.56    |
| luick Asset Ratio (Times)                                                                                            | 0.88    | 0.86    |
| 016 Issue                                                                                                            |         |         |
| iterest Yield as at Date of Last Trade                                                                               |         |         |
| Year Fixed Semi Annual - 13.75% p.a. (Debenture matured and redeemed on (15/07/2023) (10/01/2023) /<br>13/12/2022)   | 15.56%  | 21.15%  |
| rield to Maturity of Trade Done on                                                                                   |         |         |
| ' Year Fixed Semi Annual - 13.75% p.a. (Debenture matured and redeemed on (15/07/2023) (10/01/2023) /<br>13/12/2022) | 33.57%  | 100.08% |
| nterest Rate of Comparable Government Security                                                                       |         |         |
| Years                                                                                                                |         | 25.88%  |
| 018 Issue                                                                                                            |         |         |
| iterest Yield as at Date of Last Trade                                                                               |         |         |
| i Year Fixed Semi Annual - 12.85% p.a. (Debenture matured and redeemed on 29/03/2023)                                | *       | *       |
| ' Year Fixed Semi Annual - 13.20% p.a.                                                                               | *       | *       |
| 0 Year Fixed Semi Annual - 13.50% p.a.                                                                               | *       | *       |
| /ield to Maturity of Trade Done on                                                                                   |         |         |
| 5 Year Fixed Semi Annual - 12.85% p.a. (Debenture matured and redeemed on 29/03/2023)                                | *       | *       |
| 7 Year Fixed Semi Annual - 13.20% p.a.                                                                               | *       | *       |
| 10 Year Fixed Semi Annual - 13.50% p.a.                                                                              | *       | *       |
| nterest Rate of Comparable Government Security                                                                       |         |         |
| 5 Years                                                                                                              |         | 26.41%  |
| 7 Years                                                                                                              | 13.63%  | 28.50%  |
| 10 Years                                                                                                             | 13.88%  | 26.64%  |
| 2019 Issue                                                                                                           |         |         |
| nterest Yield as at Date of Last Trade                                                                               |         |         |
| 5 Year Fixed Annual - 15.00% p.a. (05/06/2023)/*                                                                     | 16.21%  | *       |
| 5 Year Fixed Semi Annual - 14.50% p.a.                                                                               | *       | *       |
| /ield to Maturity of Trade Done on                                                                                   |         |         |
| 5 Year Fixed Annual - 15.00% p.a. (05/06/2023)/*                                                                     | 24.97%  | *       |
| 5 Year Fixed Semi Annual - 14.50% p.a.                                                                               | *       | *       |
| nterest Rate of Comparable Government Security                                                                       |         |         |
| 5 Years                                                                                                              | 13.86%  | 27.58%  |
| 2021 Issue                                                                                                           |         |         |
| nterest Yield as at Date of Last Trade                                                                               |         |         |
| 5 Year Fixed Annual - 9.75% p.a. (01/11/2023)/*                                                                      | 9.75%   | *       |
| 5 Year Fixed Quartely -9.25 % p.a.                                                                                   | *       | *       |
| /ield to Maturity of Trade Done on                                                                                   |         |         |
| Year Fixed Annual - 9.75% p.a. (01/11/2023)/*                                                                        | 9.70%   | *       |
| 5 Year Fixed Quartely -9.25 % p.a.                                                                                   | *       | *       |
| nterest Rate of Comparable Government Security                                                                       |         |         |
| 5 Years                                                                                                              | 13.68%  | 27.71%  |
| 2023 Issue ( Debenture alloted on 02/05/2023)                                                                        |         |         |
| nterest Yield as at Date of Last Trade                                                                               |         |         |
| 5 Year Fixed Annual - 28% p.a. (21/08/2023)                                                                          | 27.71%  |         |
| i Year Fixed Quartely -25 % p.a. (17/05/2023)                                                                        | 27.44%  |         |
| field to Maturity of Trade Done on                                                                                   |         |         |
| i Year Fixed Annual - 28% p.a. (21/08/2023)                                                                          | 28.00%  |         |
| i Year Fixed Quartely -25 % p.a. (17/05/2023)                                                                        | 24.99%  |         |
|                                                                                                                      |         |         |
| - 5 Years                                                                                                            | 13.66%  |         |
|                                                                                                                      | 10.0070 |         |

\* No trading during the period.

280



281

Kochchikade Kollupitiya Kotahena

Foreign Employment Bureau (ECG)

ANNEXURE

#### 282

# **TEN YEARS AT A GLANCE**

| Year Ended 31 December                                                                     | 2023    | 2022             | 2021              | 2020            | 2019              | 2018    | 2017              | 2016              | 2015              | 2014              |
|--------------------------------------------------------------------------------------------|---------|------------------|-------------------|-----------------|-------------------|---------|-------------------|-------------------|-------------------|-------------------|
|                                                                                            | LKR Mn  | LKR Mn           | LKR Mn            | LKR Mn          | LKR Mn            | LKR Mn  | LKR Mn            | LKR Mn            | LKR Mn            | LKR Mn            |
| Trading Results                                                                            |         |                  |                   |                 |                   |         |                   |                   |                   |                   |
| Gross Income                                                                               | 116,773 | 96,818           | 54,767            | 57,224          | 61,370            | 54,873  | 49,161            | 37,873            | 28,586            | 28,564            |
| Profit before Income Tax                                                                   | 10,080  | 6,629            | 6,028             | 4,111           | 5,098             | 4,666   | 6,656             | 5,734             | 5,777             | 4,649             |
| Income Tax                                                                                 | 3,824   | 1,917            | 1,447             | 1,100           | 1,418             | 1,477   | 2,226             | 1,724             | 1,946             | 1,571             |
| Profit after Taxation                                                                      | 6,256   | 4,712            | 4,581             | 3,011           | 3,680             | 3,189   | 4,430             | 4,010             | 3,831             | 3,078             |
| Other Comprehensive Income, net of Tax                                                     | (27)    | (2,724)          | (1,521)           | 1,832           | 2,234             | (617)   | 2,426             | (345)             | (1,054)           | (55)              |
| Total Comprehensive Income                                                                 | 6,229   | 1,988            | 3,060             | 4,843           | 5,914             | 2,572   | 6,856             | 3,665             | 2,777             | 3,023             |
| Dividends Proposed (Ordinary) LKR per Share                                                | 2.50    | 2.00             | 3.00              | 1.50            | 2.00              | 2.50    | 3.50              | 3.25              | 2.75              | 2.50              |
| As At 31 December                                                                          | 2023    | 2022             | 2021              | 2020            | 2019              | 2018    | 2017              | 2016              | 2015              | 2014              |
|                                                                                            | LKR Mn  | LKR Mn           | LKR Mn            | LKR Mn          | LKR Mn            | LKR Mn  | LKR Mn            | LKR Mn            | LKR Mn            | LKR Mn            |
| Financial Position                                                                         |         |                  |                   |                 |                   |         |                   |                   |                   |                   |
| Assets                                                                                     |         |                  |                   |                 |                   |         |                   |                   |                   |                   |
| Cash and Short Term Funds (Including<br>Securities Purchased under Resale                  | 40.669  | 12 002           | 26 109            | 16 170          | 16,924            | 19.026  | 10.070            | 15 652            | 10 112            | 24 426            |
| Agreements)<br>Balances with Central Bank of Sri Lanka                                     | 49,668  | 43,883<br>16,784 | 26,108<br>8,726   | 16,179<br>7,371 | 14,459            | 18,036  | 10,070<br>19,120  | 15,653<br>16,212  | 10,113<br>8,564   | 24,436<br>7,432   |
|                                                                                            | 7,028   |                  |                   |                 | 84,583            | 18,472  |                   |                   |                   |                   |
| Investments (Including Investment Properties)<br>Loans and Advances, Placements with Banks | 171,340 | 137,448          | 102,037           | 111,119         | 04,000            | 87,820  | 82,976            | 73,336            | 72,203            | 48,859            |
| and Finance Companies                                                                      | 459,597 | 446,039          | 450,224           | 404,496         | 380,432           | 326,883 | 282,317           | 236,355           | 193,862           | 157,297           |
| Investment in Subsidiary                                                                   | 1,154   | 1,154            | 1,154             | 1,154           | 1,154             | 1,154   | 1,154             | 1,154             | 1,152             | 1,106             |
| Other Assets (Including Taxation)                                                          | 19,672  | 18,335           | 9,654             | 8,285           | 9,293             | 10,214  | 8,590             | 8,669             | 6,915             | 6,887             |
| Property, Plant and Equipment, Right-of-use<br>Assets and Intangible Assets                | 9,526   | 9,163            | 9,674             | 9,103           | 9,449             | 4,354   | 3,899             | 4,634             | 3,522             | 3,294             |
| Total Assets                                                                               | 717,985 | 672,806          | 607,577           | 557,707         | 516,294           | 466,933 | 408,126           | 356,013           | 296,331           | 249,311           |
| Linhilition                                                                                |         |                  |                   |                 |                   |         |                   |                   |                   |                   |
| Liabilities Customer Deposits and Due to Banks                                             | 602,794 | 559,474          | 512 150           | 472,982         | 420 501           | 383,939 | 224 152           | 201 195           | 244 210           | 107.540           |
| Borrowings and Debentures                                                                  | 26,847  | 33,569           | 513,158<br>24.287 | 19,648          | 429,501<br>28,320 | 37,456  | 334,152<br>29,148 | 291,185<br>28,491 | 244,310<br>18,605 | 197,540<br>20,090 |
| Other Liabilities                                                                          | 25,130  | 20,166           | 16,163            | 13,726          | 12,552            | 9,674   | 8,197             | 7,756             | 7,486             | 6,327             |
| Taxation (Including Deferred Tax)                                                          | 2,688   | 5,128            | 1,882             | 2,340           | 1,251             | 1,209   | 2,381             | 762               | 843               | 1,324             |
| Dividends Payable                                                                          | 19      | 19               | 34                | 44              | 43                | 45      | 42                | 46                | 31                | 21                |
| Total Liabilities                                                                          | 657,478 | 618,356          | 555,524           | 508,740         | 471,667           | 432,323 | 373,920           | 328,240           | 271,275           | 225,302           |
|                                                                                            |         |                  |                   |                 |                   |         |                   |                   |                   |                   |
| Equity                                                                                     | 00.000  | 10.000           | 10.004            | 17 5 40         | 17.045            | 10.000  | 11.000            | 10 500            | 10 500            | 10 500            |
| Stated Capital                                                                             | 20,909  | 19,926           | 18,324            | 17,548          | 17,045            | 12,026  | 11,228            | 10,530            | 10,530            | 10,530            |
| Statutory Reserve Fund                                                                     | 2,881   | 2,568            | 2,333             | 2,104           | 1,953             | 1,769   | 1,609             | 1,388             | 1,187             | 996               |
| Reserves                                                                                   | 36,717  | 31,956           | 31,396            | 29,315          | 25,629            | 20,815  | 21,369            | 15,855            | 13,339            | 12,483            |
| Total Equity                                                                               | 60,507  | 54,450           | 52,053            | 48,967          | 44,627            | 34,610  | 34,206            | 27,773            | 25,056            | 24,009            |
| Total Equity and Liabilities                                                               | 717,985 | 672,806          | 607,577           | 557,707         | 516,294           | 466,933 | 408,126           | 356,013           | 296,331           | 249,311           |
| Contingent Liabilities and Commitments                                                     | 165,841 | 167,641          | 224,390           | 195,154         | 150,147           | 129,693 | 99,501            | 64,111            | 57,222            | 45,098            |

# **SUMMARY OF PERFORMANCE INDICATORS**

283

|                                                                                   | Measure    | 2023             | 2022    | 2021    | 2020             | 2019     |
|-----------------------------------------------------------------------------------|------------|------------------|---------|---------|------------------|----------|
| SIZE                                                                              |            |                  |         |         |                  |          |
| Assets Growth                                                                     | %          | 6.72             | 10.74   | 8.94    | 8.02             | 10.57    |
| Contingencies and Commitments / (Total Assets + Contingencies and Commitments)    | %          | 18.76            | 19.95   | 26.97   | 25.92            | 22.53    |
| Interest Earning Assets / Total Assets                                            | %          | 92.25            | 87.13   | 92.10   | 92.97            | 90.74    |
| Cash and Balances with CBSL / Total Assets                                        | %          | 7.78             | 8.48    | 4.08    | 3.12             | 5.08     |
| Risk Weighted Assets Growth                                                       | %          | (5.21)           | 2.11    | 14.49   | 4.58             | 16.37    |
| PROFITABILITY                                                                     |            |                  |         |         |                  |          |
| Return on Average Assets                                                          | %          | 0.90             | 0.74    | 0.79    | 0.56             | 0.75     |
| Return on Average Equity                                                          | %          | 10.88            | 8.85    | 9.07    | 6.43             | 9.29     |
| Profit for the Year / (Average Total Assets + Contingencies and Commitments)      | %          | 0.73             | 0.56    | 0.58    | 0.42             | 0.58     |
| Net Interest Margin on Average Total Assets                                       | %          | 5.76             | 6.33    | 4.05    | 3.63             | 3.79     |
| Net Interest Margin on Average Interest Earning Assets                            | %          | 6.42             | 7.08    | 4.38    | 3.95             | 4.20     |
| Net Interest Income / Gross Income                                                | %          | 34.30            | 41.87   | 43.07   | 34.07            | 30.62    |
| Cost to Income Ratio                                                              | %          | 45.26            | 35.24   | 47.68   | 56.31            | 63.12    |
| Cost to Income Ratio (Excluding VAT, SSCL, NBT & DRL)                             | %          | 37.30            | 29.81   | 41.53   | 50.30            | 51.76    |
| Average Interest Yield                                                            | %          | 17.15            | 15.02   | 8.68    | 10.36            | 12.10    |
| Average Interest Cost                                                             | %          | 11.58            | 8.52    | 4.77    | 6.98             | 8.65     |
| Interest Rate Spread                                                              | %          | 5.57             | 6.50    | 3.91    | 3.38             | 3.45     |
| Interest Yield on Average Customer Advances                                       | %          | 16.11            | 14.78   | 8.49    | 10.45            | 12.73    |
| Interest Cost on Average Customer Deposits                                        | %          | 10.88            | 7.62    | 4.19    | 6.34             | 7.98     |
| Spread on Customer Deposits and Advances                                          | %          | 5.23             | 7.16    | 4.30    | 4.11             | 4.75     |
| Dividend Payout *                                                                 | %          | 24.59            | 24.52   | 34.99   | 25.75            | 27.37    |
| Growth Rate of Equity                                                             | %          | 11.12            | 4.61    | 6.30    | 9.72             | 28.94    |
| Earnings per Share**                                                              | LKR        | 10.17            | 7.66    | 7.44    | 4.89             | 5.98     |
| Ordinary Dividends per Share                                                      | LKR        | 2.50             | 2.00    | 3.00    | 1.50             | 2.00     |
| Net Assets Value per Share                                                        | LKR        | 98.31            | 94.24   | 97.44   | 94.71            | 88.61    |
| ASSET QUALITY                                                                     |            |                  |         |         |                  |          |
| Expected Credit Loss on Loans and Advances                                        | LKR Mn.    | 59,673           | 46,212  | 23,929  | 15,535           | 10,732   |
| Expected Credit Loss on Loans and Advances / Loans and Advances                   | %          | 12.00            | 9.42    | 5.14    | 3.80             | 2.75     |
| Impaired Loans (Stage 3) Ratio (%)                                                | %          | 3.85             | 4.98    | 3.64    | 4.38             | 3.42     |
| Impairment (Stage 3) to Stage 3 Loans Ratio (%)                                   | %          | 68.29            | 54.36   | 47.84   | 37.32            | 37.03    |
| CAPITAL ADEQUACY                                                                  |            |                  |         |         |                  |          |
| Leverage on Share Holders Funds                                                   | Times      | 10.87            | 11.36   | 10.67   | 10.39            | 10.57    |
| Leverage on Capital Funds (Including Debentures)                                  | Times      | 7.92             | 7.84    | 7.25    | 7.45             | 7.00     |
| Percentage Earnings Retained                                                      | %          | 75.41            | 75.48   | 65.01   | 74.25            | 72.63    |
| Equity / Deposits, Borrowings and Securities Sold Under Re-Purchase Agreements    | %          | 9.92             | 9.53    | 10.09   | 10.30            | 10.19    |
| Equity / Total Assets                                                             | %          | 8.43             | 8.09    | 8.57    | 8.78             | 8.64     |
| Equity / Loans and Advances                                                       | %          | 12.17            | 11.10   | 11.17   | 11.96            | 11.44    |
| LIQUIDITY and FUNDING                                                             |            |                  |         |         |                  |          |
| Loans and Advances / Deposits, Borrowings and Securities Sold Under Re-Purchase   |            |                  |         |         |                  |          |
| Agreements                                                                        | %          | 81.55            | 85.83   | 90.32   | 86.06            | 89.05    |
| Deposits / Deposits, Borrowings, Debentures and Securities Sold Under Re-Purchase |            |                  |         |         |                  |          |
| Agreements                                                                        | %          | 93.81            | 92.29   | 90.92   | 89.38            | 87.53    |
| Liquid Assets / Total Assets                                                      | %          | 34.07            | 28.53   | 23.43   | 25.76            | 21.38    |
| Liquid Assets / Deposits, Borrowings and Securities Sold Under Re-Purchase        |            |                  |         |         |                  |          |
| Agreements                                                                        | %          | 40.12            | 33.60   | 27.60   | 30.21            | 25.20    |
| Net Lending or (Borrowings) in Call Money Market                                  | LKR Mn.    | 22,065           | 1,819   | 5,085   | 1,576            | (14,596) |
| OTHER DATA                                                                        |            |                  |         |         |                  |          |
| Number of Banking Centres                                                         |            | 171              | 171     | 171     | 172              | 173      |
| Number of Staff Members                                                           |            | 3,077            | 3,156   | 3,148   | 3,251            | 3,360    |
| Profit per Staff Member                                                           | LKR '000   | 2,033            | 1,493   | 1,455   | 926              | 1,095    |
| Number of Ordinary Shares - Voting                                                | 000        | 296,716          | 282,705 | 264,268 | 256,717          | 251,478  |
|                                                                                   |            |                  | 295,071 | 269,923 |                  | 252,146  |
| - Non Voting                                                                      | 000        | 310.733          | 290.071 | 209.923 | 200.300          | 202.140  |
| - Non Voting<br>Share Prices as at 31 December - Voting                           | 000<br>LKR | 318,733<br>43.90 | 31.60   | 44.00   | 260,306<br>46.00 | 52.50    |

\* Dividends for the year are accounted for as per Sri Lanka Accounting Standards - LKAS 10

\*\* Earnings per Share has been restated as per Sri Lanka Accounting Standards - LKAS 33

# **GEOGRAPHICAL ANALYSIS**

#### **Deposits, Loans and Advances**

As at 31 December 2023

| Province                                                    | No. of Banking | Deposits | Loans and<br>Advances |          |       |  |
|-------------------------------------------------------------|----------------|----------|-----------------------|----------|-------|--|
|                                                             | Centres        | LKR Mn.  | %                     | LKR Mn.  | %     |  |
| Western                                                     | 75             | 422,586  | 71.7                  | 385,478  | 77.5  |  |
| Southern                                                    | 13             | 26,224   | 4.4                   | 25,219   | 5.1   |  |
| Uva                                                         | 7              | 8,955    | 1.5                   | 5,137    | 1.0   |  |
| North-Central                                               | 11             | 10,247   | 1.7                   | 9,515    | 1.9   |  |
| North-Western                                               | 18             | 30,517   | 5.2                   | 17,227   | 3.5   |  |
| Eastern                                                     | 12             | 16,580   | 2.8                   | 15,304   | 3.1   |  |
| Northern                                                    | 10             | 19,660   | 3.3                   | 8,672    | 1.7   |  |
| Sabaragamuwa                                                | 11             | 23,823   | 4.0                   | 14,741   | 3.0   |  |
| Central                                                     | 14             | 32,106   | 5.4                   | 15,912   | 3.2   |  |
|                                                             | 171            | 590,698  | 100.0                 | 497,205  | 100.0 |  |
| Total Expected Credit Loss Allowance for Loans and Advances |                |          |                       | (59,673) |       |  |
| Total                                                       | 171            | 590,698  |                       | 437,532* |       |  |

 $^{\star}$  Loans and Advances net of Expected Credit Loss Allowance.

#### **Contingent Liabilities and Commitments**

As at 31 December 2023

| Province               | No. of<br>Banking<br>Centres | Acceptances<br>LKR Mn. | Standby<br>Letters of<br>Credit<br>LKR Mn. | Guarantees<br>LKR Mn. | Documentary<br>Credit<br>LKR Mn. | Bills for<br>Collection<br>LKR Mn. | Forward<br>Exchange<br>Contracts<br>(Net)<br>LKR Mn. | Total<br>LKR Mn. |
|------------------------|------------------------------|------------------------|--------------------------------------------|-----------------------|----------------------------------|------------------------------------|------------------------------------------------------|------------------|
| Contingent Liabilities |                              |                        |                                            |                       |                                  |                                    |                                                      |                  |
| Western                | 75                           | 7,496                  | 146                                        | 46,399                | 6,308                            | 3,708                              | 54                                                   | 64,111           |
| Southern               | 13                           | 18                     | -                                          | 2,015                 | 103                              | 471                                | -                                                    | 2,607            |
| Uva                    | 7                            | -                      | -                                          | 397                   | -                                | -                                  | -                                                    | 397              |
| North-Central          | 11                           | 1                      | -                                          | 1,454                 | -                                | -                                  | -                                                    | 1,455            |
| North-Western          | 18                           | 204                    | -                                          | 1,810                 | 543                              | 92                                 | -                                                    | 2,649            |
| Eastern                | 12                           | -                      | -                                          | 934                   | 29                               | -                                  | -                                                    | 963              |
| Northern               | 10                           | -                      | -                                          | 865                   | -                                | -                                  | -                                                    | 865              |
| Sabaragamuwa           | 11                           | 22                     | -                                          | 664                   | 20                               | 2                                  | -                                                    | 708              |
| Central                | 14                           | 176                    | -                                          | 1,268                 | 96                               | 821                                | -                                                    | 2,361            |
|                        | 171                          | 7,917                  | 146                                        | 55,806                | 7,099                            | 5,094                              | 54                                                   | 76,116           |

| Commitments |     |       |     |        |       |       |    | 89,725  |
|-------------|-----|-------|-----|--------|-------|-------|----|---------|
| Total       | 171 | 7,917 | 146 | 55,806 | 7,099 | 5,094 | 54 | 165,841 |

# GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

| Statement of use             |                                                                                     | Seylan Bank PLC has reported in accordance with the GRI Standards for<br>the period 01st Januanry to 31st December 2023 |            |                                     |                        |  |  |  |
|------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|------------|-------------------------------------|------------------------|--|--|--|
| GRI 1 used                   |                                                                                     | GRI 1: Foundation 2021                                                                                                  |            |                                     |                        |  |  |  |
| GRI                          | DISCLOSURE                                                                          | LOCATION OMISSION                                                                                                       |            |                                     |                        |  |  |  |
| STANDARD/<br>OTHER<br>SOURCE | DISOLUSUIL                                                                          | TITLE                                                                                                                   | PAGE<br>NO | RE-<br>QUIRE-<br>MENT(S)<br>OMITTED | REASON/<br>EXPLANATION |  |  |  |
| General Disclo               | sures                                                                               |                                                                                                                         |            |                                     |                        |  |  |  |
| GRI 2: General               | 2-1 Organizational details                                                          | Corporate Information                                                                                                   | 299        |                                     |                        |  |  |  |
| Disclosures<br>2021          | 2-2 Entities included in the organization's<br>sustainability reporting             | Subsidiaries, Investment in Subsidiaries                                                                                | 181,235    |                                     |                        |  |  |  |
|                              | 2-3 Reporting period, frequency and contact point                                   | About this Report                                                                                                       | 2          |                                     |                        |  |  |  |
|                              | 2-4 Restatements of information                                                     | Notes to the Financial Statements                                                                                       | 218        |                                     |                        |  |  |  |
|                              | 2-5 External assurance                                                              | Independent Assurance Report -Note No.17.6                                                                              | 76         |                                     |                        |  |  |  |
|                              | 2-6 Activities, value chain and other business relationships                        | Subsidiaries, How We Create Value                                                                                       | 8          |                                     |                        |  |  |  |
|                              | 2-7 Employees                                                                       | Workforce by Province, Workforce by<br>Grade, Gender and Age, Workforce by<br>Term of Employment                        | 47         |                                     |                        |  |  |  |
|                              | 2-8 Workers who are not employees                                                   | Workforce by Term of Employment                                                                                         | 47         |                                     |                        |  |  |  |
|                              | 2-9 Governance structure and composition                                            | The Board Composition                                                                                                   | 98         |                                     |                        |  |  |  |
|                              | 2-10 Nomination and selection of the highest<br>governance body                     | Procedure for Appointment of Directors                                                                                  | 99         |                                     |                        |  |  |  |
|                              | 2-11 Chair of the highest governance body                                           | Disclosure of the Identity, Relationship of the Chairman                                                                | 101        |                                     |                        |  |  |  |
|                              | 2-12 Role of the highest governance body in<br>overseeing the management of impacts | Chairman Role                                                                                                           | 101        |                                     |                        |  |  |  |
|                              | 2-13 Delegation of responsibility for managing<br>impacts                           | Management Functions Delegated by<br>Board of Directors                                                                 | 100        |                                     |                        |  |  |  |
|                              | 2-14 Role of the highest governance body in<br>sustainability reporting             | Independent Assurance<br>Report-Sustainability                                                                          | 76         |                                     |                        |  |  |  |
|                              | 2-15 Conflicts of interest                                                          | Avoidance of Conflict of Interest                                                                                       | 97         |                                     |                        |  |  |  |
|                              | 2-16 Communication of critical concerns                                             | Communication Policy with All<br>Stakeholders                                                                           | 93         |                                     |                        |  |  |  |
|                              | 2-17 Collective knowledge of the highest governance<br>body                         | Oversight of Affairs of Board by KMPs                                                                                   | 94         |                                     |                        |  |  |  |
|                              | 2-18 Evaluation of the performance of the highest governance body                   | Effectiveness of Board's own<br>Governance Practices/ Board<br>Assessments                                              | 94         |                                     |                        |  |  |  |
|                              | 2-19 Remuneration policies                                                          | Determination of Remuneration Policy                                                                                    | 109-110    |                                     |                        |  |  |  |
|                              | 2-20 Process to determine remuneration                                              | Determination of Remuneration Policy                                                                                    | 109-110    |                                     |                        |  |  |  |
|                              | 2-21 Annual total compensation ratio                                                | Employee remuneration by gender and hierarchy                                                                           | 51         |                                     |                        |  |  |  |
|                              | 2-22 Statement on sustainable development strategy                                  | Chief Executive Officer's Review                                                                                        | 12         |                                     |                        |  |  |  |
|                              | 2-23 Policy commitments                                                             | Corporate Governance                                                                                                    | 90-95      |                                     |                        |  |  |  |
|                              | 2-24 Embedding policy commitments                                                   | Corporate Governance                                                                                                    | 90-95      |                                     |                        |  |  |  |
|                              | 2-25 Processes to remediate negative impacts                                        | Responsibilities of the Board                                                                                           | 92         |                                     |                        |  |  |  |
|                              | 2-26 Mechanisms for seeking advice and raising concerns                             | Grievences Handling and Whistleblowing                                                                                  | 52         |                                     |                        |  |  |  |
|                              | 2-27 Compliance with laws and regulations                                           | 'Our compliance and due diligence' table                                                                                | 64         |                                     |                        |  |  |  |
|                              | 2-28 Membership associations                                                        | Membership in Associations                                                                                              | 60         |                                     |                        |  |  |  |
|                              | 2-29 Approach to stakeholder engagement                                             | Aligning aspirations with our stakeholders                                                                              | 20-23      |                                     |                        |  |  |  |
|                              | 2-30 Collective bargaining agreements                                               | Human Resources, Freedom of<br>Association and Collective Bargaining                                                    | 152,52     |                                     |                        |  |  |  |

# GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

| GRI                                             | DISCLOSURE                                                                            | LOCATION                                                                                                         |                     | OMISSIO                             |                        |  |
|-------------------------------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------------------|------------------------|--|
| STANDARD/<br>Other<br>Source                    |                                                                                       | TITLE                                                                                                            | PAGE<br>NO          | RE-<br>QUIRE-<br>MENT(S)<br>OMITTED | REASON/<br>Explanation |  |
| Material Topics                                 |                                                                                       |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material                                 | 3-1 Process to determine material topics                                              | Materiality                                                                                                      | 24-25               |                                     |                        |  |
| Topics 2021                                     | 3-2 List of material topics                                                           | Materiality                                                                                                      | 24-25               |                                     |                        |  |
| Economic perfo                                  | rmance                                                                                |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                     |                                                                                                                  |                     |                                     |                        |  |
| GRI 201:<br>Economic                            | 201-1 Direct economic value generated and<br>distributed                              | Value Added Statement                                                                                            | 42                  |                                     |                        |  |
| Performance<br>2016                             | 201-2 Financial implications and other risks and opportunities due to climate change  | Environmental and Social Governance (ESG)                                                                        | 70                  |                                     |                        |  |
|                                                 | 201-3 Defined benefit plan obligations and other retirement plans                     | Measurement of Defined Benefit<br>Obligations, Employee Retirement<br>benefits, Notes to the accounts<br>no.43.1 | 179,<br>189,<br>251 |                                     |                        |  |
|                                                 | 201-4 Financial assistance received from government                                   | Refinance and subsidy scheme as a mode of blended finance for inclusivity                                        | 63                  |                                     |                        |  |
| Market presenc                                  |                                                                                       |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                     |                                                                                                                  |                     |                                     |                        |  |
| GRI 202: Market<br>Presence 2016                | 202-1 Ratios of standard entry level wage by gender compared to local minimum wage    | Ratio of standard entry level wage<br>(Refer to 'Employees')                                                     | 74                  |                                     |                        |  |
|                                                 | 202-2 Proportion of senior management hired from the local community                  | Proportion of senior management<br>from local community (Refer to<br>"Employees")                                | 74                  |                                     |                        |  |
| Indirect econon                                 | nic impacts                                                                           |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                     |                                                                                                                  |                     |                                     |                        |  |
| GRI 203: Indi-<br>rect Economic<br>Impacts 2016 | 203-1 Infrastructure investments and services<br>supported                            | Social and Relattionship Capital                                                                                 | 61-64               |                                     |                        |  |
| impauls 2010                                    | 203-2 Significant indirect economic impacts                                           | Refinance and Subsidy schemes as a mode of blended finance for inclusivity                                       | 63                  |                                     |                        |  |
| Procurement pr                                  |                                                                                       |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                     |                                                                                                                  |                     |                                     |                        |  |
| GRI 204:<br>Procurement<br>Practices 2016       | 204-1 Proportion of spending on local suppliers                                       | Engagement with suppliers of branch vicinity, Purchases from locally based suppliers (Refer to 'Suppliers')      | 58, 75              |                                     |                        |  |
| Anti-corruption                                 |                                                                                       |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                     |                                                                                                                  |                     |                                     |                        |  |
| GRI 205:<br>Anti-corruption                     | 205-1 Operations assessed for risks related to corruption                             | Anti-Bribery and Corruption Policy                                                                               | 92-93               |                                     |                        |  |
| 2016                                            | 205-2 Communication and training about anti-cor-<br>ruption policies and procedures   | Anti-Bribery and Corruption Policy                                                                               | 92-93               |                                     |                        |  |
|                                                 | 205-3 Confirmed incidents of corruption and actions taken                             | "Our compliance and due diligence' table                                                                         | 64                  |                                     |                        |  |
| Anti-competitiv                                 |                                                                                       |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                     |                                                                                                                  |                     |                                     |                        |  |
| GRI 206:<br>Anti-competitive<br>Behavior 2016   | 206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices | "Our compliance and due diligence' table                                                                         | 64                  |                                     |                        |  |
| Тах                                             |                                                                                       |                                                                                                                  |                     |                                     |                        |  |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                     | Chief Executive Officer's and Chief<br>Financial Officer's Responsibility<br>Statement                           | 163                 |                                     |                        |  |

| GRI                             | DISCLOSURE                                                                                                                                           | LOCATION                                                                                                                                                                                                                                     |                           | OMISSION                            |                        |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------------------------|------------------------|
| STANDARD/<br>Other<br>Source    |                                                                                                                                                      | TITLE                                                                                                                                                                                                                                        | PAGE<br>No                | RE-<br>Quire-<br>Ment(s)<br>Omitted | REASON/<br>Explanation |
| GRI 207: Tax<br>2019            | 207-1 Approach to tax                                                                                                                                | Deferred Tax Asset<br>Tax Notes 16 to 16.4<br>Tax Notes 34 to 34.1.2                                                                                                                                                                         | 179<br>215-217<br>244-247 |                                     |                        |
|                                 | 207-2 Tax governance, control, and risk management                                                                                                   | Notes to the Financial Statements<br>5.21, 5.21.1, 5.21.2, 5.21.3, 5.21.4,<br>5.21.4, 5.21.5, 5.21.6, 5.21.7                                                                                                                                 | 191-193                   |                                     |                        |
|                                 | 207-3 Stakeholder engagement and management of concerns related to tax                                                                               | <ul> <li>4.1(a) - Deferred Tax Related to<br/>Assets and Liabilities arising from a<br/>Single Transaction<br/>Tax Assessments Received by the<br/>Banks</li> <li>5.21.7 - Advance Income Tax (AIT) and<br/>Withholding Tax (WHT)</li> </ul> | 180<br>262<br>192         |                                     |                        |
|                                 | 207-4 Country-by-country reporting                                                                                                                   | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
| Materials                       |                                                                                                                                                      |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 3: Material<br>Topics 2021  | 3-3 Management of material topics                                                                                                                    |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 301: Mate-<br>rials 2016    | 301-1 Materials used by weight or volume                                                                                                             | Sustainability Performance Indicators (Refer to 'Environment')                                                                                                                                                                               | 75                        | Х                                   | Not applicable         |
|                                 | 301-2 Recycled input materials used                                                                                                                  | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
|                                 | 301-3 Reclaimed products and their packaging materials                                                                                               | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
| Energy                          |                                                                                                                                                      |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 3: Material<br>Topics 2021  | 3-3 Management of material topics                                                                                                                    |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 302: Energy<br>2016         | 302-1 Energy consumption within the organization                                                                                                     | Sustainability Performance Indicators<br>(Refer to 'Environment')                                                                                                                                                                            | 75                        |                                     |                        |
|                                 | 302-2 Energy consumption outside of the organization                                                                                                 | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
|                                 | 302-3 Energy intensity                                                                                                                               | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
|                                 | 302-4 Reduction of energy consumption                                                                                                                | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
|                                 | 302-5 Reductions in energy requirements of products and services                                                                                     | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
| Water and efflu                 | ents                                                                                                                                                 |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 3: Material<br>Topics 2021  | 3-3 Management of material topics                                                                                                                    |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 303: Water                  | 303-1 Interactions with water as a shared resource                                                                                                   | Water management                                                                                                                                                                                                                             | 70                        |                                     |                        |
| and Effluents                   | 303-2 Management of water discharge-related impacts                                                                                                  | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
| 2018                            | 303-3 Water withdrawal                                                                                                                               | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
|                                 | 303-4 Water discharge                                                                                                                                | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
|                                 | 303-5 Water consumption                                                                                                                              | Not reported                                                                                                                                                                                                                                 | -                         | Х                                   | Not applicable         |
| Biodiversity                    |                                                                                                                                                      |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 3: Material<br>Topics 2021  | 3-3 Management of material topics                                                                                                                    |                                                                                                                                                                                                                                              |                           |                                     |                        |
| GRI 304: Biodi-<br>versity 2016 | 304-1 Operational sites owned, leased, managed<br>in, or adjacent to protected areas and areas of high<br>biodiversity value outside protected areas | Protecting Biodiversity                                                                                                                                                                                                                      | 73                        |                                     |                        |
|                                 | 304-2 Significant impacts of activities, products and services on biodiversity                                                                       | Protecting Biodiversity                                                                                                                                                                                                                      | 73                        |                                     |                        |
|                                 | 304-3 Habitats protected or restored                                                                                                                 | Protecting Biodiversity                                                                                                                                                                                                                      | 73                        |                                     |                        |
|                                 | 304-4 IUCN Red List species and national<br>conservation list species with habitats in areas<br>affected by operations                               | Protecting Biodiversity                                                                                                                                                                                                                      | 73                        |                                     |                        |

## GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

| GRI                                             | DISCLOSURE                                                                                               | LOCATION                                              |            | OMISSION                            |                                         |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------|------------|-------------------------------------|-----------------------------------------|
| STANDARD/<br>OTHER<br>Source                    |                                                                                                          | TITLE                                                 | PAGE<br>No | RE-<br>QUIRE-<br>MENT(S)<br>OMITTED | REASON/<br>Explanation                  |
| Emissions                                       |                                                                                                          |                                                       |            |                                     |                                         |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                                        |                                                       |            |                                     |                                         |
| GRI 305: Emis-<br>sions 2016                    | 305-1 Direct (Scope 1) GHG emissions                                                                     | Not reported                                          | -          | Х                                   | Information unavail-<br>able/incomplete |
|                                                 | 305-2 Energy indirect (Scope 2) GHG emissions                                                            | Not reported                                          | -          | Х                                   | Information unavail-<br>able/incomplete |
|                                                 | 305-3 Other indirect (Scope 3) GHG emissions                                                             | Not reported                                          | -          | Х                                   | Information unavail-<br>able/incomplete |
|                                                 | 305-4 GHG emissions intensity                                                                            | Not reported                                          | -          | Х                                   | Information unavail-<br>able/incomplete |
|                                                 | 305-5 Reduction of GHG emissions                                                                         | Not reported                                          | -          | Х                                   | Information unavail-<br>able/incomplete |
|                                                 | 305-6 Emissions of ozone-depleting substances (0DS)                                                      | Not reported                                          | -          | Х                                   | Information unavail-<br>able/incomplete |
|                                                 | 305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions                    | Not reported                                          | -          | Х                                   | Information unavail-<br>able/incomplete |
| Waste                                           |                                                                                                          |                                                       |            |                                     |                                         |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                                        |                                                       |            |                                     |                                         |
| GRI 306: Waste<br>2020                          | 306-1 Waste generation and significant waste-related impacts                                             | Not reported                                          | -          | Х                                   | Not applicable                          |
|                                                 | 306-2 Management of significant waste-related impacts                                                    | Waste management                                      | 71         |                                     |                                         |
|                                                 | 306-3 Waste generated                                                                                    | Waste management                                      | 71         |                                     |                                         |
|                                                 | 306-4 Waste diverted from disposal                                                                       | Waste management                                      | 71         |                                     |                                         |
|                                                 | 306-5 Waste directed to disposal                                                                         | Waste management                                      | 71         |                                     |                                         |
| Supplier enviro                                 | nmental assessment                                                                                       |                                                       |            |                                     |                                         |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                                        |                                                       |            |                                     |                                         |
| GRI 308: Suppli-<br>er Environmen-              | 308-1 New suppliers that were screened using<br>environmental criteria                                   | Not reported                                          | -          | Х                                   | Not applicable                          |
| tal Assessment<br>2016                          | 308-2 Negative environmental impacts in the supply chain and actions taken                               | Not reported                                          | -          | Х                                   | Not applicable                          |
| Employment                                      |                                                                                                          |                                                       |            |                                     |                                         |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                                        |                                                       |            |                                     |                                         |
| GRI 401:<br>Employment                          | 401-1 New employee hires and employee turnover                                                           | New recruits by gender and region,<br>Turnover by age | 48         |                                     |                                         |
| 2016                                            | 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | Employee benefits                                     | 49-50      |                                     |                                         |
|                                                 | 401-3 Parental leave                                                                                     | Parental leave                                        | 52         |                                     |                                         |
| Labor/manager                                   | nent relations                                                                                           |                                                       |            |                                     |                                         |
| GRI 3: Material<br>Topics 2021                  | 3-3 Management of material topics                                                                        |                                                       |            |                                     |                                         |
| GRI 402: Labor/<br>Management<br>Relations 2016 | 402-1 Minimum notice periods regarding operational changes                                               | Minimum notice period                                 | 52         |                                     |                                         |

| GRI                                                                     | DISCLOSURE                                                                                                                | LOCATION                                                                                           |            |                                     | OMISSION               |
|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|------------|-------------------------------------|------------------------|
| STANDARD/<br>OTHER<br>Source                                            |                                                                                                                           | TITLE                                                                                              | PAGE<br>No | RE-<br>QUIRE-<br>MENT(S)<br>OMITTED | REASON/<br>Explanation |
| Occupational he                                                         | ealth and safety                                                                                                          |                                                                                                    |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                                          | 3-3 Management of material topics                                                                                         |                                                                                                    |            |                                     |                        |
| GRI 403: Occu-<br>pational Health                                       | 403-1 Occupational health and safety management<br>system                                                                 | Health and wellbeing                                                                               | 50         |                                     |                        |
| and Safety 2018                                                         | 403-2 Hazard identification, risk assessment, and incident investigation                                                  | Health and wellbeing                                                                               | 50         |                                     |                        |
|                                                                         | 403-3 Occupational health services                                                                                        | Health and wellbeing                                                                               | 50         |                                     |                        |
|                                                                         | 403-4 Worker participation, consultation, and communication on occupational health and safety                             | Employee engagement                                                                                | 50         |                                     |                        |
|                                                                         | 403-5 Worker training on occupational health and<br>safety                                                                | Health and wellbeing                                                                               | 50         |                                     |                        |
|                                                                         | 403-6 Promotion of worker health                                                                                          | Health and wellbeing, Sustainability<br>Performance Indicators (Refer to<br>'Employees')           | 50, 74     |                                     |                        |
|                                                                         | 403-7 Prevention and mitigation of occupational<br>health and safety impacts directly linked by business<br>relationships | Not reported                                                                                       | NA         |                                     |                        |
|                                                                         | 403-8 Workers covered by an occupational health<br>and safety management system                                           | Health and wellbeing, Sustainability<br>Performance Indicators (Refer to<br>'Employees')           | 50, 74     |                                     |                        |
|                                                                         | 403-9 Work-related injuries                                                                                               | Health and wellbeing                                                                               | 50         |                                     |                        |
|                                                                         | 403-10 Work-related ill health                                                                                            | Health and wellbeing                                                                               | 50         |                                     |                        |
| Training and ed                                                         | ucation                                                                                                                   |                                                                                                    |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                                          | 3-3 Management of material topics                                                                                         |                                                                                                    |            |                                     |                        |
| GRI 404:<br>Training and                                                | 404-1 Average hours of training per year per employee                                                                     | Employee development                                                                               | 48         |                                     |                        |
| Education 2016                                                          | 404-2 Programs for upgrading employee skills and transition assistance programs                                           | Details of training programmes<br>conducted in 2023                                                | 48         |                                     |                        |
|                                                                         | 404-3 Percentage of employees receiving regular<br>performance and career development reviews                             | Performance management                                                                             | 49         |                                     |                        |
| Diversity and ec                                                        | jual opportunity                                                                                                          |                                                                                                    |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                                          | 3-3 Management of material topics                                                                                         |                                                                                                    |            |                                     |                        |
| GRI 405: Diver-<br>sity and Equal<br>Opportunity<br>2016                | 405-1 Diversity of governance bodies and employees                                                                        | Diversity and inclusion, Sustainability<br>Performance Indicators (Refer to<br>'Employees')        | 50,74      |                                     |                        |
|                                                                         | 405-2 Ratio of basic salary and remuneration of women to men                                                              | Employment remuneration by gender and hierarchy                                                    | 51         |                                     |                        |
| Non-discrimina <sup>-</sup>                                             | tion                                                                                                                      |                                                                                                    |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                                          | 3-3 Management of material topics                                                                                         |                                                                                                    |            |                                     |                        |
| GRI 406:<br>Non-discrimina-<br>tion 2016                                | 406-1 Incidents of discrimination and corrective actions taken                                                            | Listening and responding to our<br>stakeholders (Refer to 'Employees'),<br>Diversity and inclusion | 22,50      |                                     |                        |
| Freedom of ass                                                          | ociation and collective bargaining                                                                                        |                                                                                                    |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                                          | 3-3 Management of material topics                                                                                         |                                                                                                    |            |                                     |                        |
| GRI 407: Freedom<br>of Association<br>and Collective<br>Bargaining 2016 | 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk      | Not reported                                                                                       | -          | Х                                   | Not applicable         |
|                                                                         |                                                                                                                           |                                                                                                    |            |                                     |                        |
| Child labor<br>GRI 3: Material<br>Topics 2021                           | 3-3 Management of material topics                                                                                         |                                                                                                    |            |                                     |                        |

## GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

| GRI                                               | DISCLOSURE                                                                                            | LOCATION                                                                                                                                        |            |                                     | OMISSION               |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------------------------------|------------------------|
| STANDARD/<br>OTHER<br>Source                      |                                                                                                       | TITLE                                                                                                                                           | PAGE<br>NO | RE-<br>QUIRE-<br>MENT(S)<br>OMITTED | REASON/<br>Explanation |
| Forced or comp                                    | ulsory labor                                                                                          |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 409: Forced<br>or Compulsory<br>Labor 2016    | 409-1 Operations and suppliers at significant risk for<br>incidents of forced or compulsory labor     | Not reported                                                                                                                                    | -          | Х                                   | Not applicable         |
| Security practic                                  | es                                                                                                    |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 410: Se-<br>curity Practices<br>2016          | 410-1 Security personnel trained in human rights policies or procedures                               | Employee development                                                                                                                            | 48 -49     |                                     |                        |
| Rights of indige                                  | nous peoples                                                                                          |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 411: Rights<br>of Indigenous<br>Peoples 2016  | 411-1 Incidents of violations involving rights of indigenous peoples                                  | Not reported                                                                                                                                    | -          | Х                                   | Not applicable         |
| Local communit                                    | ties                                                                                                  |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 413: Local<br>Communities                     | 413-1 Operations with local community engagement, impact assessments and development programs         | Social and relationship capital                                                                                                                 | 60-64      |                                     |                        |
| 2016                                              | 413-2 Operations with significant actual and potential negative impacts on local communities          | Building community resilience                                                                                                                   | 60-64      |                                     |                        |
| Supplier social                                   |                                                                                                       |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 414:<br>Supplier Social<br>Assessment<br>2016 | 414-1 New suppliers that were screened using social criteria                                          | Supplier evaluation and procurement<br>process, Listening and responding to<br>our stakeholders (Refer to 'Suppliers<br>and business partners') | 58, 22     |                                     |                        |
|                                                   | 414-2 Negative social impacts in the supply chain and actions taken                                   | Supplier evaluation and procurement<br>process, Listening and responding to<br>our stakeholders (Refer to 'Suppliers<br>and business partners') | 58, 22     |                                     |                        |
| Public policy                                     |                                                                                                       |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 415: Public<br>Policy 2016                    | 415-1 Political contributions                                                                         | 'Our compliance and due diligence' table                                                                                                        | 64         |                                     |                        |
| Customer health                                   | n and safety                                                                                          |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 416:<br>Customer Health<br>and Safety 2016    | 416-1 Assessment of the health and safety impacts<br>of product and service categories                | Supplier evaluation and procurement<br>process, Table on compliance and<br>level/status                                                         | 58, 64     |                                     |                        |
|                                                   | 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services   | Supplier evaluation and procurement<br>process, 'Our compliance and due<br>diligence' table                                                     | 58, 64     |                                     |                        |
| Marketing and I                                   | abeling                                                                                               |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 |            |                                     |                        |
| GRI 417:<br>Marketing and                         | 417-1 Requirements for product and service information and labeling                                   | 'Our compliance and due diligence' table                                                                                                        | 64         |                                     |                        |
| Labeling 2016                                     | 417-2 Incidents of non-compliance concerning product and service information and labeling             | 'Our compliance and<br>due diligence' table                                                                                                     | 64         |                                     |                        |
| Duration of the                                   | 417-3 Incidents of non-compliance concerning<br>marketing communications                              | 'Our compliance and<br>due diligence' table                                                                                                     | 64         |                                     |                        |
| Customer privad                                   |                                                                                                       |                                                                                                                                                 |            |                                     |                        |
| GRI 3: Material<br>Topics 2021                    | 3-3 Management of material topics                                                                     |                                                                                                                                                 | F0 F1      |                                     |                        |
| GRI 418:<br>Customer<br>Privacy 2016              | 418-1 Substantiated complaints concerning breaches<br>of customer privacy and losses of customer data | Customer privacy, 'Our compliance<br>and due diligence' table                                                                                   | 56, 54     |                                     |                        |

## ALPHABETICAL INDEX

|                                                    | Page<br>Number |
|----------------------------------------------------|----------------|
| Accounting Policies                                | 178            |
| Auditors' Report on Internal Control               | 159            |
| Balances with Central Bank of Sri Lanka            | 223            |
| Board of Directors                                 | 78             |
| Capital Adequacy Computation                       | 139            |
| Capital Commitments                                | 262            |
| Cases Against the Bank                             | 258            |
| Cash and Cash Equivalents                          | 223            |
| Contingent Liabilities and Commitments             | 258            |
| Corporate Governance                               | 90             |
| Corporate Information                              | 299            |
| Correspondent Banks                                | 59             |
| Cost Income Ratio                                  | 283            |
| Customer Deposits                                  | 248            |
| Deferred Tax Liabilities                           | 244            |
| Defined Benefit Obligations                        | 251            |
| Derivative Financial Instruments                   | 224            |
| Directors' Statement on Internal Control           | 157            |
| Distribution and Composition of Shareholders       | 42             |
| Dividend Cover                                     | 5              |
| Dividend per Share                                 | 5              |
| Donations                                          | 148            |
| Due to Other Borrowers                             | 249            |
| Earnings per Share                                 | 218            |
| Economic Value Addition                            | 42             |
| Effective Tax Rate                                 | 216            |
| Events After the Reporting Date                    | 263            |
| Expected Credit Loss on Loans and Advances         | 225            |
| Financial Calendar                                 | 161            |
| Financial Highlights                               | 5              |
| Financial Assets Measured at FVTPL                 | 224            |
| Financial Assets Measured at DVOCI                 | 229            |
| Financial Assets Measured at FVOCI                 | 232            |
| Financial Capital<br>General Reserve               | 37<br>256      |
| GRI Content Index                                  | 285            |
| Income Statement                                   | 169            |
| Income Tax Expense                                 | 215            |
| Independent Auditors' Report                       | 164            |
| Intangible Assets                                  | 244            |
| Interest Expense                                   | 244            |
| Interest Income                                    | 211            |
| Interest Yield on Debentures/ Yield to Maturity of | 211            |
| Debentures                                         | 280            |
| Investment in Subsidiary                           | 235            |

|                                                                            | Page   |
|----------------------------------------------------------------------------|--------|
|                                                                            | Number |
| Lease Rental Receivables                                                   | 226    |
| Loans and Advances                                                         | 225    |
| Market Prices of Shares                                                    | 5      |
| Maturity Analysis                                                          | 267    |
| Net Assets Value per Share                                                 | 5      |
| Notes to the Financial Statements                                          | 178    |
| Operating Expenses                                                         | 215    |
| Other Assets                                                               | 248    |
| Other Liabilities                                                          | 251    |
| Other Reserves                                                             | 256    |
| Our Value Creation Story                                                   | 8      |
| Personnel Expenses                                                         | 215    |
| Price Earnings Ratio                                                       | 5      |
| Property, Plant and Equipment                                              | 236    |
| Related Party Disclosures                                                  | 263    |
| Report of the Board Audit Committee                                        | 116    |
| Report of the Board Human Resources and                                    |        |
| Remuneration Committee                                                     | 118    |
| Report of the Board Integrated Risk Management                             |        |
| Committee                                                                  | 123    |
| Report of the Board Nomination Committee                                   | 120    |
| Report of the Board of Directors on the State of Affairs<br>of the Company | 147    |
| Report of the Related Party Transactions Review                            |        |
| Committee                                                                  | 122    |
| Return on Average Assets                                                   | 283    |
| Return on Average Equity                                                   | 283    |
| Risk Management                                                            | 125    |
| Right-of-use Assets                                                        | 241    |
| Senior Management Team                                                     | 84     |
| Stated Capital                                                             | 255    |
| Statement of Cash Flows                                                    | 176    |
| Statement of Changes in Equity                                             | 172    |
| Statement of Profit or Loss and Other Comprehensive<br>Income              | 170    |
| Statement of Directors' Responsibility for Financial                       |        |
| Reporting                                                                  | 162    |
| Statement of Financial Position                                            | 171    |
| Statutory Liquid Assets Ratio                                              | 5      |
| Statutory Reserve Fund                                                     | 255    |
| Segment Reporting                                                          | 271    |
| Total Equity                                                               | 171    |
| Twenty Largest Shareholders                                                | 276    |
| US Dollar Financial Statements                                             | 274    |
|                                                                            |        |

## A

### Acceptances

Promise to pay when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

## **Accounting Policies**

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

#### 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 amortization using effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

## В

## 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 Sent for 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.

## **Basis Point (BP)**

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

#### **Business Model Assessment**

Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows.

#### C

#### **Capital Adequacy Ratio**

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

### **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.

#### **Cash Flows**

Cash flows are inflows and outflows of cash and cash equivalents.

## Collectively Assessed Loan Impairment Provisions

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that have been incurred but have not yet been identified at the reporting date.

#### Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or nonoccurrence of one or more uncertain future events.

#### **Consolidated Financial Statements**

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

#### **Corporate Governance**

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

#### Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

## Cost to Income Ratio

Operating expenses as a percentage of total operating income.

#### **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.

#### Credit Risk

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 loans and advances to customers and other banks and investment in debt securities.

#### **Currency Risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

#### 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.

## Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as "Arrears".

#### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

#### Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

## 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 Letters of Credit**

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.

## Ε

## 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 (ETR)

Provision for taxation excluding deferred tax divided by the profit before taxation.

## **Equity Instrument**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

## Events after the Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

## 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.

## **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.

## Financial Assets Measured at Amortised Cost

A financial asset is measured at amortised cost if 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 on the principal amount outstanding.

## Financial Assets Measured at 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). Financial Assets Measured at 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.

## Finance Lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of whatever is being leased.

## 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.

## G

## **Global Reporting Initiatives (GRI)**

The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

## **Going Concern**

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

## **Gross Dividend**

The portion of profits distributed to the shareholders including the tax withheld.

## **GLOSSARY**

### 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.

## Н

## Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavorable 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.

#### Ľ

#### Impaired Loans

Loans where the group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

#### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Impairment Allowance

Impairment allowance is a provision held as a result of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified as individual (specific) or collective (portfolio).

### 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 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.

#### Κ

### 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.

#### Loan-to-Value Ratio (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

#### М

#### **Market Capitalisation**

The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

#### Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

#### Ν

## 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 longer 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.

#### Nostro Account

A bank account held in foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

ANNEXURE

0

#### **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.

#### **Operational Risk**

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

#### Ρ

## 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.

#### Price to Book Value

Market price of a share divided by the net assets value of a share.

### 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.

#### **Revenue Reserves**

Reserves set aside for future distribution and investment.

#### **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 collateralized 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.

#### Segment Reporting

Disclosure of the Bank's assets, income and other information, broken down by activity and geographical area.

#### Shareholders' Funds/Equity

Total of issued and fully paid share capital and capital and revenue reserves.

#### **Single Borrower Limit**

30% of Total Regulatory Capital.

#### 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).

#### Significant Increase in Credit Risk (SICR)

According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort.

#### Т

## 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,

## **GLOSSARY**

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 utilized by the clients as at the reporting date.

#### **Useful Life**

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

#### ۷

## 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.

#### Vostro Account

A local currency account maintained by a local bank for a foreign (correspondent) bank.

#### γ

## 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.

## සභාපතිතුමාගේ පණිවිඩය

හිතවත් පාර්ශ්වකරුවන් වෙතටයි,

2023 වර්ෂය අභියෝග මධ්යයේ වුවද, ශක්තිමත් කාර්යසාධනයක් සහිතව සාර්ථකත්වයෙන් යුතුව අවසන් කිරීමට හැකිවීම පිළිබඳව මම සතුටු වෙමි. අපි නිරතුරුවම අපගේ සන්නාමය සහ කළඹ තුළ ස්ථාවරත්වය සහ දිගු-කාලීන වර්ධනය උදෙසා ආයෝජනය කළෙමු. සේවකයන්ගේ දායකත්වය ද චක හා සමානව ඊට ලැබුණි. අසීරුතා සහිත ගෝලීය සාර්ව-ආර්ථික වාතාවරණයක් හා කැළඹිලි සහිත දේශීය ආර්ථික පසුබිමක් මැද වුවද 2023 වර්ෂයේ දී අප මූල¤මය සහ මෙහෙයුම් කාර්යසාධන සම්බන්ධයෙන් අගනා කඩඉම් කිහිපයක්ම ජයගත් බව සතුටින් දන්වමි. අප අනුගමනය කළ සුපරීක්ෂාකාරී පියවර බොහොමයක්ම, අපගේ ගමෘතාව පවත්වා ගැනීමට සහ අනාගත වර්ධනය උදෙසා වන අපගේ පදනම ශක්තිමත් කිරීමට බෙහෙවින් උපකාරී විය. එකී පියවර අතර, අවදානම් කළමනාකරණ කටයුතු පුළුල් කිරීම, කුියාවලි සරල කිරීම, ණය ලබාදීමේ දී විචක්ෂණශීලී වීම මෙන්ම පිරිවැය අවම කිරීම ද සවිශේෂී විය.

#### වටිනාකම් නිර්මාණය කිරීම

පසුගිය වසරේ මෙන්ම මේ වසරේ දී ද අපගේ පද්ධති වෙත අලුත් ශකතා එකතු කරමින්, අනාගත වර්ධනයට සහය සැලසෙන සේ අපගේ කුසලතා ශක්තිමත් කළෙමු. පුවිණයන් රට හැර යන පසුබිමක, අප කර්මාන්තය පුරාවටම පවතින මානව සම්පත් කළමනාකරණය පිළිබඳ දුෂ්කරතා වලට මුහුණ දීමට අපට ද සිදු විය. මෛන් අසිරු කාලවකවානුවක අපගේ කණ්ඩායමේ යනපැවැත්ම වැඩිදුයුණු කිරීම වෙනුවෙන් ගත් සාමූතික වැයම්, එම තත්ත්වය මැඩ පවත්වා ගැනීමෙහි ලා අපට උපකාරී විය.

මෙහෙයුම් කාර්යක්ෂමතාව සහ ගනුදෙනුකරුවන් වෙත අවධානය ඉහළ නැංවීම වෙනුවෙන් ඩිපිටල් පරිණාමන කුමෝපායයන් අඛණ්ඩව යොදා ගැනීමට අප වග බලා ගතිමු. අනාගතයට සූදානම් ඩිපිටල් විසඳුම් කෙරෙහි ආයෝජනයට අප උත්සුක වුයේ අප ගනුදෙනුකරුවන්ගේ ඉල්ලීම් දිනෙන් දින ඉහළ යනු දුටු නිසාවෙනි. අන්තර්ජාල බැංකුකරණයෙහි ඉහළ මට්ටමක් වූ, විවෘත API බැංකුකරණය (බැංකුවේ දත්ත සමුදාය බාහිර වැඩසටහනක් හෝ යෙදුමක් සමග සම්බන්ධ කරන අතුරු-මුහුණතකි) හඳන්වා දුන්නේ ඒ අනුවයි. චසේම, සුවිශේෂී විශේෂාංග රැසක් සපිර SeylanPay ගෙවීම් යෙදුම නැවත හඳුන්වා දීම ද සිදු කළෙමු. ඩිපිටල් පුගතිය නිරන්තරයෙන්ම සිදුවිය යුත්තක් බව අප විශ්වාස කරමු. එම නිසා, අපගේ කටයුතු පුළුල් කළ හැකි ආකාරයන්, මෙකී මෙවලම් චිකිනෙක හා යා කළ හැකි කුම සහ චිය මනාව කළ හැකි අයුරු ද අප නිරතුරුව විමසා බලන්නේ, අපගේ ගනුදෙනුකරුවන්ට සීමා මායිම් නොමැති, පුද්ගලාරෝපිත බැංකුකරණ අත්දැකීම් පිරිනැමීමේ අභිලාෂයෙනි.

වසර පුරාවටම බැංකුවේ පාත්ධන තත්ත්වය එක සේ ම සව්මත්ව පැවතිණ. එසේම, වසර පුරාවටම සියලු පාත්ධන පුමාණතා අනුපාත ද නියාමන අවම අවශතාවන්ට බොහෝ ඉහළින් පැවතිණ. අදාළ කාලසීමාව පුරාවට දුවශීලතා ස්වාරක්ෂක හොඳින් පවත්වා ගෙන යාම ද බැංකුවට පහසුවෙන්ම කළ හැකි විය.

## තිරසාරත්වය පිළිබඳ අපගේ සැලසුම

අප ළගා කරගත් ජයගුහණ, ඉලක්කම් හෝ මනුම්දඬු වලට පමණක් සීමා වූ ඒවා නොවේ. අපගෙන් එළිය ලද ජීවිත වලින්, අප බලගන්වා ඇති පුජාවන් තුළින් මෙන්ම අප අනුගමනය කරන ධනාත්මක වෙනස්කම් වලින් ද ඒ ජයගුතණ මනාව පිළිබිමු වේ. 'තිරසාරත්වයේ තුමෝපායී අප දියත් කළේ මේ වසරේ දී ය. තිරසාරත්වය පිළිබඳ අපගේ අතිලාෂයන් මෙන්ම චක්සත් ජාතීන්ගේ තිරසාර සංවර්ධන ඉලක්ක කෙරෙහි බැංකුවේ දායකත්වය ද ඉන් පෙන්නුම් කෙරෙයි. තෝරාගත් ඉලක්ක සැබෑ කරගැනීම පිණිස අප සැකසූ තුමවේද සාර්ථකව කියාවට නැංවීමෙහි ලා කණ්ඩායමක් ලෙස පෙන්වූ කැපවීම, ජවය සහ පුගතිය මා තුළ ද සැබෑ දිරිගැන්වීමක් ජනිත කර ඇත.

අපගේ සේවාවන්, තාක්ෂණය, විසඳුම් සහ සමාජය පිළිබඳ වැඩපිළිවෙල වලින් මතු වූ යහපත් බලපෑම අපගේ පාර්ශ්වකරුවන්ගේ පිවිත වලත් සමාජයේ පුගතිය තුළත් දැකගත හැකිය. සෙලාන් බැංකු කණ්ඩායමෙනි වර්ධනය සහ සාර්ථකත්වය වෙනුවෙන් බැංකුව තවදුරටත් කැළවීමෙන් කටයුතු කරයි. සෙලාන් බැංකු කණ්ඩායමෙන් කුසලතා ඉහළ නැංවීමට හා ඔවුන්ට නව කුසලතා ඉහළ නැංවීමට හා ඔවුන්ට නව කුසලතා ඉහළ නැංවීමට හා ඔවුන්ට නව කුසලතා ඉහෙනීමට අවස්ථාව සැලසීම තුළින් ඔවුන්ගේ වෘත්තීමය සාර්ථකත්වය ළඟා කර ගැනීමට අවස්ථාව ලබා දෙයි. එමගින් අපගේ ගනුදෙනුකරුවන් අපේක්ෂා කරන වර්තාකම් ඔවුන්ට ලබාදීමේ හැකියාව ද අපගේ කණ්ඩායම වෙත ලැබී ඇත.

2023 වර්ෂයේ දී, අතීතයේ අන් කවරදාකටත් වඩා අපගේ ගනුදෙනුකරුවන් පරිපූර්ණ සහ පුද්ගලාරෝපිත මූලා උපදෙස් වල අවශතා පිළිබඳ දැඩි වුවමනාවක් පෙන්නුම් කළේ ය. ඔවුන්ගේ ස්ට්රසාර, විශ්වසනීය හවුල්කරු වශයෙන් අප උපරිම ලෙස කැපවී ඔවුන් වෙත සහය දීමට ඉදිරිපත් වුණෙමු.

පරිසරය, සමාජය සහ යහපාලනය (ESG) පිළිබඳ වැදගත්කම් ඒකාබද්ධ කිරීම අපගේ පුමුබතා වලින් එකකි. ඒ අනුව, සමාජයීය සහ පාර්සරික වෙනස්කම් වෙත ආයෝජකයන්ගේ සහය ලබාගැනීම වෙනුවෙන් නොකඩවාම තවෝර්පාදන විසඳුම් සෙවීමට ද අප කටයුතු කරමු. වනකිව යුතු ආයතනික පුරවැසියෙකු වශයෙන් අපගේ ESG වැඩපිළිවෙලෙහි නිරන්තර වැඩිදියුණුව උදෙසා තවදුරටත් කැපවෙමින්, අර්ථාන්විත වෙනසක් හා වඩාත් තිරසාර අනාගතයක් ගොඩනැගීමට අපගේ උපරිම දායකත්වය ලබා දුන්නෙමු.

යහපාලනය අරමුණු කළ අපගේ කාර්යරාමුව සවිමත් කර, පතිපත්ති සහ කියාවලි යාවත්තාලීන කිරීමට අප නිරන්තරයෙන් වෙහෙසෙමු. එහිදී, වැඩිදියුණු වන නියාමන අවශතෝ හා මනා ගෝලීය පිළිවෙත් අනුව අපගේ පතිපත්ති හා කියාවලි ගැළපෙන බව සහතික කිරීමට අඛණ්ඩව කටයුතු කළෙමු. අපගේ මෙහෙයුම් කටයුතු වල සුරැකිතාව තහවුරු කිරීම, සංවේදී තොරතුරු ආරක්ෂණය සහ අපගේ පාර්ශ්වකරුවන්ගේ විශ්වාසය සුරැකීම වෙනුවෙන් අපගේ අවදානම් කළමනාකරණ හැකියාවන්ගේ සහ අනුකූලතා අවශතෝ වල වැඩිදියුණුව උදෙසා වන පද්ධති සහ කියාවලි වෙත ආයෝජනයට ද පුමුඛතාව ලබා දුන්නෙමු.

#### අධෘක්ෂ මණ්ඩලය තුළ වෙනස්කම්

2023 අපේල් 30 වැනි දින විශාම ගිය හිටපු අධාක්ෂ / පුධාන විධායක නිලධාරී, කපිල ආර්යරත්න මහතා පසුගිය වසර 12 පුරාවට බැංකුව වෙනුවෙන් ඉටු කළ මෙහෙය හා සිදු කළ කැපවීම් වලට මම ස්තූතිවන්ත වෙමි. අභියෝග සහ අසීරුතා පිරි වසර වලදී ඒවාට මුහුණිදීමේ තැකියාව සැලසූ නියමුවා ලෙස ඔහු ලබා දුන් සුවිශේෂී නායකර්වය සහ කළ කැපවීම් පැසසිය යුතු ම ය.

ශී ලංකා මත බැංකුවේ පාලන මණ්ඩලය වෙත ලද පත්වීමට අනුව, 2023 සැප්තැම්බර් මාසයේ අපගේ අධාත්ෂ මණ්ඩලයෙන් ඉල්ලා අස්වීමට සිදු වූ ජෙස්ෂ්ඨ අධාත්ෂ, අනුෂ්ක විපේසිංත මහතා ඇගයීමට ද මෙය අවස්ථාවක් කරගනිමි. අප අධාත්ෂ මණ්ඩලයට ඉමහත් සවියක් වූ ඔහු සුවිශේෂී පුද්ගලයෙකි. ඔහු සභාපතිත්වය දැරූ අනු කමිටු තරහා අප බැංකුව වෙත ලබා දුන් අහනා දායකත්වය විශේෂයෙන්ම සිහිපත් කළ යුතු වේ. ස්වාධීන, විධායක නොවන අධනක්ෂ, රවී අබේසූර්ය මහතා 2023 ඔක්තෝබර් මාසයේ සිය දිවියෙන් සමුගැනීම අප තුළ ඇති කළේ බලවත් කනගාටුවකි. පසුගිය වසර පහක කාලය තුළ ඔහුගේ දැක්ම සහ දායකත්වය බැංකුවෙහි උන්නතියට බෙහෙවින් ඉවහල් විය.

බැංකුවේ අනුපුාප්තික සැලසුමට අනුව, අධායක්ෂ/ පුධාන විධායක නිලධාරී වශයෙන් රමේෂ් ජයසේකර මහතා පසුගිය වසර තුළ දී වැඩ තාර ගනු ලැබීය. දේශීය හා විදේශීය වශයෙන් බැංකුකරණ අත්දැකීම් සම්බන්ධයෙන් සියලු අංශ වල මනා පළපුරුද්දක් සහිත ජයසේකර මහතා පසුගිය වසර 12ක කාලය තුළ අප බැංකුවේ වැදගත් අංශ රැසක විවිධ තනතුරු දරා ඇත. බැංකුවේ පුධාන විධායක නිලධාරී තනතුරට පත්වීමේ උපරිම සුදුසුකම් ඔහු හිමිකරගෙන ඇත්තේ ඒ අනුව ය. අනාගතයේ දී අප බැංකුව දියුණුවෙත් දියුණුවට පත් කිරීමේ දක්ෂතා ඔහු සතු බවට මම විශ්වාස කරමි.

#### ඇගයුම්

බොහෝ අතියෝග සනිටුහන් කෙරුණු වසරක, අධතක්ෂ / පුධාන විධායක නිලධාරීතුමාගේ මගපෙන්වූම යටතේ කියාත්මක වූ ආයතනික කළමනාකාරීත්වය විසින් මෙන්ම සෙලාන් බැංකුවේ සමස්ථ කණ්ඩායම විසින් පෙන්නුම් කළ දැඩි ඔරොත්තු දීමේ තැකියාව හා විශිෂ්ට කැපවීම සැබැවින්ම පැසසිය යුතු වේ. බාධක ජයගෙන, සැලකිය යුතු කඩඉම් කරා සාර්ථකව ළඟා වෙමින් නොනවත්වාම ඉදිරිය බලා ගමන් කිරීමට සාමූනිකව ගනු ලැබූ අපුතිතත වැයම මා අගය කරන්නේ සාඩම්බර හැඟීමකින් යුතුව ය.

නිවැරදි ඉසව්ව කරා අපගේ බැංකුව යොමු කරවීමෙහි ලා, අපගේ අධ්යක්ෂ මණ්ඩලයේ කුමෝපායික දැක්ම සහිත මගපෙන්වුම බෙහෙවින් ඉවහල් විය. අභියෝගාත්මක කාලවකවානු වලදී එකාවන් ව ලබා දුන් සහයෝගිතාව සහ පළ කළ පොදු කැපවීම වෙනුවෙන් අපගේ අගනා කොටස්කරුවන්, වටිනා ගනුදෙනුකරුවන් සහ අනෙකුත් සියලුම පාර්ශ්වකරුවන් හට මාගේ ස්තූතිය පළ කිරීමට ද මෙය අවස්ථාවක් කරගනිම.

පසුගිය වසර පුරාවට අප වෙත පළ කළ සහය වෙනුවෙන් ශ්‍රී ලංකා මහ බැංකුවේ නිලධාරීන් වෙත මාගේ කෘතඥතාව පළ කිරීමට ද මම කැමැත්තෙමි.

#### නිමාව

විවිධ අංශ සම්බන්ධයෙන් අප සැලකිය යුතු දියුණුවක් ලබමින් මෙම වසර නිමා කළෙමු. චී අනුව, මෙහෙයුම් කටයුතු අතින් අපි වඩාත් ශක්තිමත් වී ඇත. බැංකුකරණ පුවේශය අතින් ද අපි වඩාත් අනාගතවාදී පුවේශයකට එළඹ සිටිමු. අපට ඇත්තේ වර්ධනය පෙරටු කරගත් මානසිකත්වයකි. දිගු-කාලීන සාර්ථකත්වයට ඔරොත්තු දීමේ හැකියාව සලසන නිවැරදි ආයතනික වනුහයක් හා උපරිම කුසලතා ද අප සතු ය. අප ළඟා කරගත් ජයගුහණයන් ගැන අපට ඇත්තේ නිහතමානී ආඩම්බරයකි. චසේම, අප ඉදිරියේ පවත්නා අභියෝග ගැන ද අප සිටින්නේ අවදියෙනි. උද්යෝගයෙන් යුතුව පෙරට යාමේ දී අපට සවියක් වන්නේ අප තුළ පවත්නා සහයෝගීතාව පිළිබඳ පීවගුණය සහ විශිෂ්ඨත්වය වෙත ඇති කැපවීමයි. ඉදිරි වසර වල දී ද සෙලාන් බැංකුවේ ස්ථාවරත්වය හා විශිෂ්ඨත්වය චක සේ පැවතීම චමගින් සහතික කෙරෙනු ඇත.

~  $\geq$ 

**ඩබ්ලිව්. එම්. ආර්. එස්. ඩයස්** සභාපති

2024 පෙබරවාරි 20

## தலைவரின் செய்தி

#### அன்பான பங்காளர்களே,

2023இன் சவால்களின் மத்தியிலும், செலான் வங்கி வலுவான செயல்திறனை வழங்கியதோடு மட்டுமல்லாது நம்பிக்கையான பார்வையில் வருடத்தை நிறைவுசெய்ய முடிந்ததையிட்டு நான் மகிழ்ச்சியடைகிறேன். எங்களின் வர்த்தக நாமம், சொத்து முறைமைகளின் ஸ்திரத்தன்மை மற்றும் நீண்ட கால வளர்ச்சிக்காக தொடர்ந்து முதலீடு செய்த அதேவேளை பணியாளர்களின் ஈடுபாடு வலுவாக இருப்பதையும் உறுதி செய்கோம். கடினமான உலகளாவிய வெளியகப் பொருளாதாரச் சூழல் மற்றும் நிச்சயமற்ற உள்ளூர் பொருளாதாரச் சூழல் ஆகியவற்றால் பரீட்சிக்கப்பட்ட போதிலும், 2023ஆம் ஆண்டில் நிதி மற்றும் செயற்பாட்டு செயற்திறனில் குறிப்பிடத்தக்க சையற்பாட்டு சேயற்தறனால் குறப்படத்தக்க மைல்கற்களை கடந்துள்ளோம் என்பதை பகிர்ந்து கொள்வதில் மகிழ்ச்சி அடைகிறேன். விரிவான இடர் மேலாண்மை, செயன் முறை எளிதாக்கம், விவேகமான கடன் வழங்குமுறைமை மற்றும் செலவுக் குறைப்பு ஆகியவை வேகத்தை தக்கவைத்து, எதிர்கால வளர்ச்சிக்கான எங்கள் அடித்தளத்தை பலமாக்க உதவியது.

#### மதிப்புருவாக்கம்

கடந்த வருடத்தைப் போலவே இந்த வருடமும் எங்கள் அமைப்புகளில் புதிய திறன்களை சேர்த்துள்ளதுடன் எதிர்கால வளர்ச்சிக்கு உறுதுணையாக எங்கள் திறமைகளை வலுப்படுத்தினோம். நாட்டில் உள்ள திறமை வெளியேற்றத்துடன், எங்கள் மனித வளத்தை நிர்வகிப்பது கடினமாக இருந்தது. இது முழுத் தொழில்துறையிலும் வெளிப்பட்டது. இதனால் இந்த கடினமான காலங்களில் எமது குழுவின் நல்வாழ்வை மேம்படுத்த ஒருங்கிணைந்த முயற்சி எடுக்கப்பட்டது.

வாடிக்கையாளர்களை மையப்படுத்திய செயற்பாட்டுத் திறனில் சிறந்து விளங்கும் நோக்கத்துடன் எமது டிஜிட்டல் மயமாக்கல் உத்தியை நாங்கள் தொடர்ந்து மேற்கொண்டோம். எங்கள் வாடிக்கையாளர்களின் அதிகரித்து வரும் தேவைகளைப் பூர்த்தி செய்யும் முகமாக Open API வங்கிச் சேவையின் அறிமுகம், மேம்படுத்தப்பட்ட இணைய வங்கிச் சேவை மற்றும் பல்வேறு அம்சங்கள் நிறைந்த SeylanPay கட்டணச் செயலியின் மீள்அறிமுகம் உள்ளடங்கலாக எதிர்காலத்திற்கு தயார் செய்யும் டிஜிட்டல் தீர்வுகளில் முதலீடு செய்துள்ளோம். டிஜிட்டல் முன்னேற்றம் ஒரு தொடர் செயற்பாடாக நிகழ வேண்டும் என நாம் கருதுகிறோம். எனவே, எங்கள் வாடிக்கையாளர்களுக்கு தடையற்ற, தனிப்பயனாக்கப்பட்ட அனுபவத்தை வழங்க இந்தக் கருவிகளை விரிவுபடுத்தவும், இணைக்கவும் மற்றும் பூரணமாக்கும் வழிகளையும் நாம் தொடர்ந்து ஆராய்ந்து வருகிறோம்.

வங்கியின் மூலதன நிலை வருடம் முழுவதும் உறுதியாக இருந்ததுடன் அனைத்து முலதன விகிதங்களும் குறைந்தபட்ச ஒழுங்குமுறை தேவைகளுக்கு மேல் பராமரிக்கப்பட்டது. வருடம் முழுவதும் வங்கி சௌகரியமான பணப்புழக்க ஏற்றஇறக்கங்களைப் பராமரித்தது.

### எமது நிலைத்தன்மை வரைபடம்

எங்களின் சாதனைகள் வெறுமனே எண்கள் அல்லது நிதி அளவீடுகளுக்கு மட்டுப்படுத்தப்பட்டவை அல்ல. அவை நாம் கடந்து வந்த வாழ்விலும், நாம் வலுப்படுத்திய சமூகங்களிலும், எமது நேர்மறையான மாற்றங்களிலும் பிரதிபலிக்கின்றன. இவ்வருடம் நாங்கள் "நிலையான உத்தியை" அறிமுகப்படுத்திளோம். இது எங்கள் நிலைபேறான அபிலாஷைகள் மற்றும் ஐக்கிய நாடுகளின் நிலைபேண் அபிவிருத்தி இலக்குகளுக்கு வங்கியின் பங்களிப்பை கோடிட்டுக் காட்டுகிறது. தேர்ந்தெடுக்கப்பட்ட இலக்குகளுக்கு எதிராக, நிர்ணயிக்கப்பட்ட குறிக்கோள்களை அடைவதில் குழு காட்டும் அர்ப்பணிப்பு, ஆற்றல் மற்றும் முற்போக்குத்தன்மை கண்டு நான் பெருமை கொள்கீறேன்.

எங்கள் சேவைகள், தொழில்நுட்பங்கள், தீர்வுகள் மற்றும் சமூக முன்முயற்சிகளின் தாக்கம் எமது பங்குதாரர்களின் வாழ்விலும் எமது சமூகத்தின் முன்னேற்றத்திலும் எதிரொலிக்கிறது. செலான் வங்கியில், எங்கள் குழுவின் வளர்ச்சி மற்றும் வெற்றி தொடர்பாக நாங்கள் உறுதியாகவுள்ளதோடு திறன் மேம்பாடு மற்றும் மீள்திறன் ஆகியவற்றில் தொடர்ந்து முதலிடுகிறோம். இதன் ஊடாக வெற்றிகரமான தொழில்முறை வாழ்வை உருவாக்கும் அதேவேளை எங்கள் வாடிக்கையாளர்கள் எதிர்பார்க்கும் மதிப்பையும் வழங்க முடியும்.

2023 ஆம் ஆண்டு முழுவதும் எங்கள் வாடிக்கையாளர்கள் கடந்த காலத்தை விட பரந்த மற்றும் தனிப்பயனாக்கப்பட்ட நிதி ஆலோசனையின் தேவையை வெளிப்படுத்தினர். எங்கள் வாடிக்கையாளர்களுக்கு தளர்வின்றி உதவியதோடு அவர்களின் உறுதியான மற்றும் நம்பகமான பங்காளராக தொடர்ந்து இருந்தோம்.

சுற்றுச்சூழல், சமூகம் மற்றும் நிர்வாகம் (ESG) தொடர்பான பரிசீலனைகளின் ஒருங்கிணைப்பு எங்களின் முதன்மையான முன்னுரிமைகளில் ஒன்றாகும். மேலும் சமூக மற்றும் சுற்றுச்சூழல் மாற்றத்தை ஆதரிக்கும் நோக்கில் முதலீட்டாளர்களுக்கான புதுமையான தீர்வுகளைத் தொடர்ந்து தேடுகிறோம். ஒரு பொறுப்புள்ள சமூகப் பிரஜையாக, அர்த்தமுள்ள மாற்றத்தை ஏற்படுத்தவும் மேலும் நிலையான எதிர்காலத்தை உருவாக்கவும் எங்கள் ESG முயற்சிகளின் தொடர்ச்சியான முன்னேற்றத்தில் நாங்கள் உறுதியாக உள்ளோம்.

நிர்வாகத்தில் நாங்கள் தொடர்ந்து எங்கள் கட்டமைப்பை வலுப்படுத்தி, எங்கள் கொள்கைகள் மற்றும் நடைமுறைகளைப் புதுப்பித்ததன் மூலம் அவை மாறிவரும் ஒழுங்குமுறை தேவைகள் மற்றும் உலகளாவிய சிறந்த நடைமுறைகளுடன் ஒத்துப்போவதை உறுதிசெய்தோம். எங்கள் செயற்பாடுகளை பாதுகாப்பதற்கும் முக்கியமான தகவல்களை பாதுகாப்பதற்கும் மற்றும் எங்கள் பங்குதாரர்களின் நம்பிக்கையைப் பேணுவதற்கும், எங்கள் இடர் மேலாண்மை திறன்கள் மற்றும் இணக்கத் தேவைகளை மேம்படுத்தும் அமைப்புகள் மற்றும் செயல்முறைகளில் முதலீடு செய்துள்ளோம்.

#### இயக்குனர் சபை மாற்றங்கள்

ஏப்ரல் 30, 2023 அன்று சபையிலிருந்து ஒய்வுபெற்ற முன்னாள் பணிப்பாளர்/பிரதம நிறைவேற்று அதிகாரியான திரு.கபில ஆரியரத்ன அவர்கள் கடந்த 12 வருடங்களாக வங்கிக்கு வழங்கிய குறிப்பிடத்தக்க பங்களிப்பு மற்றும் அர்ப்பணிப்பான சேவைக்கு எனது நன்றிகளை தெரிவித்துக் கொள்கிறேன். அவரது சிறந்த தலைமைத்துவமும் அர்ப்பணிப்பும் செலான் வங்கியை கடினமாம மற்றும் சவாலான ஆண்டுகளில் வழிநடாத்தியது.

இலங்கை மத்திய வங்கியின் நிர்வாக சபைக்கு நியமிக்கப்பட்டதன் காரணமாக 2023 செப்டேம்பர் எமது சபையிலிருந்து இராஜினாமா செய்த சிரேஷ்ட பணிப்பாளர் திரு.அனுஷ்க விஜேசின்ஹ அவர்களுக்கு எனது பாராட்டுக்களை தெரிவித்துக் கொள்கிறேன். அவர் தலைமை தாங்கிய உப குழுக்கள் மூலம் விலைமதிப்பற்ற பங்களிப்பை வழங்கி எமது சபைக்கு பக்கபலமாக இருந்தார். 2023 ஒக்டோபரில், சுதந்திரமான, நிர்வாகமற்ற இயக்குநராக இருந்த திரு.ரவி அபேசூரியவின் மறைவு எங்களை மிகவும் வருத்தத்தில் ஆழ்த்தியது. கடந்த ஐந்து வருடங்களாக திரு. அபேசூரியவின் பங்களிப்பும் தொலைநோக்கு பார்வையும் வங்கியின் பயணத்தில் பெரும் பயனுள்ளதாக இருந்தமை குறிப்பிடத்தக்கது.

இவ்வாண்டில், திரு.ரமேஷ் ஐயசேகர வங்கியின் தொடர் திட்டத்திற்கு ஏற்ப வங்கியின் பணிப்பாளர்/தலைமை நிர்வாக அதிகாரியாகப் பொறுப்பேற்றார். திரு. ஐயசேகர அவர்கள் உள்நாட்டிலும் வெளிநாடுகளிலும் பெற்றுக்கொண்ட அனைத்து விதமான வங்கி அனுபவங்களும் குறிப்பாக கடந்த பன்னிரெண்டு ஆண்டுகளாக எங்கள் வங்கியின் முக்கியப் பிரிவுகளில் அவர் வகித்த தலைமைப் பதவிகள் அவரை வகித்த தலைமைப் பதவிகள் அவரை தலைமை நிர்வாக அதிகாரியாக பொறுப்பேற்கத் தயார்படுத்தியுள்ளது. அவருது தலைமைத்துவம், எதிர்காலத்தில் வங்கியை மேலும் பல உயரங்களுக்கு கொண்டு செல்லும் என நான் நம்புகிறேன்.

#### பாராட்டுக்களும் நன்றிகளும்

பல சவால்களால் குறிக்கப்பட்ட வருடத்தில், பணிப்பாளர்/பிரதம நிறைவேற்று அதிகாரி தலைமையில் செலான் வங்கியின் ஒட்டுமொத்தக் குழு வெளிப்படுத்திய மீள்தன்மை மற்றும் அர்ப்பணிப்பு உண்மையிலேயே குறிப்பிடத்தக்க தடைகளைத் தாண்டி, குறிப்பிடத்தக்க மைல்கற்களை எட்டுவதற்கு ளங்களை முன்னோக்கி நகர்த்திய கூட்டு முயற்சிகளை நான் மிகவும் பெருமையுடன் பாராட்டுகிறேன்.

வங்கியை சரியான பாதையில் வழிநடத்த எங்கள் இயக்குனர் சபை வழங்கிய வழிகாட்டல்கள் மற்றும் மூலோபாய பார்வைக்கு எனது நன்றிகளைத் தெரிவித்துக்கொள்கீறேன். இச்சவாலான காலகட்டத்தில் பங்குதாரர்கள், வாடிக்கையாளர்கள் மற்றும் ஏனைய பங்காளர்கள் வழங்கிய ஒத்துழைப்பிற்கும் அவர்களின் அர்ப்பணிபிற்கும் இத்தருணத்தில் நன்றிகளை கூறுகிறேன்.

இவ்வருடம் முழுவதும் இலங்கை மத்திய வங்கியின் அதிகாரிகள் வழங்கிய ஆதரவிற்கு எனது பாராட்டுக்களை தெரிவித்துக் கொள்கிறேன்.

#### உரைச்சுருக்கம்

பெரும்பாலான அம்சங்களில், குறிப்பிடத்தக்க முன்னேற்ற நிலையில் இவ்வாண்டை நிறைவு செய்தோம். நாங்கள் செயற்பாட்டில் . வலுவாக உள்ளதோடு வங்கிச் சேவைக்கு உரித்தான எதிர்கால அணுகுமுறையை எடுத்து வருகிறோம். எங்களிடம் வளர்ச்சி மனப்பான்மை, சரியான நிறுவன அமைப்பு மற்றும் திறமை ஆகியன உள்ளமை நீண்ட கால வெற்றிக்கான அடித்தளத்தை அளிக்கிறது. எங்களின் சாதனைகளில் பெருமிதம் கொள்ளும் அதே வேளை வரவிருக்கும் சவால்கள் தொடர்பாகவும் அவதானத்துடன் செயற்பட வேண்டும். ஒத்துழைக்கும் மனப்பான்மையும் சிறந்து விளங்குவதற்கான அர்ப்பணிப்பும் எங்களைத் தொடர்ந்து முன்னோக்கிச் செல்ல உதவுவதோடு வரும் ஆண்டுகளில் செலான் வங்கி ஸ்திரத்தன்மையில் சிறந்து விளங்குவதை உறுதிசெய்யும் என்று நான் நம்புகிறேன்.

X

ட**புள்யு. எம். ஆர். எஸ். டயஸ்** தலைவர்

20 பெப்ரவரி 2024

# 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, Subordinated, Redeemable Debentures issued in the years 2018, 2019, 2021 and 2023 were listed on the Colombo Stock Exchange.

## Accounting Year End

31 December

## **Credit Rating**

The Bank has been assigned "A- (lka)/ outlook stable" National long term rating by Fitch Ratings Lanka Limited.

#### **Board of Directors**

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

Mr Ramesh Jayasekara Director/Chief Executive Officer

Mr S Viran Corea, PC Non-Executive Director

Ms Sandya K Salgado Senior Independent Director

Mr D M D Krishan Thilakaratne Non-Executive Director

Mr D M Rupasinghe Independent Director

Mr L H A Lakshman Silva Independent Director

Ms V G S Sunjeevani Kotakadeniya Non-Executive Director

Ms Averil A Ludowyke Independent Director

## **Company Secretary**

Ms Saraswathie Poulraj LL.B (Honours), University of Colombo, LL.M (West London), MBA (University of Colombo), Attorney-at-Law

## **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 : champikad@seylan.lk Tel : 94-11-2456358 Fax :94-11-2452583

| Notes |      |      |  |
|-------|------|------|--|
|       |      |      |  |
|       |      |      |  |
|       | <br> | <br> |  |
|       | <br> | <br> |  |
|       |      | <br> |  |
|       |      |      |  |
|       |      |      |  |
|       | <br> | <br> |  |
|       |      | <br> |  |
|       |      | <br> |  |
|       | <br> | <br> |  |
|       |      | <br> |  |
|       | <br> | <br> |  |
|       |      | <br> |  |
|       | <br> | <br> |  |
|       |      | <br> |  |
|       | <br> | <br> |  |
|       |      |      |  |
|       |      |      |  |
|       |      |      |  |

This Annual Report is conceptualised, designed and produced by Redworks.



www.seylan.lk