



SANASA Development Bank PLC
Integrated Annual Report 2023

ENVISIONING **PROGRESS, EMPOWERING COMMUNITIES**



OUR VISION

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

OUR MISSION

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

OUR STRATEGIC PILLARS

Superior Customer Service

Propelling SDB as the Bank of the masses

Create wealth at community level

Leading the digital adaptation/ innovation

Design and implement a winning operating model

Role model in sustainable banking practices

OUR VALUES

To foster and maintain the highest ethical standards at all levels of the Bank and its agencies in dealing with customers, stakeholders and competitors.

To be innovative and demand driven in providing financial services

To be courteous and professional in all business dealings.

To avoid discrimination on the grounds of religion, sex, ethnicity, social status and language.

To refrain from extending financial services for unethical and illegal pursuits.

OUR GOALS

Improve the asset base to stay competitive and resilient in the market.

Transition from a largely microfinance focus to a broader SME corporate focus.

Establish SDB as the Bank of the choice for the cooperative sector.

Introduce a comprehensive digital platform to future proof the Bank.

Provide a delightful experience to customers through value added service.

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

Role model Bank for responsible finance in Sri Lanka.





ENVISIONING **PROGRESS, EMPOWERING COMMUNITIES**

Since its inception in 1997, Sanasa Development Bank has evolved into a futuristic institution with financial inclusion and technology as its core pillars. In the year under review, the Bank remained committed to this focus while accompanying the nation towards economic balance. Equipped with a vast network of stakeholders and resources, SDB Bank has braved the needs of the time to ensure that community stakeholders remain stable and secure through timely support and comprehensive services.

Our work across the year reflects our commitment to envisioning progress and empowering dreams, while our commitment to long-term growth and value creation has veered us towards new strategic restructuring efforts as a future-ready and sustainable financial partner.

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"I am confident that SDB Bank currently occupies the best vantage point to restart and develop the SME sector, which will in turn, restart the national economy at the ground level, and fuel socially and economically sustainable growth"

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ABOUT THIS REPORT

THE 10TH INTEGRATED ANNUAL REPORT OF SANASA DEVELOPMENT BANK PLC ("SDB BANK" OR "THE BANK"), HAS CONTINUED TO ADOPT THE INTEGRATED REPORTING FRAMEWORK TO REPORT ON ITS ANNUAL ACTIVITIES. THE FINANCIAL STATEMENT OF THE BANK ARE ACCOMPANIED BY INFORMATION ON NON-FINANCIAL CAPITALS, AS WELL AS AN EXPLANATION OF THE CHANGES TO THE BANK'S FINANCIAL CAPITAL DURING THE 12 MONTHS UNDER REVIEW, AND SUSTAINABLE GROWTH PLANS FOR THE FUTURE. WE HOPE THIS INFORMATION WILL PROVIDE GREATER INSIGHTS INTO NOT ONLY THE IMMEDIATE FINANCIAL STATUS OF THE BANK, BUT ALSO ITS SUSTAINABLE BUSINESS PRACTICES, AND FUTURE VALUE CREATION POTENTIAL.

THE MOST RECENT PAST REPORT IS FOR THE FINANCIAL YEAR 2022, AND CAN BE ACCESSED ON OUR CORPORATE WEBSITE – www.sdb.lk

SCOPE AND BOUNDARY

As the Bank has no subsidiaries, the scope of this report is limited to the Bank and extends to the core business operations of Bank, its level of compliance with applicable regulations and codes of conduct, the Bank's growth strategy, business model, engagements with key stakeholders and management of risks.

The reporting time frame is the 12-month period of 1st January 2023 to 31st December 2023, which is both the financial reporting period as well as the sustainability reporting period.

STANDARDS AND PRINCIPLES OF PREPARATION

The following frameworks and guidelines have been adopted in compiling this Annual Report.

FINANCIAL REPORTING

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 07 of 2007
- Banking Act No. 30 of 1988 and amendments thereto
- Listing Rules of the Colombo Stock Exchange (CSE)

CORPORATE GOVERNANCE

- Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka
- Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and amendments thereto.
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto.

SUSTAINABILITY REPORTING

- International Integrated Reporting Framework 2021 of the International Integrated Reporting Council (IIRC)
- United Nations Sustainable Development Goals (SDGs)

FORWARD-LOOKING STATEMENTS

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



BOARD RESPONSIBILITY STATEMENT

The Board of SDB bank acknowledges its responsibility for the integrity of the Integrated Annual Report for FY 2023. this report complies with the Integrated Reporting principles and guidelines.

Our assurance on this report extends to the Company's financial statements and other quantitative and qualitative data provided in this report, for the reporting period. The extent of our assurance for this report is further supported by the following statutory reports.

1. Independent Auditors' Report on page 154
2. Statement of Directors' Responsibilities on page 153

FEEDBACK

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

Chief Financial Officer
SANASA Development Bank PLC
No. 12, Edmontan Road, Kirulapone,
Colombo 06

Phone : +94 11 283 2515
Fax : +94 11 251 4245
Email : shanka@sdb.lk
Website : www.sdb.lk

Here's our Annual Report for 2023



<https://www.sdb.lk/en/investor-relations/annual-reports>

OUR EVOLUTION

SDB Bank is differentiated within Sri Lanka's financial sector and banking industry by its distinct objective as a development catalyst and social enabler. Its long-standing relationship with the Sri Lankan cooperative sector, which is dedicated to the advancement of rural, micro-entrepreneurs through social inclusivity and environmental sustainability, enshrines concepts of sustainability at the heart of Bank's business model.

Incorporated in 1997 as a Licensed Specialised Bank registered with the Central Bank of Sri Lanka, under the Banking Act No. 30 of 1988 (as amended by the Banking Act of 1995), SDB Bank was listed on the Main Board of the Colombo Stock Exchange in 2012. From its origins as a bank primarily designed to provide specialised financial services for the bottom-of-the-pyramid, the Bank is now rapidly evolving into a digitally driven bank with a widening customer base, which is fast expanding within the country's progressive masses, while retaining its original cooperative foundation. The Bank's customer base currently consists of a mix of individuals and small and medium businesses, as well as island-wide cooperative societies and their members. The Bank's physical footprint extends across the country through its network of 94 branches, 13 ATMs, and network link to the national LankaPay Network, which allows SDB Bank customers to access funds through any ATM, anywhere in the country.

The Bank not only facilitates access to secure, formal financial services to unbanked communities, it also acts as a development enabler through the provision of regular educational events on financial literacy, marketing and business management, designed for cooperatives, and micro and SME entrepreneurs. While channelling development funds to underserved entrepreneurial segments that are marginalised by traditional commercial banks, SDB Bank also incorporates sustainable financing concepts within its lending model, thereby extending sustainable business practices to a wider population. The Bank's evolution has gained speed within the recent past with digitisation becoming a strategic focus and the rapid digitalization of its processes, together with the introduction of mobile and Internet banking solutions that have positioned the Bank in the forefront of digital banking in Sri Lanka.

1997

- SANASA Development Bank Ltd. was incorporated with a capital of **Rs. 123 Mn**, contributed largely by primary SANASA Societies

1998

- **10th** branch opened in Kandy

1999

- Total assets exceeds **Rs. 100 Mn**

2006

- **10-year** development plan initiated

2007

- Celebrated **10 years** of excellence
- The branch network expanded to **25**

2008

- Winner of the National Excellence Award
- Total assets increased to **Rs. 10 Bn**
- Employees expanded to **500**

2009

- SANASA Group loan scheme introduced
- Share capital increased to **Rs. 1 Bn** from **Rs. 123 Mn**
- The branch network expanded to **50**

2010

- Head Office relocated to a new building located in Kirulapone
- Ranked as the second best microfinance institution in the World, by Mix Market Global – USA
- The branch network expanded to **75**

2012

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

2013

- Total assets increased to **Rs. 29.7 Bn**

2014

- Employee cadre increased to **1,000**
- First rights issue oversubscribed
- Issued share capital exceeds **Rs. 3 Bn**

2015

- **Rs. 60 Bn** asset base
- **Rs. 4 Bn** debenture and **Rs. 5 Bn** capital base

2016

- **Rs. 66 Bn** asset base
- **Rs. 5.5 Bn** capital base
- Tele Collection Unit launched in Malabe
- New logo launched

OUR EVOLUTION

2017

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

2018

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

2019

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

2020

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

Awards 2020

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

2021

Highest ever profit of the Bank

Awards 2021

- Global Banking & Finance award for the **"best SME Bank"** and the best bank for social media in 2021
- Ranked **43rd** place on the Brand Finance Sri Lanka's **100** most valuable brands Annual List for 2021
- SDB bank Placed Among **Top-50 in LMD's** Inaugural Edition of 'Most Awarded'
- SDB bank was honoured at the National Business Excellence Award 2021, receiving the Merit Award in the Banking Sector
- Efforts to empower women in the workplace was rewarded at the first CIMA Women Friendly Workplace.
- SDB bank successfully recorded yet another oversubscription at its Secondary Public Offering
- SDB bank received **USD 40 Mn** loan facility from US International Development Finance Corporation (DFC) to nurture SMEs and female entrepreneurship
- SDB bank hosted the Asia Pacific Chapter of the Global Alliance for Banking on Values
- SDB bank's rating upgraded to **BBB** with a Stable Outlook by **ICRA** Lanka

2022

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

2023

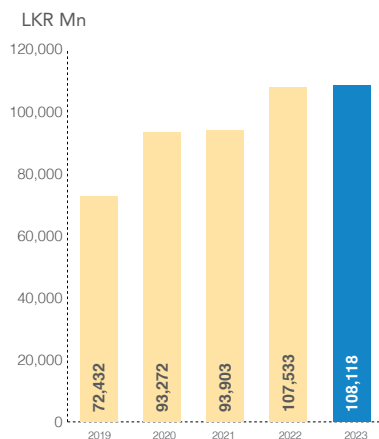
- Total equity of the bank crossed the **Rs. 14 Bn** mark
- The total deposit base increased to **Rs. 108 Bn** (including savings deposit to Rs.16.5 Bn)
- Number of successful UPay transaction exceeded **3Mn** transaction for the year worth of **Rs.58 Bn**

FINANCIAL HIGHLIGHTS

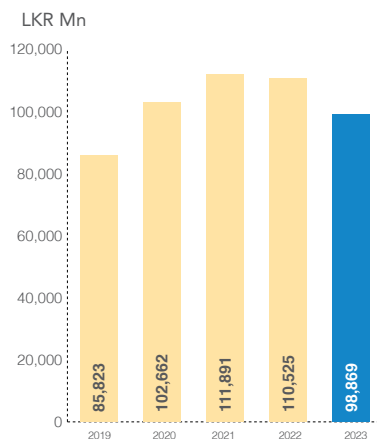
For the year ended 31st December	2023 LKR	2022 LKR	Change
Financial Performance			
Gross Income	30,792,731,044	24,034,136,121	28.12%
Interest Income	29,904,604,368	23,101,048,459	29.45%
Interest Expenses	21,402,708,282	16,261,994,676	31.61%
Profit Before Tax	771,926,150	96,957,129	696.15%
Profit After Tax	466,822,213	61,166,337	663.20%
Total Comprehensive Income	606,640,711	292,179,814	107.63%
Financial Position at the Year End			
Net Advance to Customers	98,868,895,650	110,525,450,192	(11%)
Deposit From Customers	108,118,121,881	107,533,001,772	1%
Total Assets	156,957,400,105	159,521,031,878	(2%)
Total Equity	14,265,855,626	13,659,214,915	4%
Growth in Deposit	0.54%	14.52%	-
Investor Information			
Earning Per Share (Rs.)	2.90	0.38	
Net Assets Per Share (Rs.)	88.77	85.00	
Market Value Per Share (Rs.)	31.50	21.40	
Price Earning Ratio (Times)	10.86	56.31	
Ratios			
Net Interest Margin - %	5.37	4.45	
Return On Assets (ROA) - %	0.49	0.06	
Return On Equity (ROE) - %	3.34	0.44	
Stage III Impairment Ratio - %	9.42	7.57	
Statutory Ratios			
Common Equity Tier 1 Ratio % - (Minimum Requirement - 2023-7.00%, 2022-6.50%)	14.85	12.92	
Tier 1 Ratio % - (Minimum Requirement - 2023-8.50%, 2022-8.00%)	14.85	12.92	
Total Capital Ratio % - (Minimum Requirement - 2023-12.50%, 2022- 12.00%)	16.45	15.37	
Liquidity Coverage Ratio % - (Minimum Requirement - 2023-100%, 2022-90%)	287.06	191.31	
Net Stable Funding Ratio % - (Minimum Requirement - 100%)	192.78	241.61	
Statutory Liquid Assets Ratio % - (Minimum Requirement 20%)	38.25	23.51	

FINANCIAL HIGHLIGHTS

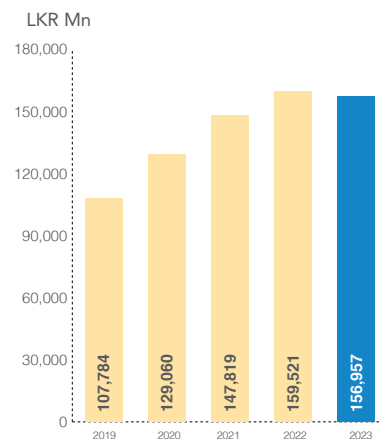
Deposit from Customer



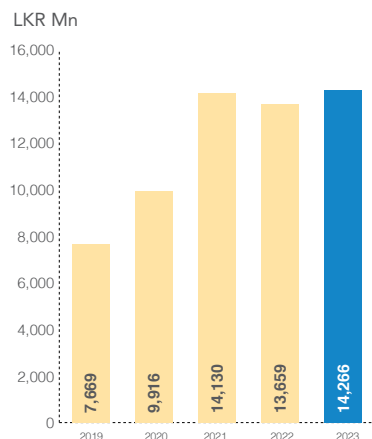
Net Advance to Customer



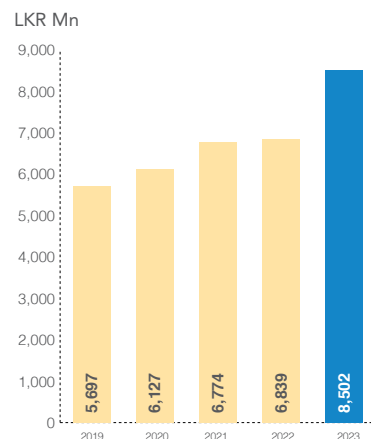
Total Assets



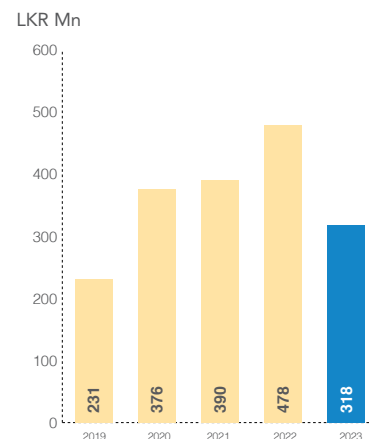
Total Equity



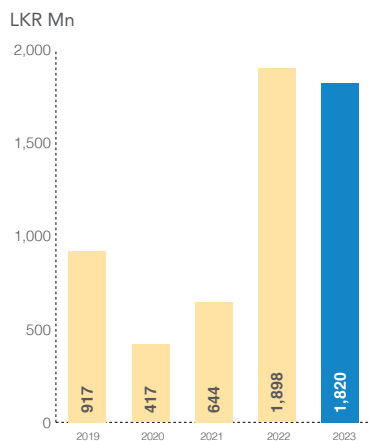
Net Interest Income



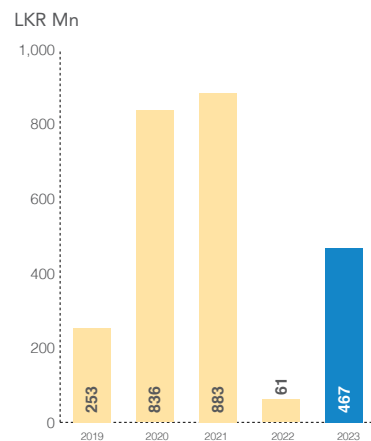
Net Fee Income



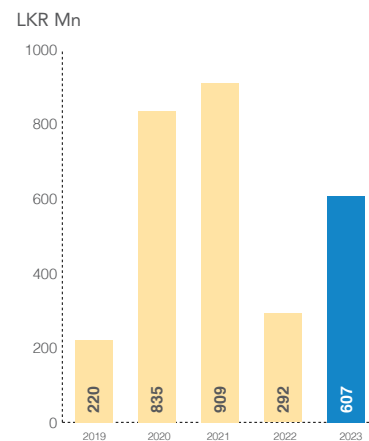
Impairment Charge



Profit After Tax



Total Comprehensive Income



YEAR IN REVIEW

OPERATING ENVIRONMENT



- Macroeconomic Conditions: The economy continued to contract by 3.8%



- Inflation: The rate of inflation remained comparatively high although lower than 2022, impacting household purchasing power.



- Exports and Imports: The value of total exports declined by 9.1% year-on-year while the value of total imports declined by 8.1%



- Interest Rates: Gradual decline in interest rates after the second half of the year. 3 months TB rates declined from 32.64% to 14.51%.

WHAT WE DELIVERED



- Developed in-house software to support recoveries and portfolio management
- Improved portfolio quality of new lending, strengthening overall portfolio
- Recruited key management personnel to guide the implementation of strategic plans
- Enhanced brand visibility by revamping branches
- Strengthened digital brand presence through digital campaigns
- Expanded savings base for low-cost financing

SUSTAINABLE PROGRESS



- Commenced value chain financing
- Commissioned solar in 2 branches
- Conducted 80+ rural capacity building programmes
- Improved children savings proposition

STRATEGIC PRIORITIES IN THE YEAR 2023



- Channel financial support for rural SMEs: Provide inclusive and equitable banking in Sri Lanka by supporting the SME and MSME sectors to achieve further growth



- Support women's empowerment: Focus on empowering female entrepreneurs through financial assistance



- Digital inclusion of rural masses: Focus on taking digital banking to the masses as a financial services provider that values every customer equally



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

WHAT WE ACHIEVED



- Net Interest Income Growth : **24.31%**
- Deposit Growth : **0.54%**
- Total Comprehensive Income Growth : **107.63%**
- Advances disbursed to women. **13,500 Mn+**

FORWARD STRATEGY



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

WHAT WE OFFER

Product Name	Product Features
SAVINGS PRODUCTS	
	- Savings for the child's future - Hospitalisation Insurance cover (including government hospitals) - Higher interest rate compared to regular savings - Attractive gifts for saving slabs
	- Savings product specially for women - The best benefits in the market for women's savings - Bill payments through UPay App
	- Attractive interest rate - Digital banking facilities via the UPay App
	- Offered the highest interest rates to customers - Unlimited withdrawal - Multiple convenient digital banking platforms
	- Lump sum deposit ensures a guaranteed return despite interest rate fluctuations - Investment certificate can be encashed upon turning 18 years of age
	- Higher interest rate compared to standard savings schemes - Specially product designed for woman - Payment date for monthly investment based on customer preference - Target amount and period of investment chosen by customer
	- Earn high interest on savings - Interest calculated on daily basis based on the day-end balances and credited monthly - Multiple convenient digital banking platforms UPay & BIB
	- A comprehensive Business Savings Account for the business community - Save time and money as all business transactions can be handled through digital banking services - Earn high interest on savings.
	- Access savings anywhere, at any time. - Greater flexibility to withdraw any number of times without any interest penalties
FIXED DEPOSIT PRODUCTS	
	- Attractive higher rate of interest - Immediate cash back facility of up to 90% of deposits
	- Attractive interest rate for those over 55 years of age senior citizen 90% cash back facilities
LOAN PRODUCTS	
	- Longer repayment period - Flexible approach and fast approval - Attractive and competitive low-interest rate
	- Top-up option for facility - Choice of fixed or floating interest rates - Processing within a maximum of three working days
	Purchasing options for gold jewellery, gold coins or gold biscuits at competitive interest rates

What We Offer

Product Name	Product Features
LOAN PRODUCTS	
 Uththamachara	• For Army/Navy/Air Force/Police & Police STF Ex Military Personnel and their Dependent Family Members • Loans up to LKR 5 Mn without guarantors • Repayment period up to 10 years and 75 years of age • Loan protection covers for all Uththamachara credit facilities • Lower insurance charges • Assistance in SWIFT transfer of salaries from relevant Pay and Record offices • Convenience and quality service to customers
 Gold Loan	• Short term loan (1, 3, and 6 months) • Maximum advance amount for gold sovereign (8g) 18/24kt of gold • Competitive low interest rate • Benchmarked services that guarantee speed, privacy and the highest level of confidentiality
 Upahara	• For Retired Government servants and Ceylon Electricity Board Pensioners • Loans up to LKR 5 Mn without guarantors • Repayment period up to 10 years, and 75 years of age • Extended support to transfer the pension remittance to the account quickly. • Loan protection insurance cover with lowest insurance charge. • Convenience and quality service to customers
 Pawning	• Maximum advance amount for a gold sovereign (8g) 18K/24K of gold • Competitive low interest rates • Ensured accuracy of gold weight and value with the latest equipment • Benchmarked services that guarantee speed, privacy and the highest level of confidentiality
 SME Plus	• Reasonable rate of interest with a suitable grace period • Loan values to suit business requirements with a flexible repayment schedule aligned with income • Pattern and payment capacity • Business guidance and consultancy services • Availability of credit lines • Open for SME business segments • Promoting Environmental, Social, and Governance (ESG) in financing
 Jawaya	• Loan facilities up to LKR 1 Mn with two guarantors • Repayment period of up to 5 years for capital financing and up to two years for working capital for applicants who hold 50% or more ownership of a business
 Uththamavi	• Microfinance loans • SME loans • Personal loans up to LKR 10 Mn • Insurance Benefit for those obtaining a loan
 Business Plus	• Financial assistance for pensioner entrepreneurs • Easy access for attractive rates and other benefits for business improvements • Target to service for sectors of women, agri exporters, service and industry

WHAT WE OFFER

Product Name	Product Features
LOAN PRODUCTS	
 Leasing	• Customised leasing packages to suit individual requirements with flexible repayment schemes at competitive rates • Attractive discounts on premature settlements • Easy accessibility to leasing facilities through island-wide branch network • Leasing facilities available for private and commercial vehicles
 SME	• For the upliftment of Micro and Small businesses • Open for Micro and Small businesses • Availability of Credit lines
 Value Chain Financing	• In line with the Bank's three-year strategy, value chain financing (VCF) will play one of the most important roles in establishing an efficient and effective ecosystem to reach small, medium, and corporate-level customer bases and fulfill their financial requirements, while also assuring the markets, especially in the manufacturing and agricultural sectors. Large corporates, exporters, and manufacturers will onboard to the bank as anchors, along with their supplier bases.
CO-OPERATIVE PRODUCTS	
 Project Loans	• To finance start-ups of new projects & develop existing projects carried by registered cooperative societies • Repayment period up to ten years in monthly installments, with a 6 month grace period • Loan amount depends on the capacity of the society & project cost
 Relending Loans	• Re lend to society members for their income generating & consumption purposes • Repayment can be made monthly, or as a bullet repayment base on requirement • Loan amount depends on the capacity of the society
 Top Saver	• Highest interest rate for savings interest calculated on a daily basis based on the day-end balances and credited monthly • Loan facilities against savings balances with the ability to avail up to 80% of the deposit for a one year loan renewal period
 NGO Savings	• Savings product tailored for Co-operatives and NGO's
 Coop Saver	• Highest interest rate for savings interest calculated on daily basis based on the day-end balances and credited monthly. Many other societies are maintaining their own funds. Coop Saver Savings Account is a smart option for co-operative & non-co-operative other societies to earn a higher interest rate while ensuring the real value of returns are not lost at all times. • Digital solution for fund transfers/payments -The main concern of transacting business account is to maintain smooth fund management of the co-operative business with easy handling of cash in and out.
 Sahanya	• Special interest rates • Special interest rates Bonus Interest of 40% of the cumulative interest will be paid only if the required average balance of Rs. 200,000 is maintained during a period of one year. • Bonus Interest of 50% of the cumulative interest will be paid only if the required average balance is maintained at 1 million or above during a period of one year • 60% cash back loan facilities
 Samupa Saviya	• Additional 0.25% interest for fixed deposits • Coverage for entire co-operative segment (including society employees)

OPERATING ENVIRONMENT AND STRATEGY





OPERATING ENVIRONMENT



GLOBAL ECONOMY

Global economic recovery was below expectation in 2023 due to the combined impacts of long-term economic effects of the pandemic, the conflicts in Ukraine and the Gaza Strip, the monetary tightening policies against inflation and extreme weather events. However, declining headline inflation levels globally, COVID-19 no longer being recognised as a global health emergency, reorientation of global supply chains and the signs of easing of global financial conditions, somewhat offset the slowdown in the global economy.

The International Monetary Fund's (IMF) October 2023 World Economic Outlook (WEO) updated its projections of global growth to fall from 3.5% in 2022 to 3% in 2023 and 2.9% in 2024.

INFLATION

Global headline inflation commenced a decline in 2023, due to lower global demand and declining prices of energy and food. Global commodity prices are on a declining trend from peaks observed in mid-2022, albeit remaining above pre-pandemic levels and with high upside risks. Nevertheless, it is expected that prices will remain above pre-pandemic levels and weigh down the affordability of consumers. As such, the IMF in their October 2023 WEO projected that global inflation would decline from 8.7% in 2022, to 6.9% in 2023, and decline to 5.8% in 2024. However, the decline in core inflation remains sluggish, which signals that global monetary policy easing will be delayed and slow.

OUTLOOK

The World Bank's Commodity Market Outlook report states that the impact from the conflict in the Gaza region will be limited and expects commodity prices to fall further in 2024 and 2025. However, the IMF stressed the importance of Central Banks remaining vigilant against inflation. Despite maintaining tight monetary policy, potential risks of sharp repricing of assets including housing, weaknesses in key exposures such as real estate and geopolitical issues raise global financial stability concerns. The geopolitical risks remain high, especially if the Gaza conflict escalates and spreads in the region leading to substantial supply disruptions, trade restrictions and production cuts. Meanwhile, adverse weather events that increase demand or disrupt supply and trade flows, and uncertainties related to global economic growth, could affect demand and supply conditions in commodity markets and cause price increases as well as global economic growth.

LOCAL ECONOMY

While Sri Lanka's economy contracted during the nine months ending September 2023, the economy indicated a gradual recovery in the last 2 quarters of 2023. The approval of the IMF's Extended Fund Facility (IMF-EFF) in March 2023 brought in new economic confidence. Reflecting the early impact of monetary policy easing, the private sector credit-to-GDP gap (The Credit Gap), which reflects the status of the credit cycle, signals that the tough of the cycle has passed, and the cycle has entered the recovery phase.

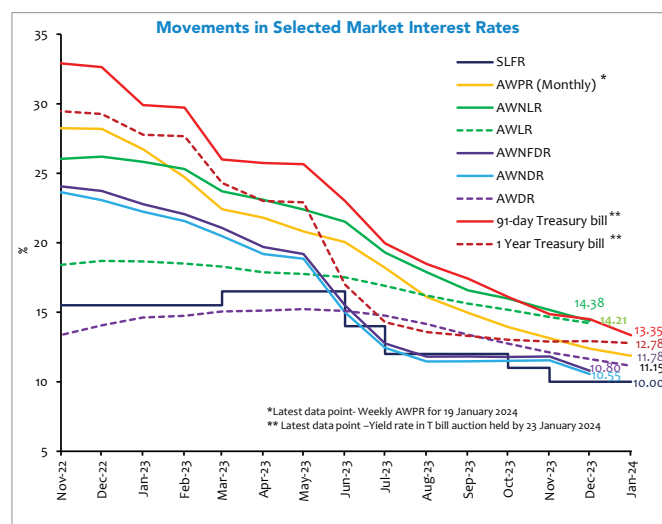
OPERATING ENVIRONMENT

With these developments, financial markets which witnessed extreme turbulence in 2022 demonstrated signs of stabilisation.

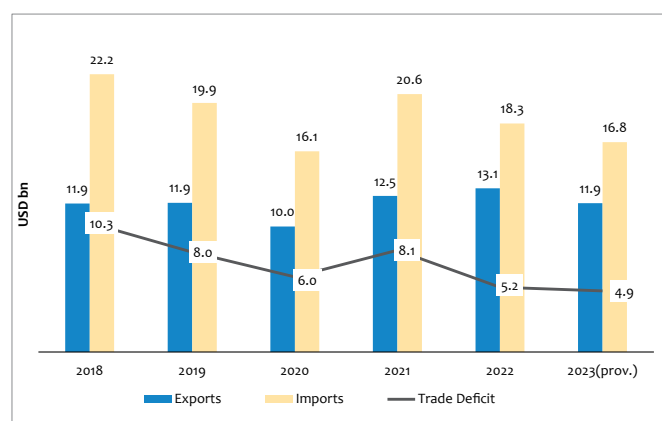
Following the completion of the Domestic Debt Optimisation (DDO) programme, Fitch Ratings upgraded Sri Lanka's Long-Term Local-Currency Issuer Default Rating (IDR) to 'CCC+' and S&P Global Ratings raised the country's Long-Term Local Currency sovereign credit rating to 'CCC+' with a "stable" outlook.

Domestic economic activity is expected to sustain recovery over the medium term supported by the faster passthrough of relaxed monetary policy to broader market interest rates, firming of credit demand, improvements in business and investor sentiments, improvements in supply conditions and the gradual rebound expected in external demand conditions.

The Monetary Policy Board was of the view that there is space for market interest rates to continue to adjust downwards in line with past monetary policy easing measures and the falling risk premia in government securities. The Board anticipates a broad-based reduction in overall market lending interest rates in line with the monetary policy easing measures effected since June 2023.

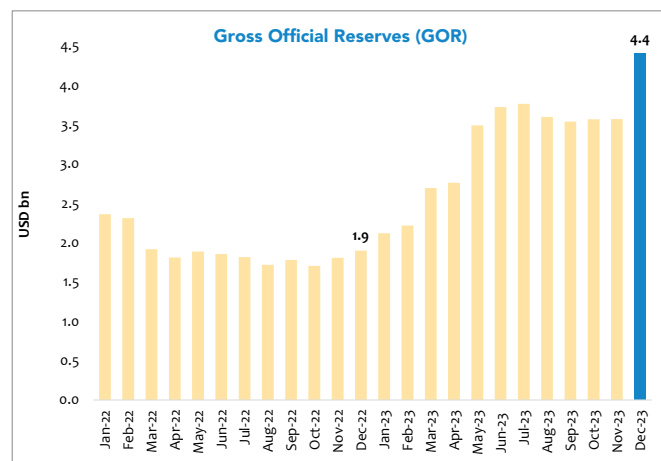


MERCHANDISE EXPORTS, IMPORTS AND TRADE DEFICIT



It is estimated that the trade deficit in 2023 will be the lowest since 2010, mainly due to lower expenditure on merchandise imports. Supported by the services sector and secondary income inflows, the current account of the BOP is expected to have recorded a surplus in 2023.

The level of gross official reserves improved notably in December 2023 after the second tranche of the IMF-EFF and inflows from multilateral development banks were received.

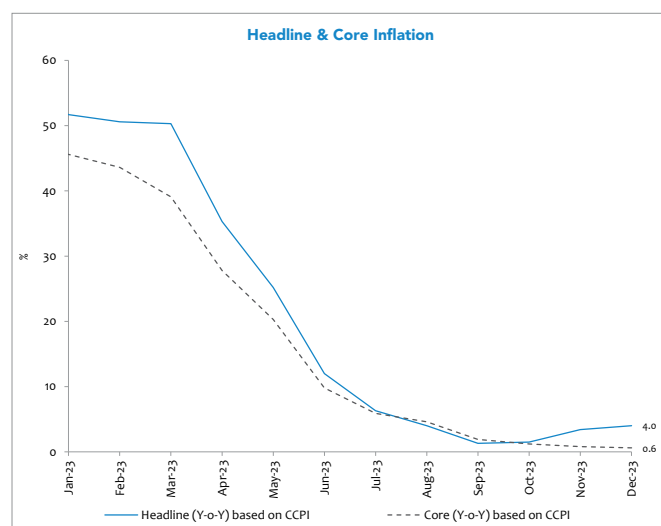


LABOUR MARKETS

The unemployment rate was reported to have worsened in the second quarter of 2023. This has contributed towards increased household poverty, lower disposable incomes and slower recovery of market demand, as well as heightening credit risk.

INFLATION

Headline inflation remained close to the inflation target of the Central Bank, despite some fluctuation during the year. Headline inflation is projected to accelerate in the near term, due to domestic price adjustments from the increase in VAT and elimination of certain VAT exemptions, disruptions to domestic food supplies and dissipation of the favourable base effect. Core inflation continued to moderate during 2023.



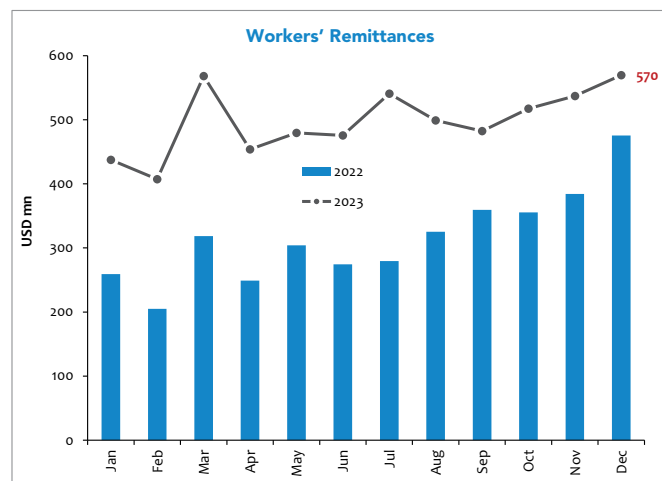
Operating Environment

Over the medium term, headline inflation is expected to gradually stabilise around the targeted level of 5%. The effects of the recent tax adjustments and supply side disruptions are expected to dissipate in the near term. The spillover effects of such one-off adjustments are likely to be muted due to subdued underlying demand conditions.

EXTERNAL SECTOR

The foreign exchange market which recorded an acute shortage of liquidity resulting in a significant depreciation of the Sri Lankan Rupee during 2022 witnessed an appreciation of the domestic currency with a gradual easing of liquidity conditions. Inflows from the IMF-EFF and through accelerated export proceeds, workers' remittances and tourist earnings, as well as restrictions on imports, Asian Development Bank and World Bank funds in the form of budgetary support, all contributed to the easing of liquidity conditions in the domestic foreign exchange market. However, augmented foreign currency demand to facilitate the exchange of Sri Lanka Development Bonds under the DDO and subsequent relaxation of import restrictions caused the depreciation of the rupee during Q3 of 2023. However, the rupee continued to gain slowly.

Inward remittances continued to increase in 2023, from USD 5.5 Bn in 2021, to USD 3.8 Bn in 2022, to USD 6.0 Bn in 2023.



Earnings from tourism also increased by the end of 2023 to USD 2.1 Bn, from USD 1.1 Bn in 2022, and USD 0.5 Bn in 2021.

LKR Movement Against Other Currencies			
	2022	2023	Up to 24 Jan 2024
Currency	App(+)/Dep(-)	App(+)/Dep(-)	App(+)/Dep(-)
US dollar	-44.8 %	+12.1 %	+1.2%
Pound sterling	-38.1%	+6.0 %	+1.6%
Euro	-41.4 %	+7.9 %	+3.3%
Japanese yen	-36.4 %	+19.5 %	+6.1%
Indian rupee	-38.6 %	+12.6 %	+1.3%

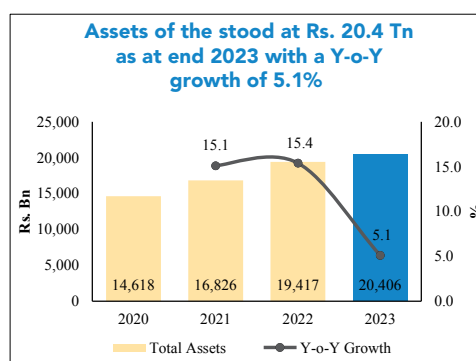
BANKING SECTOR PERFORMANCE

In spite of the unfavourable macro environment, banking sector profits after tax continued to increase and reached Rs. 189 Bn as at the end of 2023, which is an increase of Rs. 35 Bn when compared to 2022. The sector's Net Interest Income declined from Rs. 750.8 Bn in 2022, to Rs. 713.8 Bn in 2023, but Impairment for loans and other losses also decreased from Rs. 468.8 Bn in 2022, to Rs. 163.8 Bn in 2023. This contributed towards boosting the sector's Profit Before Tax, from Rs. 238.5 Bn in 2022, to Rs. 383.5 Bn, contributing to the growth in after tax profits.

The banking sector assets grew by 5.1% reaching Rs. 20.4 Tn as at the end of 2023 and loans and receivables of the sector reached Rs. 11.0 Tn, with rupee loans accounting for 78% and foreign currency loans accounting for 22%.

Total deposits increased to Rs. 16.6 Tn, with rupee deposits representing 78% and foreign currency deposits accounting for 22%.

Total borrowings declined by Rs. 482.5 Bn and stood at Rs. 1.4 Tn with rupee borrowings at 76% and foreign currency borrowings at 24%. Banking sector investments increased year-on-year by 23.3%, or Rs. 1.4 Tn, reaching Rs. 7.3 Tn by the end of 2023.

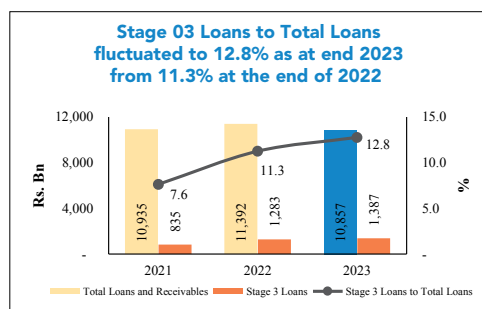


The banking sector credit growth declined during 2023, compared to 2022, by 2.6%, or Rs. 294.9 Bn, to Rs. 11.0 Tn, mainly due to foreign currency loans.

However, on a positive note, the deteriorating trend in credit quality indicated moderation with stage 3 loans to total loans increasing only marginally to 12.8% as at the end of 2023, from 11.3% by the end of 2022.

Deposits continued to be the main source of funding and grew by 8.7% against 2023, by Rs. 1.3 Tn, to Rs. 16.6 Tn, mainly due to time deposits.

OPERATING ENVIRONMENT



Liquidity ratios were maintained above the minimum requirements and the LCR-LKR improved from 237.5% in 2022 to 343.6% as at the end of 2023. The total capital ratio improved to 16.4% by the third quarter from 15.3% in 2022. The sector ROA improved from 0.9% in 2022 to 1.5% by the end of 2023, with ROE also improving marginally from 10.4% in 2022 to 10.6% by the end of 2023. The Net Interest Margin, however, declined from 4% in 2022 to 3.6%, while the cost to income ratio increased from 70.0% to 80.6% year on year.

OUTLOOK

The Sri Lankan economy is expected to retain its recovery trajectory in 2024 albeit sluggishly, as demand conditions continued to be dampened by high tax levels and income levels not fully adjusted for the prior year inflation impact. The monetary policy easing since mid-2023 is expected to fuel a rebound in domestic demand and economic activity, improving income levels and alleviating pressure on households and firms. Moreover, the targeted stabilisation of domestic inflation at 5% in the medium term will enhance purchasing power and improve debt repayment capacities, supporting further economic recovery in 2024.

The Domestic Debt Optimisation and associated reduction in yields have somewhat eased the pressure on the cash flow requirements of the Government and also partially corrected imbalances in the interest rates. Negotiations with the Paris Club and an agreement in principle with the Official Creditor Committee (OCC) and the Exim Bank of China would also address interest rate imbalances. The anticipated conclusion of the External Debt Restructuring (EDR) is expected to enhance economic stability. In addition, improvements to government revenue administration are also expected due to the new Central Bank of Sri Lanka Act, of September 2023, which restricts monetary financing. The Cabinet has also approved the use of a cash buffer for the government and more policy reforms are on the way to address government financing through banks.

Markets are expected to build a premium on interest rates on the back of uncertainty around national and presidential elections. This is expected to see upward pressure on interest rates and inflations as well. The priorities and policies of the incoming government and president will have a significant impact on the outlook of the economy beyond 2024.

STAKEHOLDER ENGAGEMENT

The Bank's key stakeholder groups are essential for the Bank's continuous operations and for future value creation. Therefore, the Bank has in place formal protocols and procedures for engagement with different stakeholder groups in a transparent and professional manner. The Bank also values building long-term relationships based on trust, cooperation and mutual benefits. The Bank's engagements with its major stakeholder groups which are regulators, shareholders, customers, employees, communities, international agencies, business partners and trade union, are summarised below. (Please also refer to the Social Capital and Human Capital chapters for further details on how the Bank engaged with some of these key stakeholders during the year.)

Stakeholder	How We Engage	Key Concerns	Strategic Response
 Regulators - Central Bank of Sri Lanka - Colombo Stock Exchange - Securities and Exchange Commission - Company registrar	Compliance with regulations and directives	Compliance	Strong internal controls and compliance monitoring
 Shareholders	- Annual general meeting - Annual report - Quarterly earnings update - Press releases - Announcements to the Colombo Stock Exchange (CSE)	- Shareholder returns - Financial performance and position - Macro economic developments and its impact on strategy and business continuity - Transparent reporting and disclosure - Good governance	- Well planned growth strategy - Effective governance and risk management
 Customers - MSMEs - Cooperatives and their members - Larger businesses - Individual/retail customers Please refer to the Social Capital chapter for details on how the Bank engaged with each of these different customer segments during the year.	- Interaction at branch level - Periodic Customer surveys - Suggestion boxes - Marketing campaigns - Formal complaint mechanism - Corporate website - Social media channels	- Safety of deposits - Market based for deposits - Fit for purpose Credit - Convenience - Customer resilience and development	- Customised products - Risk based lending - Digital banking - Branch network and ATMs - Grievance /complaints Process - Remediation and restructuring services - Advisory services
 Employees Please refer to the Human Capital chapter for details employee information.	- Induction and training programmes - Staff meetings - Monthly regional meetings - Annual performance appraisals - Discussions with Union representatives - Work-life balance initiatives	- Market and performance linked remuneration and benefits - Career growth - A safe workplace - Medical covers	- Competitive remuneration and rewards - Performance based incentives - Continuous learning and development opportunities - Grievance handling mechanism - Employee engagement mechanisms

STAKEHOLDER ENGAGEMENT

Stakeholder	How We Engage	Key Concerns	Strategic Response
 Communities (These are consumer segments who may not be direct customers of the Bank, including women's groups that are supported by the Bank) Please refer to the Social Capital and Natural Capital chapters for community and environmental activities	Engagements are generally through community intermediaries such as the SANASA cooperatives and MPCs's	- Community infrastructure development - Livelihoods generation - Livelihood enhancements - Improved competitiveness	- This is a key part of the Bank's business model. - Collaboration with key eco system players - Enhancing the capacity and skills of community intermediaries
 International agencies	- Periodic fact-finding visits - Annual reviews - Direct engagement with consultants - Industry forums	- Operational transparency - Sustainable and ethical operations - Technical assistance	- SDB bank maintains total transparency regarding its operations and submits to audits if required - Collaborating with DFI's and impact investors to direct technical assistance to assist community development.
 Business partners SDB Bank has a network of 400+ suppliers	- Regular communications - Meetings	- Timely payments - Repeat orders	The Bank maintains long term relationships and has a policy of local purchasing
 Trade unions	Through meetings with union representative	Working conditions, wages, work related facilities and benefits	The Bank maintains an open door policy to engage with trade unions

MATERIALITY

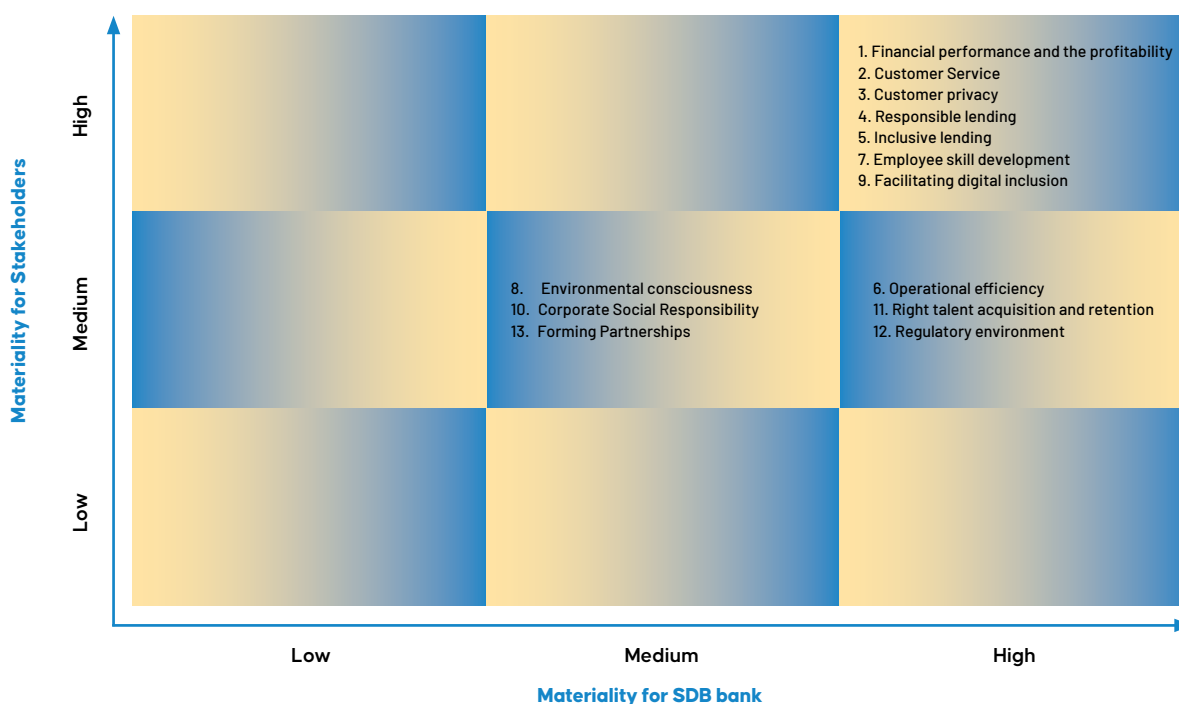
The Bank selected material topics for disclosure by evaluating the operating environment and risk factors as well as the Bank's activities during the year and the expectations of stakeholders. While the operating environment had improved during 2023, the main material topics have not significantly changed from 2022.

DETERMINING MATERIALITY

The bank adopted the following process to identify material topics for disclosure in the annual report:



The topics that are of high priority to stakeholders as well as the Bank, were selected for discussion in this report.



MATERIALITY

LIST OF MATERIAL TOPICS AND THEIR IMPACT

Material Topic	Impact		SDGs
	To Stakeholder	To the Bank	
Profitability: Sustain profits under the current uncertain operating environment	H	H	
Customer Service: Retain customer base	H	H	
Customer privacy: Customer data protection to manage reputational risk	H	H	
Responsible lending: Improve portfolio quality	H	H	
Inclusive lending: Provide access to affordable and quality financial services for rural masses	H	H	
Employee skill development: Enhance capacity and competitiveness	H	H	
Facilitate digital inclusion: Provide access to digital banking facilities for the rural masses	H	H	
Operational efficiency: Resource optimisation to manage costs	M	H	
Right talent acquisition and retention: Acquire the right talent and skills to drive sustainable growth of the Bank	M	H	
Regulatory environment: Changes in the regulatory environment may pose threats or opportunities	M	H	
Environmental consciousness: Environmentally responsible lending and operations and managing climate change risks	M	M	
Corporate Social Responsibility: Uplift communities	M	M	
Forming Partnerships: Forming business alliances for better opportunities for value creation	M	M	

HOW WE CREATE VALUE

CAPITAL INPUTS



Financial Capital

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

- Equity of **Rs. 14 Bn**
- Deposits of **Rs. 108 Bn**



Intellectual Capital

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

- Brand strength **57**
- Expertise in SME and co-operative banking



Human Capital

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

- **1295** employees
- Remuneration and benefits
- Learning and development
- Team spirit



Manufactured Capital

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

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



Social and Relationship Capital

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

- **1.6 Mn** Relationships
- Customer digital adoption



Natural Capital

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

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

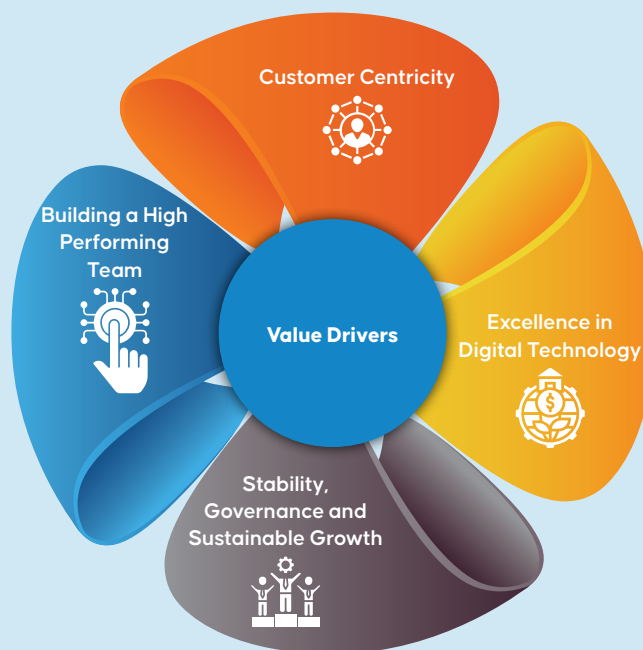
VALUE ADDING BUSINESS ACTIVITIES

OUR MISSION

OUR VISION

OUR STRATEGIC PILLARS

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



Key Enablers

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

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

Governance

Risk Management

HOW WE CREATE VALUE

CAPITAL INPUTS

Financial Capital

- PAT : **Rs. 467 Mn**
- ROE : **3.34%**
- EPS : **Rs. 2.90**

Intellectual Capital

- Brand Value Rank: **57**
- Fitch rating **BB+(lka)**

Human Capital

- Fair representation within the Bank **52%** Male & **48%** Female employees
- Training Programmes: **163**
- Training hours per employee: **3 ½ Days**
- Training man hours: **16,600hrs+**

Manufactured Capital

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

Social and Relationship Capital

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

Natural Capital

- Rooftop solar panels at SDB Bank Horana and SDB Bank Karapitiya branches

VALUE CREATED

Shareholders

- Prudent growth
- NAV per share
- Gross dividend



Customers

- Assistance for business restructuring and recovery
- Finances for sustainable businesses
- Faster processing of loans
- Multi-channel footprint
- Operational efficiency
- Customer satisfaction and convenience



Employees

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



Government and Regulators

- Support for economic recovery through SME credit
- Taxes paid Rs. 593 Mn
- Compliance with regulatory requirements

Communities

- Training to develop businesses
- Financial inclusion
- Improvements in quality of life
- Training **22,400hrs+**



Environment

- Recycling of wastepaper **26,400kg+**
- Renewable energy generated : **23,700kwh+**
- Trees planted – Ududumbara – **9000+**



OUR STRATEGY

The Bank has mapped out a clear strategic route towards empowering SMEs, Cooperatives and progressive individuals in its future vision of growth, through the adoption of modern digital solutions, the creation of new value chains and value based banking that incorporates sustainability principles across the value creation process.

SDB Bank retains its traditional objective of wealth creation for local communities through a range of initiatives, including but not limited to, driving savings as a habit to improve the resilience of communities to economic shocks, strengthening credit underwriting standards to ensure that the credit facility is appropriate for the client following responsible banking practises and also attract good quality assets, enhancing branch facilities and processes to deliver better service levels etc. The Bank has gradually increased its presence within the country's SME segment by setting up a dedicated SME Development Unit to provide specialised financial assistance and also advisory services to SMEs, to guide their growth to the next level. In this segment too, the Bank has focused on developing SMEs engaged in Agriculture and export-oriented value chains, building the foundation for a national economy supported at the community levels. The Bank has also focussed on empowering women entrepreneurs by providing them

with the necessary capacity building, technical know-how and access to credit and other banking facilities. Whilst the Bank's Business Model is grounded in sustainable practices, it has further identified new opportunities for growth, in the areas of Cooperative and business banking, green project financing, value chain financing and facilitating impact investments. It is gradually making headway in these areas by introducing these concepts to existing and new customers.

In 2023, The Bank's strategic direction remained firmly anchored within its sustainable business philosophy by strengthening and developing ongoing sustainability initiatives, as well as accelerating digitalisation plans to simultaneously enable greater customer convenience together with efficiency gains, stronger internal controls and enhanced risk management capabilities. The Bank's efforts at identifying and channelling funds towards developing sustainable value chains that have the capability to transform Sri Lankan SMEs were redoubled. The objective was to support the recovery of SMEs, while simultaneously opening up growth opportunities for SMEs that are the backbone of the national economy. The Bank also continued to promote its value based banking concepts, actively deploying finances towards promoting triple bottom-line growth among a wider audience.

ESG FOCUS

Throughout its history, the Bank has consistently engaged directly with communities by collaborating closely with the cooperative network. This enduring commitment underscores the Bank's dedication to fostering strong partnerships and empowering local communities.

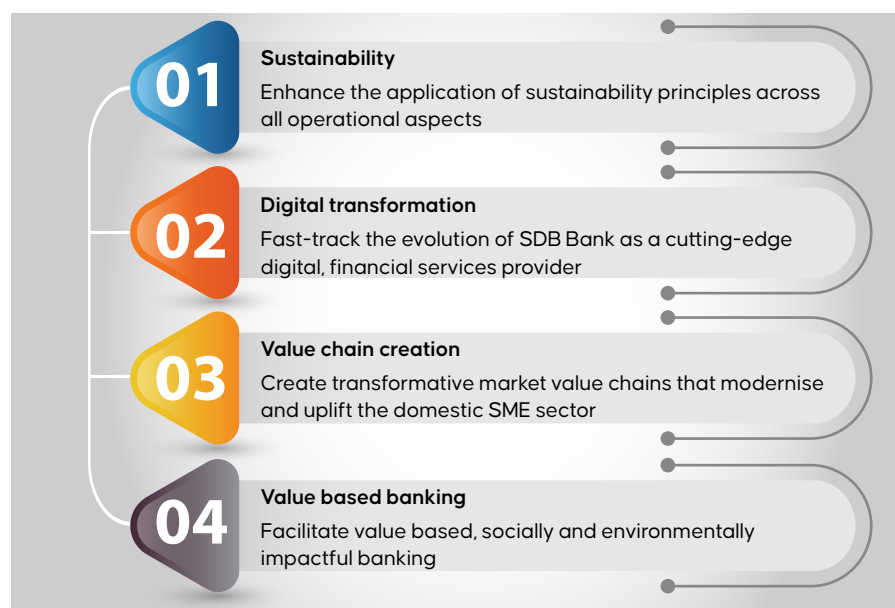
Against a changing risk landscape where new risks, such as climate change and economic uncertainty, are gaining impact, the Bank also recognises both the need for ESG risk management and the imperative to mobilise sustainable finances for business growth. Therefore, the Bank's short and medium-term goals have been assigned by taking into account these new threats as well as opportunities.

SHORT-TERM GOALS

- Improve portfolio quality through strengthening its responsible banking practices
- Loan remediation to support customers
- Focus on digitisation for efficiency improvements
- Drive Savings as a habit concept

MEDIUM-TERM GOALS

- Build local and foreign partnerships
- Expand market share within the progressive masses
- Expand role within the country's cooperative sector
- Focus on digitally driven customer centric solutions across the progressive MSME sector



SDB BANK'S COMMITMENT TO SUSTAINABILITY

SUSTAINABILITY FRAMEWORK

SDB Bank has a heritage of sustainability that goes well beyond lip service and extends into years of sustainable operations within a framework of community cooperation and environmental harmony, which has been ingrained into the DNA of the Bank. A long standing tradition of business integrity and accountability has instilled within the Bank a culture of 'doing the right thing,' on behalf of our communities and our shared natural environment. Hence, the Bank's business ethos easily fits into the modern ESG philosophy, enabling the adoption of ESG principles at a deeper, more comprehensive level. Within the current economic context, the Bank, as a financial services provider, has acknowledged the vital importance of going beyond lending when it comes to commitment to sustainability, and has emphasised social welfare as an urgent requirement for the recovery of the national economy and Sri Lankan society.

SDB Bank remains steadfast in its commitment to support Sri Lanka's transition to a more inclusive and sustainable economy. Recognising the importance of a sustainable recovery in Sri Lanka post-the 2022 economic crisis, The Bank mobilised during 2023 to revise its integrated strategy with a particular focus on enhancing resilience of its MSME and cooperative clients. Whilst the Bank would continue to contribute to the 17 Sustainable Development Goals through various initiatives, the Bank prioritised SDG 2 on Zero Hunger, SDG 5 on Gender Equality, SDG 8 on Decent Work and Economic Growth, SDG 13 on Climate Action and SDG 17 on Partnerships, as specific thrust areas within its 3-year corporate strategy.

Bank's progress on sustainability continued to be reviewed, guided and led by its Board Subcommittee on Sustainability and its Executive Committee on Sustainability. Bank's key safeguards mechanisms are operational, including its Environmental and Social Risk Management System (ESMS) and adherence to the Universal Standards for Social and Environmental Performance Management. Recognising certain improvements needed to the Bank's credit underwriting standards to remain resilient and serve clients better in times of multiple crisis and shocks affecting the national economy, the Bank made conscious

decisions to tailor its internal standards and processes with a focus on driving structured propositions, including value chain finance propositions. A key area that the Bank hopes to enhance capability on, over the ensuing years, is ESG related data capture, specifically being able to capture data on outcomes from the Bank's sustainable finance and other sustainability initiatives.

Some of the pilot initiatives that the bank had commenced in earlier years continued to be implemented, albeit with different degrees of success. Agroforestry pilot started as a nature-based solution for agroforestry financing in 2022 in Devahandiya East, in Ududumbara was maintained continuously in 2023. Even with the severe droughts experienced in 2023, Over 50% of the plants could be saved. Recognising these challenges, the Bank hopes to leverage potential opportunities with development supportive agencies. The Solar PV Systems that were procured in late 2022 for the Horana and Karapitiya branch rooftops, were commissioned in mid-2023 and the Bank leveraged this example to encourage clients to invest in renewable energy.

PROGRESS ON 7-PRONGED SUSTAINABILITY MANAGEMENT APPROACH

1. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM (ESMS)

The Bank continued to implement the ESMS with all business purpose loans above LKR 500,000/- being screened for E&S risks through its client relationship officers and validated by its Centralised Credit Department. For exposures above 30 Mn, the Bank's central sustainability function conducted advanced Environmental and Social Due Diligence. During these client engagements, the Bank had proactively offered support and provided additional information on where resources could be available. For example, in 2023, a potential client working with an extensive network of outgrower smallholder farmers of sugarcane feedstock, was connected to a leading conservation organisation in Sri Lanka working on Human-Elephant Conflict, so that the resulting research and collaboration could benefit the client, environment and society with better spatial planning on cultivation of sugarcane to avoid elephant migratory paths.

During 2021 and 2022, the Bank had mobilised to deploy the ESMS, especially targeting the origination stage of loans. A notable progress in 2023, is the Bank being able to extend this deployment, to a certain degree, to post disbursement monitoring. During the annual reviews of clients, the Bank commenced reviewing E&S compliance and it had begun to gain visibility at portfolio level on the E&S risk exposure of the Bank. The Bank intends to improve the robustness of this post disbursement monitoring process and also at the same time strive to complete the configuration of its internal information systems (eg: Loan Origination System), to be able to capture and visualise this information for quarterly reviews of the relevant Board subcommittees.

SDB Bank's Commitment to Sustainability

2. SOCIAL PERFORMANCE MANAGEMENT (SPM)

The Bank had initiated an Accompanied SPI Self-Assessment to identify its adherence to global responsible finance best practices in 2022. The findings of this audit were presented by the external auditor and to the management, both at Executive and Board Subcommittee meetings on sustainability. A key area of improvement was in defining the specific environmental and social goals. Although the Bank had previously identified output targets on its sustainable finance focuses, it had not been able to set a framework to capture social and environmental outcomes from its value propositions. The Bank has addressed this aspect to a certain degree by codifying a few specific goals in its Integrated Sustainability Policy, which is to be published. The auditor has proposed an Action Plan on the way forward on the gaps identified on strategy and leadership, which is to be taken up in FY2024.

3. SUSTAINABLE AND INCLUSIVE FINANCE (SIF)

With the stresses of the 2022 economic crisis lingering in the external environment, SDB Bank had focused on building both staff capacity and client capacity during the first half of the year, instead of promoting lending propositions. The Bank had also commenced designing and pilot testing a "Purpose Driven Deposit" proposition, where the proceeds from the savings mobilisation would be allocated to support progressive MSME clients. As the Bank had intended for the target client group for this deposit proposition to be purpose drive high net worth individuals and purpose driven companies, the Bank conducted specific capacity building for its HNI Centre staff on Sustainable Development Goals and the bank's mobilisation in SME and Cooperative banking solutions.

Key staff from the Bank's different business segments were also provided the opportunity to participate in some of the programmes organised by the USAID Climate Change Adaptation (CCA) project. With the MoU expected to be in place in 2024, the Bank will train an internal pool of climate advisory experts, who will be expected to engage the Bank's clients and develop a pipeline of bankable climate adaptation related investments.

The Bank will continue to explore sustainable finance opportunities in the below focus areas:

- Sustainable agriculture
- Financing for women entrepreneurs
- Financing and enabling linkages for circular economy initiatives
- Digital Inclusion
- Green tech and infrastructure: Renewable energy, energy efficiency, green buildings, green transport and green industry
- Promoting sustainable business practices among MSMEs and Cooperatives

4. OPERATIONAL FOOTPRINT (OPF)

In 2023, the Bank successfully completed two solar PV systems for 45 Kw in total, at its branches in Karapitiya (which provides 94% of energy requirements) and Horana (which provides 84% of energy requirement). The solar powered branches also helped promote solar energy among the public, at a time when fossil fuel based electricity is becoming more expensive.

The solar energy model will be extended to the Akuressa and Kegalle branches as well. The Bank is also considering conducting a carbon footprint assessment for its Horana branch, its head office building, and its Union Place 1st City Branch as a first step, and scaling this across the network.

5. OPERATIONAL RESILIENCE AND EXCELLENCE (OPR)

The Bank continued to review and improve its business continuity plans and the health and safety procedures with oversight by its operational risk function. The sustainable procurement criteria developed in 2022, were also implemented during the year.

6. SUSTAINABLE BRAND, CULTURE AND CSR (SBCR)

SDB Bank continued its external and internal communications in positioning its sustainability brand in terms of corporate branding, employer branding and employee branding. The Bank's HR department led the initiative to renovate an ICT lab at the Devahandiya Kanishta Vidyalaya and provide refurbished computers for the lab. The same community were the beneficiaries of the bank's 25th anniversary agroforestry project. The CEO and members of the Bank's executive management participated in this programme. During the year, many internal communications were also circulated with regard to resource conservation, such as reducing paper consumption.

7. INTEGRATED STRATEGY AND REPORTING (ISR)

The Bank has an integrated strategy that looks to leverage opportunities and risks arising from national and global transitions on the sustainability and climate agenda. To embed this further within the organisation, the Bank is currently working to integrate sustainability aspects in to different Board Committees and in Job Descriptions of its leadership team, with a view to setting long term targets and KPIs. A key challenge is arriving at baseline data to set long term targets. The Bank has over the past three years implemented pilot initiatives as a result of this data challenge and with regards to the net zero strategy, aims to conduct a baseline assessment of its own physical footprint, commencing from FY2024. The Bank is also preparing for capability development in identifying its financing portfolio exposures in relation to IFRS S1 and S2.

SDB BANK'S COMMITMENT TO SUSTAINABILITY

SUSTAINABILITY GOVERNANCE SYSTEM

BOARD SUBCOMMITTEE ON SUSTAINABILITY

During the year 2023, Mr Romani De Silva was appointed the Chairman of the Board Sub-Committee on sustainability. The committee convened three times during the year and reviewed the status of the Bank's sustainability performance, including strategy and progress on the Bank's ESG undertakings with its DFI investors.

SDB Bank is among the first three banks in Sri Lanka to set up a board-level committee on Sustainability. The Chairperson of the Board Sub-Committee holds the responsibility to inform the Board of Directors every quarter regarding the Bank's sustainability performance. The committee comprises selected representatives from the Board of Directors and Executive management with space to bring on board external sustainability experts. The committee is tasked with the formulation of policies and strategies relating to sustainability, guides the Executive Management Level Sustainability Committee and approves the sustainability action plan for the period under review.

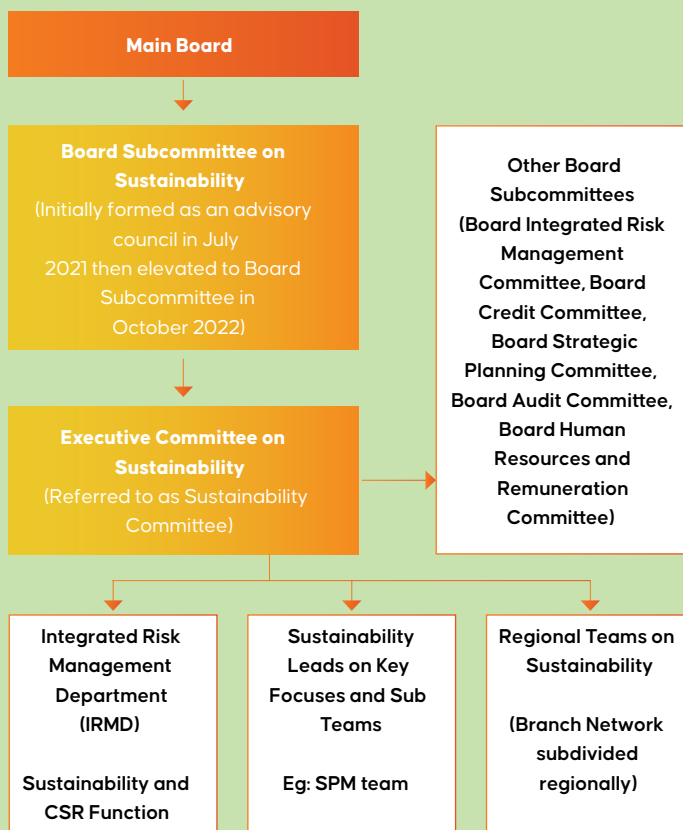
EXECUTIVE COMMITTEE ON SUSTAINABILITY

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

REGIONAL LEVEL TEAMS

The Bank intends to operationalise 10 regional sustainability teams under the leadership of Regional Managers who drive the sustainability agenda within the branch network. Each team includes one credit official and one operation representative from each branch. During the year two regional teams were operationalised with the required capacity building through online and physical training.

The Bank is pursuing a partnership with UNDP's BIOFIN programme to build capacity among these regional sustainability teams on aspects such as green finance and internal footprint management.



SDB Bank's Commitment to Sustainability

CONTRIBUTION TO SDGS

Through its sustainable banking model and core business activities, the bank actively contributed towards of the UN SDGs.

SDG	Our Contribution
No Poverty 	- Empowering low-income earning customer segments by providing access to financial security. - Support income generation of communities through the agroforestry initiatives
Zero Hunger 	- Promoting cooperation between the financial sector and agriculture sector players towards sustainable food systems. - New agriculture loans as % of total disbursement: 21.23% - Refinance scheme disbursements 511 Mn
Good Health and Wellbeing 	- Ensure the Health and safety of employees - Uplift communities through financial inclusion thereby supporting their health and well being
Quality Education 	- Continuous professional development of employees - Total number of training hours: 16,600+h for internal employees - Provision of special leave for overseas training - Support schools in areas surrounding Bank projects
Gender Equality 	48% female representation in the workforce & 35% female representation in the corporate management - Gender Gap Assessment conducted with a focus on enhancing women's financing - Equal opportunity employer - Lending portfolio Gender mix - Number of training hours for cooperatives : 22,400hrs+ - Share of women attendees at cooperative trainings: 71%
Affordable and Clean Energy 	- Energy conservation measures within the Bank - Initiating a switch towards renewable energy having implemented two rooftop solar systems - Number of renewable energy financing disbursements: 86 - Number of refinance scheme disbursements: 214
Decent Work and Economic Growth 	- Support community level entrepreneurs which in turn contributes to economic growth - Creation of employment opportunities across the island supported by an extensive branch network - Performance-driven work culture - Benefits, Work life balance, Health and Safety, engagement opportunities and grievance handling mechanisms for employees. - Better insurance cover, collective agreements
Industry Innovation and Infrastructure 	- Provision of financial services and affordable credit to smallholder enterprises. - Number of loans disbursed to tea small holder 48 - Number of agricultural loans disbursed: 38,800+
Reduced Inequalities 	- Ensure financial inclusion and digital inclusion for communities across the country - Empowering female entrepreneurs through financial assistance. - Number of new loans to women: 43,000+

SDB BANK'S COMMITMENT TO SUSTAINABILITY

SDG	Our Contribution
Sustainable Cities and Communities 	• Empower rural and urban entrepreneurs as well as women entrepreneurs. • Support regional development. • Number of training programmes: 77
Responsible Consumption and Production 	• Compliance related to product development and meeting customer information requirements. • Effective management of our environmental impact and promote resource conservation and waste reduction including the commencement of work stream setting green procurement criteria
Climate Action 	• Commencement of agroforestry project to restore the degraded ecosystem as a pilot to scale nature based solutions • Conduct awareness sessions related to environmental conservation and sustainability
Life on Land 	• Contributing towards environment and biodiversity conservation through our commitment to ecosystem restoration projects.
Partnerships for the Goals 	• Establish local and global partnerships to fuel the national economy and create positive societal and environmental impacts island-wide. • Number of farmers impacted from Partnership : 120+ • Number of societies impacted from Partnership : 7





LEADERSHIP

CHAIRPERSON'S MESSAGE

"I AM CONFIDENT THAT SDB BANK CURRENTLY OCCUPIES THE BEST VANTAGE POINT TO RESTART AND DEVELOP THE SME SECTOR, WHICH WILL IN TURN, RESTART THE NATIONAL ECONOMY AT THE GROUND LEVEL, AND FUEL SOCIALLY AND ECONOMICALLY SUSTAINABLE GROWTH"





Chairperson's Message

Dear Stakeholders,

On behalf of the Board of Directors, It is my great pleasure to present the Annual Report and Audited Financial Statements of your Bank for the Financial Year 2023. I am pleased to report a commendable financial performance by the Bank on the back of a challenging, yet recovering economy.

In 2022, the country went through the worst economic crisis in recent memory. The almost overnight spike in inflation, interest rates and the steep depreciation of the rupee is well documented. Whilst the measures taken to stabilise the economy were tough, they were necessary. The economy has begun to respond to these measures. Even though the country recorded a negative 2.3% GDP growth in 2023, the quarterly growth rates provide us the relief of a slow and steady recovery; recording negative GDP growth rates of -11.5% in Q1, -3.1% in Q2 to turn positive in Q3 at 1.6% and 4.5% in Q4. The economic recovery is yet fragile and the country has a very narrow path to tread to ensure economic stability. The good news is the increasing positive growth we have seen in the last 2 quarters, the momentum of which is expected to continue in 2024.

The scars of this economic crisis will, no doubt remain for many years to come. Despite the growth in recent quarters, the overall GDP of the country has regressed to levels below the numbers recorded in 2019 and is expected to lag behind for the next couple of years, based on the growth forecasts. This reduction in economic output is felt more by small and medium scale businesses than in any other sector. As a bank focusing on helping uplift the

SME sector and progressive masses, we have seen our fair share of asset quality deterioration and reduction in overall margins. Nevertheless, I believe SDB Bank has demonstrated remarkable resilience and agility in responding to the rapidly evolving risk environment of 2023, while also driving our growth plans at ground level. This is demonstrated by the Bank's sustained profitability for the year with a profit growing from Rs. 61 Mn in 2022 to Rs. 467 Mn in 2023.

Looking ahead, we have crafted a forward-looking 3-year strategy aimed at facilitating post-crisis economic resurgence. Staying true to our purpose, central to the strategy

is the development of SMEs, cooperatives and communities whilst supporting financial inclusivity and sustainability. We believe that a prosperous and resilient community is the foundation for a successful bank.

BUILDING SOCIAL SUSTAINABILITY

We believe people who are financially secure, create safer, more economically productive societies. Hence our deep commitment to our Social Development Goals (SDGs). We are fine tuning our business models to integrate the social and environmental principles of sustainability with a goal to become one of the most responsible financial institutions in the country. Leveraging our deep rooted relationships with the cooperative sector helps us drive this sustainability agenda whilst strengthening the cooperative network as well. The cooperative network is an asset that the country has failed to derive the best out of on the path to sustainability. Their membership boasts approximately 11 million, which is a significant part of the population. The strength of this network can be the platform for supporting early-stage entrepreneurs, especially in rural areas. The wide network can be used to support and facilitate robust value chains in many industries including agriculture, dairy and fisheries whilst providing employment opportunities.

During the year, the Bank's flagship City Branch was relocated to Union Place in the heart of Colombo, for greater accessibility. A number of highly successful campaigns were conducted for business and deposit growth using traditional as well as digital media. Our network of local and international business partnerships continued to expand during the year, supporting business growth and paving the way for new initiatives in the new financial year. We also promoted renewable energy by commissioning our own solar power systems at the Horana and Karapitiya branches and continued our tradition of supporting charitable and cultural events.

I am confident that SDB Bank currently occupies the best vantage point to restart and develop the SME sector, which will in turn, restart the national economy at the ground level, and fuel socially and

economically sustainable growth. In order to maximize this impact, we have already developed and deployed our own SME value chain model.

OUR SME VALUE CHAINS ARE EXPANDING

I believe our most impactful contribution during the year has been our support to MSMEs, who are the backbone of the economy. While SMEs are currently facing difficulties accessing affordable funds, SDB Bank has disbursed low cost refinance facilities, not only to its clients; but by utilizing its island-wide connectivity with the cooperative network, the Bank was in a unique position to reach out and engage directly with large numbers of micro enterprises and SMEs, like no other bank in the country.

During the year, we focused on expanding the concept of value chain financing, specifically to support the SME sector, ensuring ready markets for their products and timely cash receipts. A vital component of support for MSMEs has been the provision of technical services such as capacity building and improving skills to drive efficiency and financial sustainability. The Cooperative sector also plays a key role in value chains, where we have spent over 20,000 training hours to improve skills and build capacity in order for them to support their members. We have been able to garner support and work closely with international partners to complement and expand the skills of our team and extend these services to the communities.

THE WOMEN FACTOR

I am particularly proud of our efforts to support women entrepreneurs. It has been historically proven from available data from many countries including Sri Lanka, that empowering women creates beneficial social cycles. Women entrepreneurs not only have a proven track record of better credit repayment which is good for the Bank, but also create positive social outcomes, such as investing their profits in education for their children and supporting their extended families, which is beneficial for the wider society. Through our cooperative network, we have access to perhaps the largest pool of women entrepreneurs, in all parts of the country and have already built relationships with

CHAIRPERSON'S MESSAGE

many. These relationships help the Bank reach women entrepreneurs, and make them market-ready by not only providing financing for their businesses but also by developing financial literacy and business management skills. Therefore, SDB Bank is ideally positioned to channel and advance international funds that have specific allocations for empowering women entrepreneurs.

LET'S BUILD OUR FUTURE

I believe, if there is a will, there is always a way. SDB Bank has the will and is building the way. We have embarked on a journey of transformation. We are carefully and prudently charting our journey forward, guided by our 3-year strategic plan. We are also building a network of international partnerships that can draw learnings and resources at a global level, to fast track our journey. Therefore, I am confident that SDB Bank can accelerate its growth trajectory over the next few years. Digital solutions will play a key role in driving execution of some of the novel ideas to be implemented. Our future plans will entail an enhanced digital proposition, to capture the needs of youth and a smart economy. I would also like to call on the national policymakers to support the country's banking sector and businesses, by maintaining policy consistency over the next few years. Unpredictability regarding key economic indicators, such as interest rates, causes economic paralysis, with Bank's hesitant to lend and businesses unable to borrow. Therefore, as Sri Lanka enters a recovery phase, consistency in economic policy and taxation is a critical factor in driving a steady and sustainable path to development. Although we may be a small player in the banking sector, SDB Bank serves the critical sector which will be the driver of future economic growth in Sri Lanka; the SME sector.

effective deployment of our strategy was crucial for our success, and I am grateful to our Corporate Management and the entire team for their hard work. Our longstanding investors have been our strength and I fully appreciate their confidence in the bank and the Board of Directors. We are building strong relationships with our international business partners by exchanging experiences and knowledge, and I am grateful for their continued support for the Bank. I would also like to acknowledge our lenders, regulators, and other stakeholders for their contribution and support during the year and look forward to a great relationship in supporting the bank's journeying the new financial year.



Dinithi Ratnayake
Chairperson

30th April 2024

THANK YOU

I would like to extend my sincere gratitude to our customers for their unwavering trust in us, even at times of extreme economic stress, and I would like to reiterate our commitment towards them. I thank my colleagues on the Board for carefully guiding the Bank during this challenging period. I would also like to thank our outgoing CEO, Mr. Priyantha Thalwatte, for steering the bank on a steady course during the year and wish him well. The

CHIEF EXECUTIVE OFFICER'S REVIEW

Amid the ongoing external uncertainties that have extended from 2022, the financial year 2023 has marked a period of notable progress for SDB Bank across various dimensions. This year has been instrumental in establishing a solid foundation for the Bank's growth trajectory in the short to medium term, setting the stage for enhanced performance and strategic expansion in the coming years.

In anticipation of a very different post crisis macroeconomic operating environment, the Bank formulated a 3-year strategic plan in 2023. This realigned the Bank towards a more risk-appropriate growth trajectory, taking into account emerging new opportunities as well as the continually evolving risk landscape. The first year of strategy deployment, which has also necessitated simultaneous internal restructuring, new expertise and enhanced internal controls, has indeed been encouraging and heralds good tidings for the Bank's future.

In evaluating the Bank's financial performance for the year 2023, it's crucial to acknowledge from the start that the Bank prioritised prudent and controlled growth. This strategic focus was aimed at protecting shareholder assets and the deposits of the public, rather than pursuing aggressive expansion. In light of this deliberate financial strategy, the Bank has delivered satisfactory outcomes for the year. Total Operating income grew by 21% to Rs 9.35 Bn and a profit after tax of Rs 467 Mn, which is a growth of 663% over the prior year. The increase in the profitability of the Bank is a sign of the Bank's resilience and reaffirms the ability of the management and staff to manage challenging circumstances. By confronting these challenges head-on and implementing robust measures, we are bolstering the stability and resilience of our operations. This positions us strategically for sustained growth in the future, leveraging our positive strides in risk management.

As noted earlier, the lack of quality lending opportunities meant the Loan Book reduced to Rs.106.5 Bn as at 31st December 2023 against of Rs.116.3 Bn as at the end of 2022. On the back of restricted disbursement, the Bank concentrated on maintaining the deposit portfolio which registered a slight growth to reach Rs.108.12 Bn as at 31st December 2023, whilst concentrating on changing the mix of the deposit base. This effort has paid dividends. This helped reduce the impact of high interest rates during the year, which further granularised the deposit base of the Bank.



CHIEF EXECUTIVE OFFICER'S REVIEW

Although we've observed a concerning uptick of Rs 2.83 Bn in our Bad Debt Portfolio and a notable rise of Rs 3.17 Bn in Stage III Loans, this has been prudently provided for, by taking our Stage III provision cover to 39.70% compared to 31.9% in the prior year.

The change in the balance sheet mix has resulted in a higher Tier I capital ratio, which increased from 12.92% to 14.85% in 2023, while the Total capital ratio has improved from 15.37% to 16.45%. The liquidity position of the Bank continues to be robust with the Liquidity Coverage Ratio improving from 191.31% to 287.06%.

LIGHT AT THE END OF THE TUNNEL

While the Sri Lankan economy continued to contract in 2023, a glimmer of light was observed at the end of the tunnel with a small but positive economic growth reported for the last two quarters of the year, finally indicating a turnaround in the prolonged economic downturn that had mired the country.

The gradual improvement in 2023 of key macroeconomic indicators, has positioned Sri Lanka on a recovery trajectory, subject of course to the continuation of the IMF programme and other reforms. The foreign exchange crisis of 2022, which caused the Sri Lankan rupee to nosedive, was gradually alleviated, stabilising the rupee. Tourism and inward remittances flows have also improved, supporting the rupee. This has in turn, helped rein-in the off-the-charts inflation of 2022, and inflation was contained within the Central Bank's targeted range. By mid-2023, downward policy rate adjustments had triggered downward revisions of market lending rates, and a marked revival in credit demand could be observed. The strategic plan instituted by SDB Bank positions the Bank to capitalise on this recovery trend, by enabling its customers to be aligned to the growth sectors.

LAYING THE FOUNDATION

A priority for the banking sector in 2023, was to initiate recoveries and halt further deterioration of the lending portfolio. In this regard the decision taken by the authorities, by the end of 2022, to lift restrictions on recoveries, was critical.

The continued defaults following extended COVID moratoria had exposed the entire financial sector to unprecedented credit risk. However, banks had no course of effective redress, as repossession of assets and parate executions were severely restricted. While fully acknowledging the hardships faced by businesses as well as individuals with regards to repayments under the current economic conditions, it is also important to highlight that many defaults were not due to the pandemic. Accounts in default prior to the pandemic also sought cover of moratoria, which caused a build-up of bad debt in the books, and more detrimentally, created a culture of impunity, with others also adopting the default option. The recovery process was streamlined so as to enable the efficient and effective management of customers' dues. Accordingly, the Bank's remediation and recovery drive is now well underway with positive outcomes where rescheduling and restructuring of outstanding loans is a priority and legal action only as a last resort. These initiatives will continue to generate positive results in 2024 for both, the customer and the Bank. The Bank's credit risk management procedures and credit screening were also enhanced, to ensure the quality of all new lending. While the more stringent controls have reduced the rate of business expansion, the asset quality of the Bank has improved and will continue to improve in 2024. Consequently, the impairment costs of the Bank were maintained at prior year levels on a prudent basis.

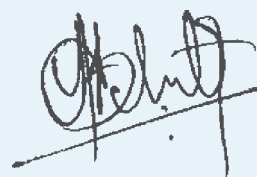
Given the extremely high interest rates that prevailed at the start of the year, the focus was on expanding the Bank's savings base, instead of the more expensive fixed deposit base, which has helped contain the cost of funding in 2023. This focus on deposit mobilisation improved the liquidity position of the Bank which was buttressed by the loan repayments as well. The interest rate reduction in the second half facilitated lower funding costs, which in turn was passed on to borrowers in the form of lower lending rates.

The overall risk management capabilities and internal controls were strengthened to equip the Bank for future uncertainties. For closer supervision, the operating regions were expanded to 10, from the previous 7, and all regional offices have been staffed by capable management and staff. Internal capacities were strengthened by

introducing new technical trainings, as well as recruitment of specialised skills. A dedicated unit was established to manage customer satisfaction, which will continue to improve the Bank's service standards going forward.

The Bank's sustainable business model was strengthened by continuing planned initiatives for solar energy for two branches, and introducing the Bank's value chain financing model, sustainable financing lines and impact investment opportunities, to the market. The digitisation strategy, which is a core component of sustainable growth through cost advantages as well as improved efficiencies and greater convenience for customers, remained a priority. Please refer to the Intellectual Capital chapter for details on advances made in the Bank's digitisation drive.

As I end my tenure as the CEO of SDB bank, I would like to thank the Chairperson and the Board for their confidence in me, and all the employees of the Bank for their indispensable support in deploying the Bank's growth strategy under the extremely challenging conditions that prevailed during the year. I would also like to extend my appreciation to the Governor of the Central Bank and Central Bank officials for their guidance. As always, I am grateful to all customers for their continued trust in the Bank and for partnering the Bank in its journey. As my last act as the CEO I wish the Bank all the very best in its future endeavours.



Priyantha Thalwatte
Chief Executive Officer

20th February 2024

BOARD OF DIRECTORS

The board of directors plays a crucial role in safeguarding the interests of shareholders, setting management policies, supervising corporate governance, and making key business decisions.

1. **Ms Dinithi Ratnayake**
Chairperson - Non-Executive, Independent Director
2. **Prof Sampath Amaratunge**
Non-Executive, Independent Director
3. **Mr Chaaminda Kumarasiri**
Non-Executive, Independent Director
4. **Mr Prasanna Premaratna**
Non-Executive, Independent Director
5. **Mr B R A Bandara**
Non-Executive, Non-Independent Director
6. **Mr Thusantha Wijemanna**
Non-Executive, Independent Director
7. **Mr S H Sarath Nandasiri**
Non-Executive, Non-Independent Director
8. **Mr Conrad Dias**
Non-Executive, Non-Independent Director
9. **Mr Naveendra Sooriyarachchi**
Non-Executive, Non-Independent Director
10. **Mr Romani De Silva**
Non-Executive, Non-Independent Director
11. **Mr Chandana Dissanayake**
Non-Executive, Non-Independent Director
12. **Dr Mahesha Ranasoma**
Non-Executive, Non-Independent Director



BOARD OF DIRECTORS



Board of Directors

1 MS DINITHI RATNAYAKE

Chairperson - Non-Executive, Independent Director

Appointed to the Board in 2020

Ms Ratnayake is a veteran banker with over 30 years management experience in Banking and Advisory with an in-depth knowledge on Financial Institutions and Markets. She spent over 19 years of her career with Citibank N.A., where she worked closely with the Government of Sri Lanka, Public and Private Sector Banks and Non-Bank Financial Institutions in Sri Lanka, leading the in-country team on raising debt and capital, providing access to overseas financial markets and facilitating trade and payments. She possesses a broad skillset in corporate management and governance, extensive credit experience and exposure to debt origination, global transaction services and international risk and compliance practices.

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

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

Ms Ratnayake's banking career spans over 26 years for the most part at Citibank N.A. as a Director, Head of Financial Institutions Group in Sri Lanka. Prior experience includes Retail and Institutional Banking at ANZ Grindlays Bank PLC and Corporate Banking at Seylan Bank PLC.

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

Ms Ratnayake holds a BSc Degree in Computer Science from the University of Houston, Clear Lake and a Master of Arts Degree in Economics from the University of Colombo.

2 PROF SAMPATH AMARATUNGE

Non-Executive, Independent Director
Appointed to the Board in 2016

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

Since January 2020, he serves as the Chairman of University Grants Commission (UGC). He presently holds Directorships at Citizen Development Business Finance PLC, Laugfs Gas PLC, Raigam Wayamba Salterns PLC, Raigam Southern Salt Company (Pvt) Ltd, Raigam Wayamba Cereals (Pvt) Ltd and Laughs Power PLC.

Having published more than 75 Articles in international and national refereed journals and proceedings, Prof Amaratunge holds a BA (Hons.) in Economics from the University of Sri Jaywardenepura, MA in Economics from the University of Colombo, and MSc. in Economics of Rural Development from the Saga National University and PhD from Kogoshima National University in Japan. Prof Amaratunge was also a recipient of the prestigious Research Excellence Award in 2002, awarded by Kyushu Society of Rural Economics, Japan, which is in addition to several other local and international awards.

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

He was twice appointed as the Vice - Chancellor of the University of Sri Jaywardenepura and former Chairman of the Federation of University Teachers Association (FUTA), and he was a Director of Payment Services Private Limited which is a fully owned subsidiary of SDB bank.

3 MR CHAAMINDA KUMARASIRI

Non-Executive, Independent Director
Appointed to the Board in 2018

An award-winning Finance Professional, a Dedicated Advocate for Good Governance, a Thought Leader, Senior Chartered Accountant, Corporate Trainer, Management Consultant, and Trusted Business Advisor, with a proven track record of holding Senior Leadership Positions in both prominent local entities and multinational corporations. He serves as the Founder / Director of Asia Pacific Institute of Money and Entrepreneurship Development, the Founder / CEO of Human Capital Partner, and the Chairman/Principal Consultant of H C P Consulting (Pvt.) Ltd. Additionally, he holds advisory roles in various entities and committees. In recognition of his expertise, he was appointed Vice Chairman of the Member Network Panel of ACCA Sri Lanka for the 2023/24 term. Moreover, he represents the entire South Asia region on the International Panel on Accounting Education (IPAE) at the International Federation of Accountants (IFAC).

Mr Kumarasiri brings to the table over 25 years of extensive lecturing and corporate training experience, having successfully trained over 500,000 individuals both in Sri Lanka and abroad. He boasts a diverse range of professional and academic qualifications, complemented by numerous awards and medallions. As a Fellow member of The Institute of Chartered Accountants of Sri Lanka, The Association of Chartered Certified Accountants (ACCA) - UK, The Institute of Certified Management Accountants (CMA) of Sri Lanka, and The Association of Accounting Technicians (AAT) of Sri Lanka, he embodies a commitment to excellence in his field. Mr Kumarasiri holds a BSc. Accountancy (Special) Degree from the University of Sri Jaywardenepura, graduating with First Class honors, and has furthered his education with an MBA in Finance from the University of Colombo.

He has held prestigious positions such as Financial Controller at the Bank of Ceylon, Chief Financial Officer at The Lanka Hospitals Corporation PLC, Assistant Vice President at HSBC Securities Services, and Senior Manager of Assurance and Advisory Business Services at Ernst & Young, where he was seconded to Ernst & Young LLP in New York. He has contributed significantly to the professional community by serving as a Governing Council Member of the Institute of Chartered Accountants of Sri Lanka, while chairing a few committees and taskforces. He has also served as a Commission Member of the Telecommunications Regulatory Commission of Sri Lanka. Recently, Mr Kumarasiri was honored with the ACCA National Advocate of the Year Award for 2022, recognising his exceptional commitment and dedication to promoting the accountancy profession and its values.

BOARD OF DIRECTORS

4 MR PRASANNA PREMARATNA

Non-Executive, Independent Director
Appointed to the Board in 2018

A Senior Banker who has more than 31 years of private and public sector experience in Agriculture and Development Banking in Sri Lanka and abroad. Mr Premaratna heavily focused on the development of Small and Medium Scale Enterprises (SME) across Sri Lanka. He was mainly involved in assisting many start-up projects in the Manufacturing, Agriculture and Export oriented sectors.

Mr Premaratna holds a MSc Degree in Agriculture from Kuban Institute of Agriculture Krasnodar City USSR, a Postgraduate Diploma in Bank Management from the Institute of Bankers of Sri Lanka and a Postgraduate Executive Diploma in International Relations from the Bandaranaike Centre for International Studies (BCIS) Colombo. He has participated in many local and overseas programmes in Development Banking and agriculture related banking programmes in Europe, South East Asia and Japan. He is a life member of the Association of Professional Bankers of Sri Lanka (APB).

Mr Premaratna held the position of Chairman of the Regional Development Bank of Sri Lanka, Vice President of DFCC Bank and the Chief Executive Officer of DFCC Consulting (Private) Limited. He was a Pioneer Member of the Management Team of Pelwatte Sugar Industries before moving into the Banking Sector. He is the current Chairman of South Asia Partnership, Sri Lanka (SAPSRI).

5 MR B R A BANDARA

Non-Executive, Non-Independent Director
Appointed to the Board in 2019

Anchored to a career spanning across three decades in the co-operative sector, Mr Bandara is the Chairman of Polgahawela SANASA Shareholders Trust Company Ltd, Director of SANASA Printers & Publishers Ltd since 2005, Director of Panaliya Sanasa Society and Director of Payment Services Private Limited which is a fully owned subsidiary of SDB bank. He is also the General Manager of Polgahawela SANASA Societies Union Ltd and a Justice of Peace.

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

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

6 MR THUSANTHA WIJEMANNA

Non-Executive, Independent Director
Appointed to the Board in 2021

Mr Thusantha Wijemanna is an Attorney - at - Law of the Supreme Court of Sri Lanka and a Notary Public with over 21 years of experience in the Banking Industry.

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

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

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

Board of Directors

7 MR S H SARATH NANDASIRI

Non- Executive, Non - Independent Director
Appointed to the Board in 2021

Mr S H Sarath Nandasiri possesses over 21 years' experience in the field of Credit and also he has experience in working with Rural Community particularly working with SANASA Movement.

Presently he holds the position as General Manager of Kegalle Sanasa District Union Ltd and he provides services as a trainer in Business Development Services specialised in Micro Enterprise Development, Women and Youth Empowerment at Asian Confederation of Credit Union (ACCU).

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

He has held the positions of Manager - Credit, Senior Manager - Credit and Recoveries through his career in Financial Sector.

8 MR CONRAD DIAS

Non - Executive, Non-Independent Director
Appointed to the Board in 2021

Mr Conrad Dias' experience spans over three decades and is a visionary leader in business technology and his C-Level experience spans over twenty years. He is a fintech enthusiast who innovated many financial technology products and solutions. He is the founder of iPay, a revolutionary platform beyond payments and of OYES, another fintech platform that makes everyday a payday.

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

Presently he holds Directorships at several subsidiaries of LOLC Group including LOLC Holdings PLC, LOLC Finance PLC and LOLC Technologies Limited.

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

He represents LOLC Investment Holdings one (Private) Limited, a major shareholder of SDB Bank

9 MR NAVEENDRA SOORIYARACHCHI

Non- Executive, Non - Independent Director
Appointed to the Board in 2021

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

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

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

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

He represents BIO (Belgian Investment Company for Developing Countries SA / NV), a major shareholder of SDB bank.

BOARD OF DIRECTORS

10 MR ROMANI DE SILVA

*Non- Executive, Non- Independent Director
Appointed to the Board in 2022*

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

Mr De Silva serves as a Council Member on the Sustainability Standards & Certification Initiative and also the Global Finance 4.0 Initiative, which is mandated to drive Finance as a force for good, both initiatives are that of the European Organisation for Sustainable Development (EOSD), headquartered in Karlsruhe Germany. He currently heads the Sub Committee on Sustainability and serves as a Council Member of the Finance Houses Association of Sri Lanka (FHASL). He also serves as the Honorary Treasurer of the Sri Lanka Institute of Credit Management - an educational institution dedicated to the development of the credit industry of Sri Lanka which was incorporated by an Act of Parliament.

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

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

He represents Alliance Finance Company PLC a major shareholder of SDB Bank

11 MR CHANDANA DISSANAYAKE

*Non - Executive, Non- Independent Director
Appointed to the Board in 2022*

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

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

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

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

12 DR MAHESHA RANASOMA

*Non-Executive, Non - Independent Director
Appointed to the Board in 2023*

Dr Mahesha Ranasoma has many years of experience in Business Management. He serves as the Chief Executive Officer and Executive Director of Global Rubber Industries Private Limited (GRI) and he is a Director of Ayenka Holdings Private Limited.

Dr Ranasoma holds a First-Class Honours Degree in Engineering from the University of Peradeniya, a Doctorate from the University of Cambridge UK and an MBA with distinction from Wales University, UK.

He served as the Main Board Director of Hayleys PLC and was the Managing Director of Dipped Products PLC before joining GRI. He was the former Country Chairman of Shell Sri Lanka and Managing Director of Shell Gas Lanka Limited and Shell Terminal Lanka Limited.

He is the representative Director of Ayenka Holdings Private Limited, a major Shareholder of SANASA Development Bank PLC.

CORPORATE MANAGEMENT



MR PRIYANTHA THALWATTE

Chief Executive Officer
Harvard Business School Alumni (AMP)



MR NIRANJAN THANGARAJAH

Deputy Chief Executive Officer
FCCA UK, MBA (AUA), MSC (University of London)



MR HEMAL LOKUGEEGANA

Head of Business Banking
MBA, B.B. Mgt. (HR) Sp., AIB, Dbirm (IBSL), MIPM, ACC
Dir. SL, FIB



MS TAMARIKA RODRIGO

Deputy General Manager/Company Secretary
Attorney-at-Law, Notary Public, ACC Dir.SL



**MR SHANKA YAPA
ABEYWARDENE**

DGM-Finance & Planning / CFO
MSc (Fr), FCMA, CGMA, Ex. Dip in Mgt. (UK), MCSI
(UK), AIB



MR.DINESH THOMAS

Chief Information Officer
(MSc) in IT, MBA

CORPORATE MANAGEMENT



**MAJOR KAPILA N. DE SILVA (RTD)
RSP**

Head of HR
MHRM, Dip.in HRM (UK)



MR DHANANJAYA DAYANANDA

Chief Internal Auditor
FCCA (UK), ACA (SL), MBA (Banking Mgt) Sikkim
Manipal Uni India



MR.UDANA ASANGA FERNANDO

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



MS PAVITHRA LIYANAGE

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



MS KRISHANI ENOKA

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



MS MIHIRI ATTANAYAKE

Head of Credit
BSc Agri. (Hons), MSc Agri , Dip.in Micro financing
[CBSL]

Corporate Management



MS LAKMINI MUTHTHUNGA

Head of Operations

MBA (IGNOU -India), BSc (Hons)(Kelaniya)



MS CHAMPA DASSANAYAKE

Head of SME

BSc Agri., MSc (Hons), AIB



MR. ANURA YAPA

Chief Credit Officer

AIB



MR. BINESH ARAVINDA

Head of Branch Banking

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



MR. BHANU WIJAYARATNE

Chief Compliance Officer

FIBs-SL, FCPM, MA- Fin Econ (Col), MBA (Manipal),
AIB-SL



MR. SURANWAN WICKRAMASURIYA

Chief Information Security Officer

BSC , MSC, CISSP, CISA

CHIEF MANAGERS



MR HASITHA SAMARASINGHE

Head of Marketing
MA (UK), BA (UK)



MR INDIKA UDAYANGANA

Head of Collection & Recoveries
MBA (UK), BBMgt (Kelaniya), AIB, Dip. in Banking & Finance, Dip. in Micro Finance, Dip. in Public Management, Dip. in Small & Medium Enterprises, Dip. in Counselling



MR SARATH KUMARA

Head of Administration
B.Sc. (Mgt)



MR LASANTHA EDIRISURIYA

Head of Cooperative Development
Dip. in Finance & Bank Mgt. (IBSL), Intermediate Banking Diploma (IBSL), Exe. Development (Mini MBA) Certificate (CSBM), Investment Advisor certified by CSE, Certificate in Entrepreneurship (Harvard University)



MR JAYANTHA CHANDRASIRI

Regional Head - Uva
BSc.Mgt. & Administration Sp. (USJP)



MR SURANDIKA WIMALARATHNE

Regional Head - North Central Region
B.A. (Hons) Business Statistics, Post Graduate Dip. - Business Statistics



MR DINESH SWARAGE

Regional Head - Western 1 Region
MBA (Cardiff Met.), BBMgt (Kelaniya), Intermediate Examination (IBSL)



MR SARATH KUMARA

Deputy Head of Credit
BA (Special), Diploma in Micro-finance (IBSL), ADCM (IBSL)



MR AYESH WICKRAMARATHNE

Chief Manager - Internal Audit
ACCA, FIB (IBSL), MSc App Fin (USJP), BSc Applied Accounting (Oxford Brookes)

Chief Managers



MS SARANGA IGALAGAMAGE

Compliance Officer

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



MR SANJEEVA JAYASINGHE

Head of Finance

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



MR SUJEEWA PERERA

Chief Manager - SME

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



DR HEATHER FERNANDO

Chief Manager - Human Resource Management

Ph.D., Business & Management (MSU, Malaysia), MBA -OUSL, POHRM-CIPM, T&D Evaluator-Kirkpatrick Int'l, Chartered MCIPM, AMAPB

SENIOR MANAGEMENT



MR A M NIMAL CHANDRA

Senior Regional Manager - Western 2 Region
BA (Peradeniya)



MS K V R JEEWANTHI

Head of Refinance

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



MR BIMAL RAJAKARUNA

Senior Manager - Human Resources Development

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

SENIOR MANAGEMENT



MR UDENA WELIKUMBURA

Head of Liabilities

MBA (Peradeniya), PGDM, MSLIM, BMS, AMAPB



MR CHAMINDA RATHNAYAKE

Senior Regional Manager – North Western Region

B.Sc. Accountancy & Finance (SP.) Hons, Registered Trainer & Consultant (Ministry of Public Management Reforms), Moody's Business Banking Mastery Certification.



MS NUSHIKA EDIRISINGHE

Senior Manager – Credit Administration

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



MR PIYAL SENADHEERA

Senior Branch Manager – Gampaha

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



MR DHAMMIKA GAMAGE

Senior Manager – Agriculture

Entrepreneurship Development & Micro Finance

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



MR SUJEEWA PERERA

Chief Manager – SME

AIB, B.Com (USJP), DBF (IBSL), Moody's Business Banking Mastery Certification.



MR W V P A SAMANTHA

Divisional Head – Leasing Assessment & Approval

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



MR PRADEEP GNANASIRI

Senior Manager – Credit Administration Hub – Trincomalee

BA (Special)



MR SEMERA MAHATHANTHILA

Senior Manager – Compliance

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

Senior Management



MS DENUKA PRIYANGANI

Divisional Head – Retail Credit Assessment & Approval

MSc, Executive Dip.in Service Management, CBF.



MS K K RANGANI

Senior Manager – Credit Administration Hub-Karapitiya

HNDA, Intermediate Banking Diploma (IBSL)



MR SANJEEWA DISSANAYAKE

Regional SME Manager

Dip in Credit Mgt. (SLICM), CBF, Ad.Dip. In Credit Management, Moody's Business Banking Mastery Certification.



MS SASIKALA SUBHASHINI

Senior Branch Manager – Kaluthara Branch

MSc, Dip.in Mirco Finance, Executive Dip.in Service Management, CBF, MSc.SMgt (Colombo)



MR MAHINDA THENNAKON

Senior Manager – Digital Operations

Intermediate Examination (IBSL)



MR NISHANTHA WIJESINGHE

Senior Branch Manager – Negambo Branch

Dip.in SME (IBSL)



MR PRIYANKARA FERNANDO

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



MR RAJEEWA ADIKARAM

Senior Manager – Information System Audit
Executive MSc in Information Security, Certified Information Systems Auditor (ISACA), CBF



MR NISHAN PALLEGAMA

Senior Branch Manager – City Branch
Dip.in SME Finance, CBF, Certificate in Hire Purchase & Leasing

SENIOR MANAGEMENT



MR SANJEEWA PUSHPAKUMARA

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



MR SASIKA WICKRAMARATNE

Senior Manager - Centralized Operations
BMS, ACBF, DBF, CBF



MS MANORI NETHTHASINGHE

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



MR RANJITH RANDENIYA

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



MR SARATH GUNATHILAKA BANDA

Senior Regional Manager - Sabaragamuwa
BSc (Business Management Special), CBF, DBF, Dip. in SME & Finance, AIB



MR SADARA PANDIPPERUMA

Senior Branch Manager - Matara
BBA (Accounting & Finance), Certified Business Accounts (CBA)



MS U G P RANOJANI

Senior Manager - Legal
LLB (UOC), Attorney at Law, Notary Public, Commissioner of Oaths, Company Secretary



MS NILUPAMA MADURAWALA

Senior Branch Manager - Battaramulla
BSc, MFE, CBF, DBF, Certificate in HRM, Moody's Business Banking Mastery Certification, Dip. in Retail Banking



MS CHATHURIKA MEEMANAGE

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

Senior Management



MR CHINTHAKA JAYAKODY

Senior Branch Manager – Kurunagala
BA(SP) Business Statistic, CBF



MR THARANGA DE SILVA

Senior Relationship Manager – Business
Banking
MBA-Cardiff Metropolitan University UK, Diploma in
Credit Management – IBSL



MR.S.KESHANTH

Regional Head – Eastern Region
AIB, PGDM (SEUSL)



MR K. PIRIBAHARAN

Senior Regional Manager – Northern Region
Bsc. (Hon) - Agri(Special), MBA, Dip. in credit Mgt, CBF



MS K H A AYESHA

Senior Data warehouse Developer
BSC. in computer Science (Hons)



MR P C S PRIYANKARA

Senior Manager – IT
BIT (Colombo), MBA (London Met.)



MR L.H.C.ROSHAN

Regional Head – Southern Region
B.Sc. Accountancy Sp. (HonS), CBF



MR AJITH HERATH

Senior Branch Manager – Matale
MBA- University of Gloucestershire (UK), BSc.
HRM (Special), Dip. in Strategic Management and
Leadership (UK)



**MR ASHOKA KUMARA
KATUKURUNDA**

Senior Branch Manager – Kegalle
MBA- University of Gloucestershire (UK), B.B.Mgt
(Kelaniya), Dip. in Strategic Management and
Leadership (UK)

SENIOR MANAGEMENT



MR INDIKA LAKMAL

Senior Branch Manager - Ambalangoda
PGD.in B Ad in Marketing (Ruhuna), AIB, Dip. in Digital Marketing (SLIMS), Dip.in M.Finance (Sanasa Campus)



MR CHATHURANGA SAMARATHUNGA

Senior Manager - Internal Audit
MBA-Cardiff Metropolitan University UK, BBMgt (Kelaniya), AIB



MR RAJESH KARUNARATHNE

Senior Manager - Consumer Assets Retail Banking
MBA in Buckinghamshire New University (UK), Dip.in Strategic Management and Leadership (UK), CBF,



MS C.D.PERAMUNASINGHE

Divisional Head of Co-operative and Corporate Credit Assessment
MBA-Cardiff Metropolitan University UK, Dip.in SME Finance (IBSL), AIB , B.Sc. Plant Biotechnology (Sp.)



MS NIKETHA RANAWEERA

Senior Manager - Pawning
BA (Kelaniya), MA (SOC.SC)(Kelaniya), IABF



MS SUGANYA KANDEEBAN

Senior Manager - Treasury
Dip in Treasury & Risk Management ,CBF, Cert in Treasury & Forex Operations, CIMA Level I



MR RANGANA COLOMBAGE

Senior Manager - Branch Operations
MBA (UK)



MR ADHEESHA PERERA

Senior Manager - Sustainable Banking
MBA (PIM),BA (University of Wisconsin),Advance Dip. In Mgt., Accounting (CIMA), Dip. In conflict Resolution (BCIS), Dip in Journalism (UOC)



MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL CAPITAL

FOR THE YEAR UNDER REVIEW, THE BANK RECORDED A PROFIT OF RS. 466.82 MN DEMONSTRATING ROBUST GROWTH IN THE WAKE OF ONGOING NATIONAL ECONOMIC ADJUSTMENTS AND DEPRESSED DEMAND CONDITIONS. THE BANK'S BALANCE SHEET HAS BEEN REDUCED DUE TO THE HIGHLY EFFECTIVE RECOVERY DRIVE AND SELECTIVE ASSETS GROWTH STRATEGY.

ANALYSIS OF THE STATEMENT OF PROFIT AND LOSS

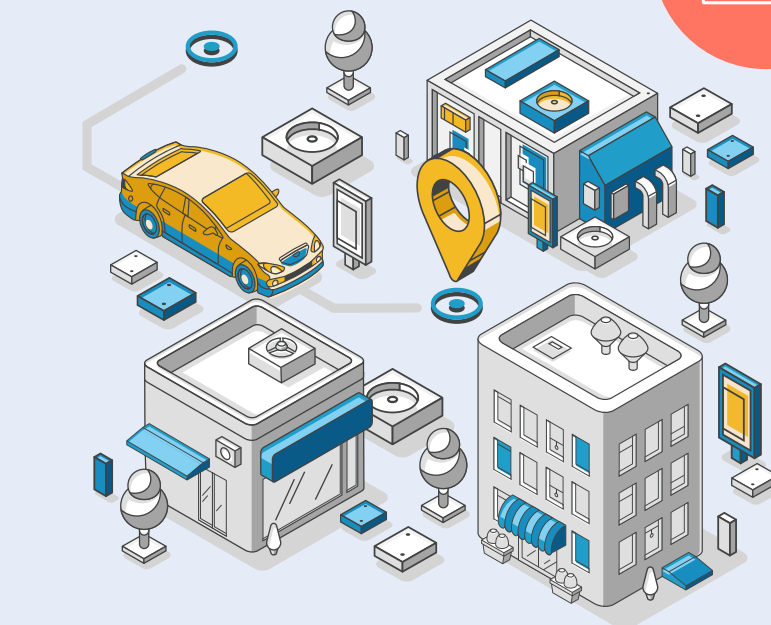
NET INTEREST INCOME

The Bank's repricing strategy took into account the capacities of borrowers to repay within the existing difficult economic conditions, while also accommodating the increased cost of deposits. Prudent management of interest margins enabled the Net Interest Income of the Bank to increase from Rs. 6.84 Bn in 2022, to Rs 8.5 Bn in 2023.

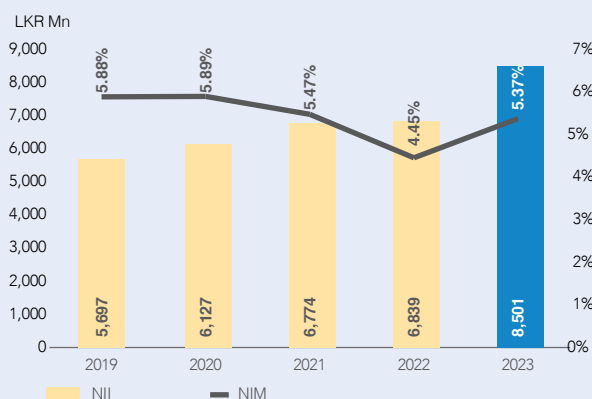
Interest expenses which accounted for 70.40% of the interest income in 2022 increased only 1.17% to 71.57% in 2023 due to an increase of the deposit portfolio.

Despite economic uncertainty, the Bank has managed to maintain public confidence as evidenced by a 16.2% year-on-year increase in saving deposit base with the total deposit base reaching 108 Bn by the end of 2023.

The deposit base comprised Rs. 91.21 Bn in fixed deposits and Rs. 16.90 Bn in savings deposits.



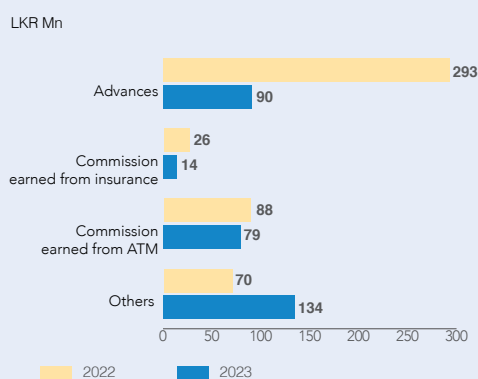
Net Interest Income



FEE-BASED INCOME

The Bank's net fee and commission income decreased to Rs. 318 Mn in 2023, from Rs. 478 Mn in 2022. This income segment includes fees received from loans and advances, debit cards, insurance-related services and electronic channels. The current fee income was impacted by lower advances related fee penalty offset by higher fee income from digital sources.

Fee Based Income



FINANCIAL CAPITAL

TOTAL OPERATING INCOME

Due to the increase in the net interest income, the total operating income of the Bank grew to Rs. 9.35 Bn from Rs. 7.74 Bn in 2022.

IMPAIRMENT CHARGES

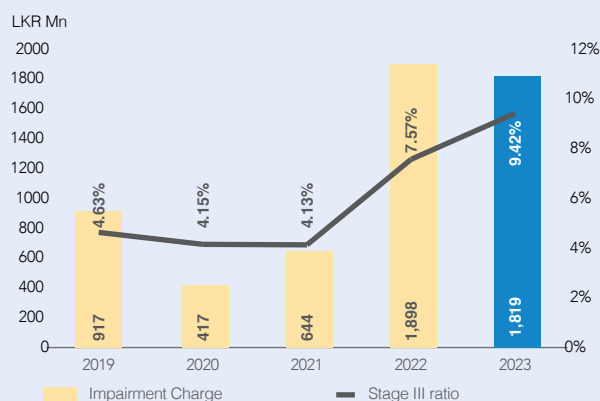
In 2022, the Bank's impairment models were revalidated, and individually impaired loans were reassessed with the assistance of E&Y, our external consultants, to ensure that the Bank is carrying correct impairment amounts in line with its asset quality.

In 2023, impairment expenses decreased by 4.14% to Rs. 1,819.90 Mn, compared to the 195% increase in 2022, which came to Rs. 1,898.4 Mn.

Provisions made on stage 3 loans and other receivables increased by Rs 2,229.0 Mn compared to Rs. 1,246.3 Mn in 2022.

The provisioning ensures that the Bank is adequately safeguarded against external risk factors.

Impairment Charge and Stage III Ratio



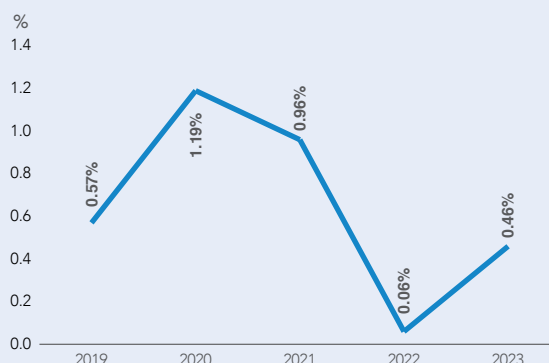
OPERATING EXPENSES

The Bank has been successful in containing its expenses despite the rising cost environment. Total operating expenses increased by only 12.83% against 2022, reaching Rs. 6,053.88 Mn. This increase stems mainly from staff related expenses.

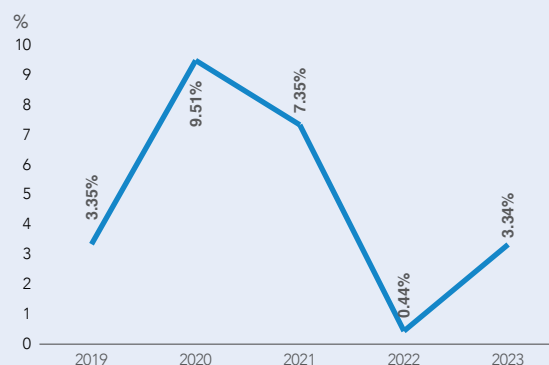
Personnel expenses increased by 12.39% to Rs. 3,304.44 Mn and office administration and establishment expenses increased by 13.36% to Rs. 2,749.44 Mn on the back of higher FCY denominated expenses.

Despite these increases the Cost to Income ratio was maintained below 70%.

ROA



ROE



Cost to Income Ratio



TAXATION

The Bank applied the revised Income Tax rate of 30% and other amendments in line with the Inland Revenue Amendment Act No. 45 of 2022, to calculate the Income Tax and deferred tax assets/liabilities as of 31st December 2023.

The VAT on financial services for the year at 18% came to Rs. 634.13 Mn

The Social Security contribution levy was introduced during the financial year 2022 and Rs. 74.03 Mn was provided for the same during the financial year ending 31st December 2023.

Financial Capital

PROFITABILITY

The Bank achieved a Profit Before Tax (PBT) of Rs. 771.93 Mn for 2023, against Rs. 96.96 Mn for the year 2022. Profit After Tax (PAT) for the year under review also increased to Rs 466.82 Mn from Rs. 61 Mn in the previous year. This was mainly due to the highly effective recovery drive & increase in low-cost saving deposit portfolio. The Net Interest Margin (NIM) expanded to 5.37% in 2023 compared to 4.45% in 2022, due to focus on low-cost deposit and selective assets growth strategy.

OTHER COMPREHENSIVE INCOME

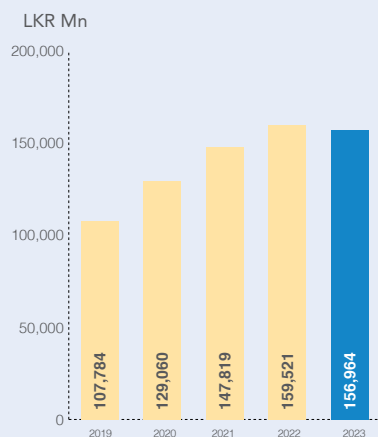
Other comprehensive income of the Bank reported a profit of Rs 139.82 Mn in 2023, compared to Rs. 231.01 Mn in 2022. The year-on-year decrease is due to the revaluation of lands amounting to Rs.74.93 Mn and other adjustments due to reassessment of the retirement benefit liability of the Bank for the period ended 31st December 2023.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

ASSETS

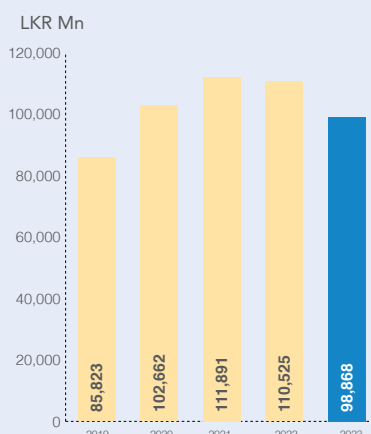
The total assets of the Bank drop by 1.61% by the end of 2023, compared to the 8% growth for the financial year 2022, to reach Rs. 156.9 Bn, from Rs. 159.5 Bn.

Assets Growth



The Bank's net loans and advances decreased by 10.55% from Rs. 110.5 Bn in 2022, to Rs. 98.87 Bn. The bank followed a selective assets growth strategy to maintain a healthy assets portfolio. Its effective recovery strategy focusing on customer resilience and restructuring also contributed to the reduction in loan advances.

Advance Growth



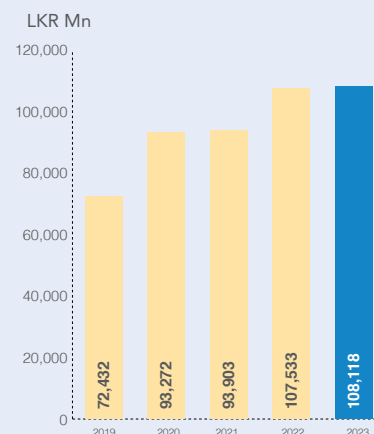
ASSET QUALITY

The Bank's Stage III loans stood at Rs 15.66 Bn as of 31st December 2023, compared to the Rs 12.49 Bn registered at the end of 2022. On this basis, the Stage 3 loans to total loans ratio stood at 14.71% for 2023 compared to 10.74% in 2022. However the Stage III impairment ratio improved to 39.74% from 31.92%

DEPOSITS

Customer deposits continued to be the single most significant source of funding for the Bank, accounting for 75.77% of the total liabilities as of 31st December 2023. In 2022, the Bank's deposit book which surpassed the Rs.100 Bn mark continued to increase to reach Rs 108.12 Bn. The primary source of growth was saving deposits, with a net increase of Rs. 2.3 Bn.

Deposit Growth



CAPITAL

The Bank is guided by its Internal Capital Adequacy Assessment Process (ICAAP) in maintaining capital corresponding with its current and projected business volumes. The number of issued shares as of the reporting date was 160,698,832. The total equity of the Bank increased by Rs. 606.64 Mn as a result of profit for the year amounting to Rs. 466.82 Mn and other comprehensive income for the year amounting to Rs.139.82 Mn.

SDB Bank maintained all its capital ratios well above the regulatory requirements throughout the year. As of 31st December 2023, the Bank's Tier I and Total capital ratios were at 14.85% and 16.45% compared to 12.92%, and 15.37% as at the end of 2022 respectively.

FINANCIAL CAPITAL

LIQUIDITY

The Bank maintained adequate liquidity during 2023 in order to respond to any contingencies during the year, and to also benefit from an increase in credit demand. Given its importance, a review of liquidity is a permanent item on the agenda of the ALCO meetings of the Bank. The table below shows the improvements to the Bank's liquidity compared to the previous financial years.

Item	2023	2022	2021
Liquid asset ratio (Minimum Requirement 20%)	38.25%	23.51%	22.37%
Available stable funding	Rs. 124.72 Bn	Rs. 126.65 Bn	Rs. 116.88 Bn
The net stable funding Ratio (Statutory minimum 100%)	192.78%	241.61%	137.61%
Liquidity cover ratio (Statutory minimum 100%)	287.06%	191.31%	134.82%

INTELLECTUAL CAPITAL



SDB BANK'S INTELLECTUAL CAPITAL COMPRISES THE BANK'S COLLECTIVE KNOWLEDGE AND SPECIALISED RESOURCES THAT CONTRIBUTE TO FINANCIAL GROWTH AND ENHANCE THE BANK'S COMPETITIVE ADVANTAGE IN THE MARKETPLACE. THESE INCLUDE THE KNOWLEDGE AND SKILLS OF THE EMPLOYEES, CUSTOMISED AND UNIQUE DIGITAL SOLUTIONS AS WELL AS THE CORPORATE CULTURE AND VALUES THAT WE HAVE NURTURED WITHIN THE ORGANISATION.



Our Actions	Outcomes
Recruit expertise in key areas such as human resource management, information technology and other technical areas.	Enhances intellectual capital base through new skills and experience
Train employees on technical subjects	Enhance existing intellectual capital base
Develop own software inhouse	Facilitate the achievement of objectives such as recoveries, enhanced controls, improved monitoring and enhanced productivity.
Level-up our data warehouse & data capabilities	

- Strengthen the core banking system and software systems to support short, medium and long term strategic objectives, improve decision making and enhance operational efficiencies

During the financial year 2023, we continued to enhance our intellectual capital base primarily through the recruitment of specialised skills and expertise and the development of in-house software solutions that supported the Bank's operational and strategic objectives for the year.

CONTRIBUTIONS TO UNSDGS



Digitalisation has enhanced employee convenience and productivity and supports economic growth

TAKEOUTS FOR THE NEXT FINANCIAL YEAR

- Continuous investments into the development of workforce knowledge, skills and behaviours
- Introduce new products to suit customer requirements

OUR INTELLECTUAL CAPITALS

CORPORATE CULTURE AND ETHICS

Unlike traditional commercial banks, SDB bank has a unique organisation culture rooted in long term relationships with rural communities and particularly, the island wide cooperative sector. The Bank's business philosophy of mutual cooperation friendly service and sustainable growth emanates from the Bank's specific objective of developing rural economies through sustainable financing by making formal, modern and secure financial services accessible and affordable to rural communities, micro and SMEs and cooperatives. The Bank's code of ethics for employees, management and directors is also rooted in these objectives. Therefore, the Bank recruits from local communities, with local language use, for its widespread network of 94 branches and fosters a welcoming and friendly atmosphere for all classes and communities. Within the recent past, the Bank has also been modernizing through rapid digitalisation, while retaining its traditional business ethic.

SPECIALISED KNOWLEDGE AND EXPERIENCE

As a specialist in micro and SME financing with a rural and cooperative focus, the Bank's years of experience, specialisation in this sector of financing and relationships with rural cooperative networks, are encapsulated individually and collectively within the Bank's workforce. It is the most significant intellectual asset of the Bank and also a key competitive advantage, within an increasingly competitive industry. Therefore, the Bank has invested continually in developing the technical and specialised skills of employees to enhance tacit knowledge and the overall organisational knowledge base.

INTELLECTUAL CAPITAL

Please refer to the Human Capital chapter for details on training and development activities during 2023.

SDB BANK'S TRADEMARKED PRODUCTS

The bank's products are customised to cater to customer needs with a special focus on developing Cooperative Societies, their members, and micro-enterprises, including women entrepreneurs and rural entrepreneurs. The Bank is also incorporating digital solutions into its product range to enhance customer convenience and reduce the cost of transactions.

DIGITAL SYSTEM

The Bank is continually investing in improving its digital systems aimed at achieving a paperless business model. Currently, the Bank has upgraded its core banking system to iserver version 15 in full compliance with CBSL standards and is able to accommodate e-signatures on loan applications and provides Internet banking. The Bank's human resource information system is also continually improved. During 2023 the Bank continued to enhance system security and upgrade software and improve uptime and speed.

- New software was purchased to enhance the Data Centre.
- Migrated to SD-WAN, which is a significant upgrade of the bank's network connectivity and is beyond the network infrastructure of most local banks. Among other things, the new system will enhance security and network uptime.
- System security was enhanced through the deployment of an Extended Detection and Response system, which is a state-of-the-art data loss and prevention system that can identify external attempts at security breaches to pre-empt hacking and unauthorised data manipulation. The system provides superior protection for customers and Bank data.

INTERNALLY DEVELOPED SOFTWARE SOLUTIONS AND APPLICATIONS

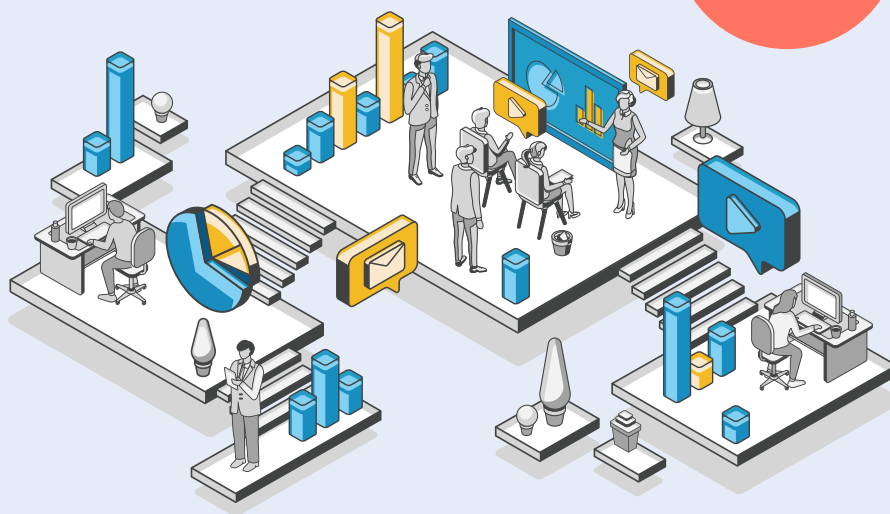
The Bank's in-house IT team is involved in developing unique software solutions that are customised to the Bank's requirements. During 2023, the Bank developed many such in-house system solutions including:

- Software to support recoveries, re-schedule loans, portfolio analysis, impairments etc.
- Initiating a revamp of the Bank's UPay App to tighten security, enhance the user experience and increase digitally enabled services for customers.
- Adopting Open APIs to enable better connectivity for new technologies. This will allow the Bank's customers to leverage the Bank's technologies and services for their requirements.
- Continued to develop business intelligence for business and risk management.
- Commenced work on improving controls to align with industry standards on debit cards.
- Reporting system for GOAML was developed to accommodate anti-money laundering regulations

HUMAN CAPITAL

IN 2023, THE HUMAN RESOURCE MANAGEMENT OF THE BANK ENTRUSTED ITS HUMAN CAPITAL, COMPRISING OF 1295 CAPABLE EMPLOYEES, WITH GENERATING ECONOMIC VALUE WHILE UPHOLDING DIVERSITY, EQUITY, AND INCLUSION PRINCIPLES, MAINTAINING A FAIR REPRESENTATION OF MALE AND FEMALE EMPLOYEES AT 52% AND 48%, RESPECTIVELY. THE BANK PRIDES ITSELF ON POSSESSING A WEALTH OF KNOWLEDGE AND EXPERIENCE, MAKING IT A SPECIALIST IN TRADITIONAL BUSINESSES LIKE SME'S AND THE COOPERATIVE SECTOR. THE VALUED EMPLOYEES SERVE AS BRAND AMBASSADORS, EXTENDING THE BANK'S REACH INTO NEW MARKET SEGMENTS. RECOGNISING THE CRITICAL ROLE OF ITS HUMAN CAPITAL, THE BANK IS COMMITTED TO DEVELOPING AND RETAINING TALENT WHILE ATTRACTING NEW RECRUITS TO ACHIEVE SHORT, MEDIUM, AND LONG-TERM STRATEGIC OBJECTIVES.

Despite facing numerous external pressures, the Human Resources Department demonstrated compassionate stewardship, ensuring work-life balance, and fostering flexibility and engagement among employees. The strategic focus



Our Actions	Outcomes
Training and education support	Enhance skills and foster a learning culture
Employee engagement strategy through 'BetterYou' concept	Foster team spirit and cooperative culture
Recognition of the Management Trainee batch	Improve employee productivity and convenience
Expand digitisation	Employee career growth

remains on nurturing employees' competencies for their personal and professional growth. Continuous investment in employee development is a strategic imperative for the bank.

SDG FOCUS



We have ensured a healthy and safe work environment for employees including providing them with an array of benefits, opportunities for growth, performance driven culture, grievance resolution. Enhance insurance cover.



We provide learning and development opportunities for all our employees regardless of rank and file to facilitate personal growth and career development



The bank is an equal opportunity employer that provides employment and career growth opportunities based on merit and promotes a safe work environment.



Through our equal opportunity and merit based recruitment and rewards systems, we contribute towards reducing inequalities based on gender and other demographics.

HR STRATEGIES:

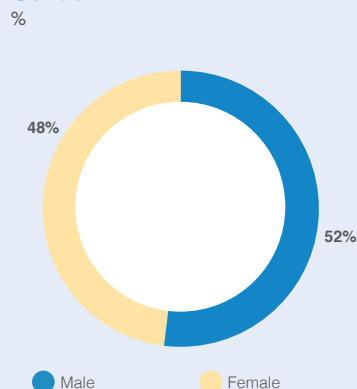
The Bank's HR strategy focuses on enhancing economic value through its human capital by inspiring employees to take on higher responsibilities through Job Enrichment and Job Enlargement, facilitating diverse experiences. The creation of new job positions aligns with changing demand trends, fostering a solid working relationship built on open communication. This approach, rooted in clear expectations, respect, validation, and trust, encourages employees to embrace new challenges based on their capabilities. Bank continues to invest in learning, relearning, up-skilling, and reskilling, enhancing both technical and soft skills among its workforce.

HUMAN CAPITAL

EMPLOYEE PROFILE:

As of the end of 2023, the bank's workforce comprised 1,295 employees, a decrease from 1,381 in the previous year, representing a decline of 86 employees. The gender balance remained relatively stable, with 52% male and 48% female employees.

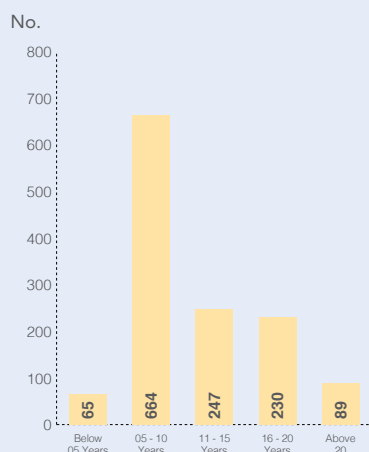
Employee Demographics by Gender



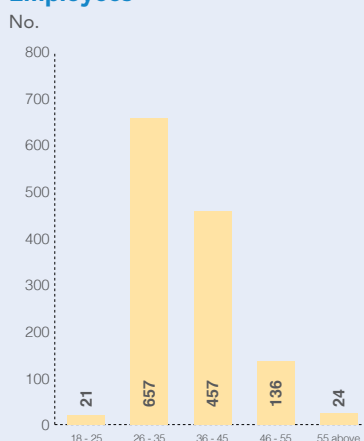
EMPLOYEES BY CATEGORY

As at 31.12.2023	18-30	31-50	Over 50	Total	%
Corporate Management		7	10	17	1.31
Chief Managers		8	4	12	0.93
Senior Managers		26	12	38	2.93
Manager		82	13	95	7.34
Deputy Manager	1	172	13	186	14.36
Senior Executive	4	250	16	270	20.85
Executive	53	173	1	227	17.53
Junior Executive	297	119	1	417	32.2
Others		23	10	33	2.55
Total	355	860	80	1295	100%
As a % of a total	27.41	66.41	6.18	100	

Service Analysis of Employees



Age wise Breakdown of Employees



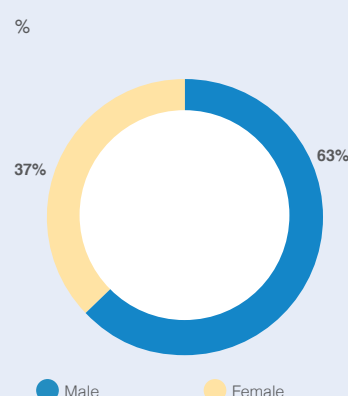
TALENT ACQUISITION AND RETENTION

SDB Bank is adopting a robust approach to attract and recruit competent professionals who align with the organisation's culture and fill critical roles. The talent acquisition strategy is closely aligned with the broader HR strategy, which in turn supports the overarching organisational goals, serving as a key driver for success.

In 2023, the banking sector and the country experienced significant levels of brain drain, leading to skilled personnel migrating abroad in search of better opportunities. This trend also impacted the bank, resulting in 111 resignations during the year.

In response, the Bank lifted its employment freeze and prioritised the recruitment of 27 new employees and managers to address urgent vacancies. Additionally, the Bank attracted individuals with specialised skills to drive its growth strategy forward. Consequently, the employee turnover rate (7%) increased from the previous year, while the retention rate declined. As an equal opportunity employer, SDB bank ensures non-discriminatory, merit-based recruitment practices aligned with the Board-approved Recruitment Policy.

New Recruits by Gender



Human Capital

TRAINING & DEVELOPMENT:

The Human Resource Development of SDB Bank prioritises Training Need Analysis to identify gaps in training and development, facilitating future-proofing efforts by implementing competency-based training strategies. These initiatives aim to cultivate a competency culture within the organisation, aligning employee skills with organisational goals. The Bank's training calendar is tailored to address both requested training and business requirements, adapting to external market dynamics. Emphasising competency training, the calendar targets improving individual competencies to support the Bank's operational and strategic objectives, with annual investments made in training programmes and academic pursuits.

Employee training and development plans are designed to enhance technical and soft skills, aligning with business objectives, and fostering personal and professional growth. Recognising the diverse needs of different teams, specialised training recommended by regulators is prioritised to ensure compliance and effective job performance.

New recruits undergo orientation to familiarise themselves with the Bank's history and culture, while senior managers and above are offered familiarisation programmes. On-the-job training and job rotations are also provided to expand employee knowledge and skills, enhancing workforce diversity and adaptability.

In 2023, the HR Department conducted 163 training events, accommodating employees in all grades to enhance their competency development.

Total Training Cost (Rs. Mn)	Rs.8.4 Mn
Average Training hours per Employee	3 ½ Days
Total No. of Training Hours Conducted	16,600+h
No. of online training	58 (35%)
No. of physical training	106 (65%)

Type of training	Investment	Number of programmes	Number of hours	Area of training
Internal training events	Rs. 4.2 Mn	96	13,756	Technical & Soft Skills - Recoveries - Credit Management - SME - Pawning - Leasing - Audit - Compliance - Risk - Branch Operations - Impairment - Recoveries and Remedial Management
External training events	Rs. 2.4 Mn	65	2,850	Technical training
Foreign training	Rs. 1.9 Mn	2	32	The International Sustainable Finance Conference was attended In order to expand the awareness of modern trends and developments in this sector. Conference on "Leadership in The Digital Age" Master Classes & Fintech Festival held in Singapore was participated to acquire knowledge regarding the challenges that leaders in the global financial industry are facing today. Conference on "Leadership in The Digital Age" Master Classes & Fintech Festival held in Singapore was participated to acquire knowledge regarding the challenges that leaders in the global financial industry are facing today.



HUMAN CAPITAL

**LEARNING CULTURE:**

SDB Bank fosters a robust learning culture by providing financial assistance for academic and professional qualifications, where employees eligible for up to 25% reimbursement of course costs and membership subscriptions in professional organisations. In 2023, many employees enrolled in MBA programmes, with over 80% of staff commencing educational courses based on the Bank's Promotion Policy criteria. Additionally, the Bank accepts trained personnel as in-house resource panels to provide training. These initiatives not only promote self-development but also enrich the organisation's talent pool.

EMPLOYEE BENEFITS:

SDB Bank offers a comprehensive range of employee benefits, including medical insurance for families, employer contributions to EPF, membership in the Welfare Society, and generous leave allowances. Employees are also supported with no-pay leave for higher education pursuits abroad, professional membership subscription reimbursements, honorariums for completion of banking exams, and assistance for higher education.

EMPLOYEE ENGAGEMENT:

The Bank introduced the "Better You" employee engagement strategy in 2023, focusing on both engagement and empowerment through various activities. This initiative continues to promote participatory personal growth and development, with activities such as the "Business English with a Smile" course and a Management Development Programme for Branch Managers. Other engagement initiatives include the "SDB Api" eNewspaper, the E-library providing access to training materials, and the monthly "HR together" forum for employee concerns.

WORKPLACE HEALTH AND SAFETY:

SDB Bank maintains adequate health and safety standards across its branches, organising medical camps in collaboration with insurance partners to promote employee health. The Bank's approach to workplace health and safety emphasises continuous improvement, aligning safety and health objectives with business goals, and encouraging employee participation at all levels.

EMPLOYEE GRIEVANCE MECHANISM:

The Bank expanded its employee grievance management system in 2023, encouraging employees to approach the HR Department with grievances under the Open-Door Policy. Additionally, employees have the freedom to approach superiors, including the Head of HR or CEO, to raise concerns. Awareness programmes on the Whistleblower Policy were conducted to strengthen employee confidence in reporting any corruption or misconduct.

WORK-LIFE BALANCE:

SDB Bank prioritises work-life balance by establishing clear boundaries between work and personal life, setting specific work hours to allow employees personal time. Various initiatives, such as seasonal events and recreational activities, to create an exciting work environment and promoting employee well-being.

CORPORATE SOCIAL RESPONSIBILITY (CSR):

The Bank conducts numerous CSR activities annually to assist communities in need and contribute to social welfare. Activities in 2023 included providing internships for local university students and donating a computer lab to enhance IT learning at a school.



Donation of fully fledged IT Lab at Dewahandiya Kanishtha Vidyalaya, Ududumbara

COMPLIANCE:

SDB Bank remained fully compliant with all labour laws and regulations in 2023, avoiding fines or penalties for non-compliance. Upholding labour laws and fostering a fair and respectful work environment are central to the Bank's operations.

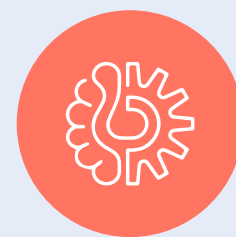
UNION RECOGNITION AND COLLECTIVE BARGAINING PROCESS:

SDB Bank recognises the employees' union affiliated with CBEU and upholds workers' rights and obligations under applicable laws. The Collective Bargaining process ensures constructive engagement between the union and management, reflecting a commitment to industrial peace and mutual problem-solving.

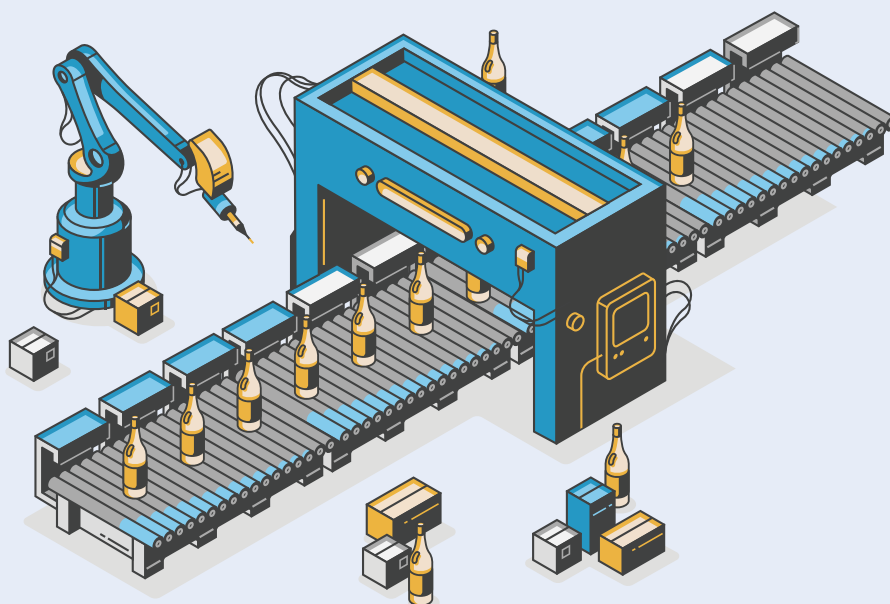
HR CHALLENGES, INITIATIVES & PLANS:

The retention of talented individuals remains a challenge for SDB Bank, prompting efforts to retain top performers and attract new talent through lateral hiring. HR plays a pivotal role in addressing these challenges and driving strategic growth by strengthening employee engagement, performance management, and talent development initiatives. The Bank is actively preparing internal talent for future leadership roles to ensure sustainable growth.

MANUFACTURED CAPITAL



THE BANK'S GROWTH STRATEGY FULLY ACKNOWLEDGES THE POTENTIAL OF DIGITAL TECHNOLOGIES IN TRANSFORMING NOT ONLY THE BANK BUT ALSO THE INDUSTRY, AS WELL AS THE LIVES OF OUR CUSTOMERS, BY OVERCOMING PHYSICAL AND TIME LIMITATIONS POSED THROUGH CONVENTIONAL BANKING. HENCE, INVESTMENT IN INFORMATION TECHNOLOGY WILL REMAIN ON PAR WITH THE GLOBAL STANDARD TO ENABLE THE BANK TO REAP THE BENEFITS OF SCALE ECONOMIES, WHILE ENHANCING CONVENIENCE FOR OUR CUSTOMERS.



Our Actions	Outcomes
Total capital expenditure Rs. 217 Mn	Enhanced physical assets to support service expansion
Expenditure on computers and other hardware	Supported digital banking expansion

During the current financial year, we continued to invest in digital technologies within the internal operations of the Bank through the development of customised software and data warehousing, as well as enhancing externally-oriented digital products, such as revamping the UPay App with additional features and conveniences.

The Manufactured capital base of the Bank is limited to physical and digital infrastructure, including our branch network, that is indispensable for service delivery. During 2023, in line with the Bank's plans for modernisation, this capital base was enhanced mainly through the expansion of technology related hardware. However, regular maintenance was done on existing assets including buildings, furniture, equipment and vehicles.

SDG FOCUS



Our island-wide branch network in 94 locations generate employment opportunities across the country



Our state-of-the-art technology-driven banking infrastructure and green infrastructure encourage economic development through the provision of financial services and affordable credit to smallholder enterprises

TAKEOUTS FOR THE NEXT FINANCIAL YEAR

- Continue with branch rebranding for brand image and visibility
- Improve and upgrade hardware for better system security, faster transactions, better uptimes and disaster recovery.

PHYSICAL ASSETS

Our physical infrastructure includes land and buildings, leasehold properties, computer hardware, machinery and equipment, office furniture and fixtures as well as Company vehicles. The total value of the Bank's tangible fixed assets was Rs. 845.33 Mn as of end December 2023.

MANUFACTURED CAPITAL

Asset Class	Value in 2022	Value in 2023	Change %
Land and Buildings	442.11	514.02	16.27%
Vehicles	1.42	0.80	(43.66%)
Furniture & Office Equipment	119.95	138.89	15.79%
IT Hardware including computers*	529.71	191.62	(63.83%)
Total	1,093.19	845.33	(22.67)

*2022 balance of Rs.529.71 included with Rs.229.89 amount of assets which has been classified as Intangible Assets in the year 2023. If the 2022 balance of IT Hardware including computers adjusted with this, the balance would be Rs.299.82 and the difference would be -36.09%

BRANCH MAINTENANCE

All 94 branches are fully equipped and are digitally networked to provide a wide range of financial services for Retail, SME, Co-operative and Business banking clients.

The main capital investments during the year were for solar panels at the Horana and Karapitiya branches and the rebranding of branches. The branch rebrand which commenced in 2023, has changed the external and internal appearance of about 12 branches by introducing prominent signage, attractive colours and a uniform internal layout to modernise the image of the Bank and differentiate branches from competitors.

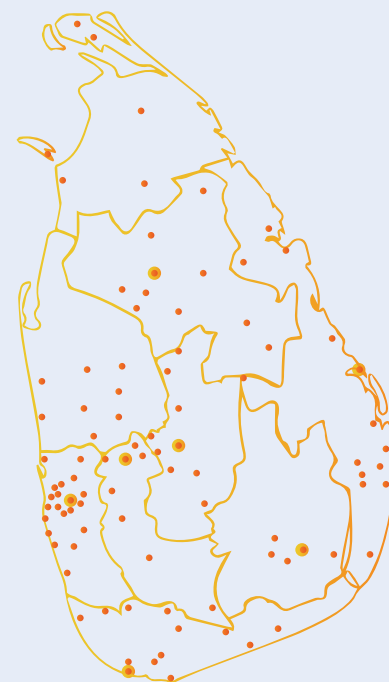
Rebranding branches 13 Branches, Rs.9.4Mn

IT INFRASTRUCTURE

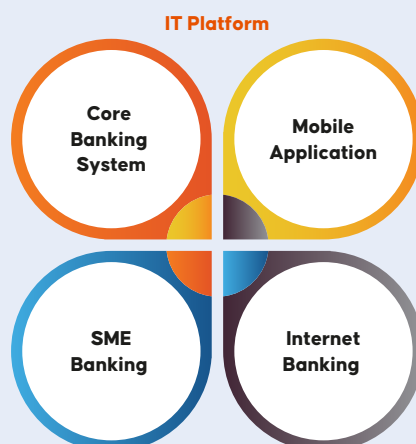
The main hardware components of the Bank are the servers of the Data Centre, network infrastructure and computers used by employees. This hardware system, coupled with software, enables the Bank's expanding digital services. (Please refer to the Intellectual Capital chapter for information on the Bank's system improvements and digital initiatives during the year.)

In 2023, the Bank approved Rs. 150 Mn to upgrade the Data Centre servers for enhanced capacity, speed and security. The Bank also invested in hardware to support migration to the SD-WAN network.

North Western Region	North Central Region
Kurunegala	Anuradhapura
Anamaduwa	Polonnaruwa
Chilaw	Thambuththegama
Giriulla	Medawachchiya
Kuliyaipitiya	Aralaganvila
Maho	Galenbindunuwewa
Narammala	Nochchiyagama
Wariyapola	Padaviya
Wennappuwa	Kekirawa
Northern Region	Southern Region
Chunnakam	Akuressa
Jaffna	Ambalangoda
Kilinochchi	Ambalanthota
Mannar	Angunakolapalassa
Vavuniya	Deniyaya
Nanatan	Elpitiya
Uva Region	Galle
Buttala	Karapitiya
Badulla	Katuwana
Bandarawela	Mathara
Monaragala	Thalgaswala
Siyambalanduwa	Thissamaharama
	Yakkalamulla



Western 01 Region	Eastern Region
Colombo City	Ampara
Aluthgama	Dehiaththakandiya
Baththaramulla	Samanthurai
Dehiwala	Uhana
Dematagoda	Batticaloa
Horana	Higurana
Kaduvela	Kalawanchikudy
Kaluthara	Pothuvil
Kirulapone	Valachchenai
Maharagama	Akkarepaththu
Malabe	Kalmunai
Mathugama	Kanthale
Moratuwa	Muthur
Panadura	Trincomalee
Piliyandala	Sabaragamuwa Region
Wesern 02 Region	Kegalle
Gampaha	Embilipitiya
Negombo	Rathnapura
Kiribathgoda	Warakapola
Ekala	Ruwanwella
Mahabage	Rambukkana
Central Region	Deraniyagala
Dambulla	Mawanella
Galewela	
Gampola	
Hatharaliyadda	
Kandy	
Mathale	
NuwaraEliya	
Pilimathalawa	
Rikillagaskada	



SOCIAL AND RELATIONSHIP CAPITAL



SDB BANK'S SUSTAINABLE SOCIAL AND RELATIONSHIP CAPITAL IS DERIVED FROM A BROADER, LONG-TERM DEVELOPMENTAL FOCUS. THIS COMMITMENT IS EXEMPLIFIED BY SDB BANK'S LENDING MODEL, WHICH PRIMARILY EMPHASISES DEVELOPMENT FINANCING OVER CONSUMPTION CREDIT. A SIGNIFICANT SHARE OF SDB BANK'S LENDING PORTFOLIO IS DIRECTED TOWARDS SMES, FOSTERING BUSINESS GROWTH AND ECONOMIC ADVANCEMENT IN RURAL AREAS AND AMONG PROGRESSIVE HOUSEHOLDS AND INDIVIDUALS.



REGULATORY COMPLIANCE

Compliance is an indispensable component of our social licence as a responsible corporate citizen. Therefore, we would like to confirm that the Bank did not face any fines or penalties for delays or non-compliance with applicable regulations during the year under review.

Furthermore, the Bank prioritises lending towards sustainable business ventures, including renewable energy projects and promotes the adoption of sustainable business practices and lifestyles. Additionally, SDB bank actively promotes savings products to empower the broader population and enhance overall quality of life. Its children's savings account promote saving as a habit from a young age.

A distinguishing feature of SDB Bank is its enduring relationship with Sri Lanka's cooperative sector. These connections represent a commitment to supporting micro and small entrepreneurs within underserved sectors of the economy. SDB Bank actively engages with local communities by providing advisory services, technical support, and financial inclusion initiatives aimed at improving lives and fostering economic empowerment.

The Bank encourages the concept of reforming community capital within the community through the cooperative network.

Our Actions	Outcomes
Relocation of two branches	Improve access to products and services to wider populations
Branding branches	Enhance market visibility and brand image
Marketing and promotions of savings accounts	Promote savings among children and adults
Increasing social media activity	Enhance digital brand presence and convenience for customers
Promoting value chain financing	Linking up small and micro business to markets and stable revenue sources

SDG FOCUS



SDB Bank's core objective is decent livelihoods and economic growth for rural communities.



We ensure financial inclusion and digital inclusion for communities across the country and we empower low income earning customer segments through financial inclusion, with a special focus towards empowering women entrepreneurs.



We promote alliances between the financial sector and agriculture sector actors towards sustainable food systems.



We continue to nurture local and global partnerships to fuel the national economy and create positive societal and environmental impacts island-wide.

SOCIAL AND RELATIONSHIP CAPITAL

TAKEOUTS FOR THE NEXT FINANCIAL YEAR

- As the economy gradually recovers, SDB Bank plans to expand value chain financing in 2024, by marketing the concept to a wider range of SMEs
- Promote impact investment opportunities among the more affluent to enable SME development through socially and environmentally friendly financing
- Foster strategic business partnerships for low cost financing to support micro and SME growth
- Strengthen support for cooperatives and their members through value chain link-ups and required training thorough the creation of and Eco system.

PHYSICAL FOOTPRINT

While expanding the Bank's digital services, SDB Bank maintains an island-wide branch network in order to ensure that rural communities that do not have access to internet facilities have easy access to formal banking services. The network of 94 branches and 13 ATMs are spread out across the country and are located strategically to provide access to as wide a population as possible.

The branches in particular have historically played a significant role in educating and introducing rural populations, who were unfamiliar with formal banking systems, to the various banking products and services and the benefits of formal banking services, as opposed to informal village lenders that charge exorbitant interest rates.

SDB Bank's staff are trained not only on products and regulations, but also to be friendly and helpful, and to provide support services in the local languages. Today, although an ATM network has also been introduced, the branches continue to be the primary channel of service delivery and remain an indispensable link of the Bank's social capital expansion as the Bank's physical brand representation across the country, and a direct interface between wider society and the Bank.

During the current financial year, the branch oversight was improved by expanding the previous 7 regions into 10, thereby facilitating closer controls. The branch network is overseen by 8 regional offices.

THE BANK CELEBRATES ITS 26TH ANNIVERSARY

SDB Bank celebrated a significant milestone in August 2023, marking 26 years of dedicated service. The anniversary celebration was conducted under the theme "Enriched through Partnerships," showcasing the bank's commitment to collaboration and growth. Various initiatives were implemented as part of the campaign, such as a donation programme at SDB Bank's Head Office and the inauguration of an IT lab at Devahandiya Primary School.



The Bank also hosted an event, not only as a time for celebration and unity but also as an opportunity to formally acknowledge and appreciate the individuals who have been instrumental in the Bank's success. During the event, a Commemorative Gold Coin was presented to staff members who have completed 25 years of service at SDB Bank, as a token of appreciation for their dedication and unwavering loyalty.



BRANCH RELOCATIONS

SDB BANK CITY BRANCH SHIFTED TO UNION PLACE

The Bank's flagship City Branch was relocated to No.167, Union Place, Colombo 02 in the heart of Colombo, in April 2023. The relocation is a strategic move to mark a stronger presence in the commercial capital and to connect with high-net-worth clientele who share the same vision and values as the Bank.

SDB HINGURANA BRANCH RELOCATED FOR CUSTOMER CONVENIENCE

SDB's Hingurana branch was relocated to the JSQ 3/B, Industrial Zone, Hingurana, in August 2023, after over 12 years at its previous location, to enhance access to a larger population. The branch offers the full range of services from the Bank.

SOLAR POWER INITIATED AT HORANA AND KARAPITIYA BRANCHES

The Bank unveiled its solar energy initiative at the Horana and Karapitiya branches to promote renewable energy integration into the national energy mix and to promote SDB solar loans among the public.



STRENGTHENING THE SDB BRAND

During the past financial year, SDB Bank prioritised a branch branding upgrade programme to enhance the visibility and brand representation of our branches. This initiative involved revamping 12 branches with prominent branding signage to distinguish SDB Bank locations from other buildings and financial institutions, making them easily recognisable to the public.

Social and Relationship Capital

The upgraded branches now feature sleek, contemporary exteriors and interiors designed to elevate our brand image as a progressive institution capable of addressing the evolving and complex financial needs of our customers. This transformation is intended to instil a sense of pride and loyalty among both customers and employees.

The enhanced appearance aligns with the Bank's strategy to resonate with the aspirations of progressive individuals and cater to their banking needs effectively. We believe these enhancements will further reinforce our commitment to serving and connecting with our valued customers.

MARKETING CAMPAIGNS

Savings promotions took the lead in the current financial year in line with the Bank's strategic objective of becoming the preferred savings bank for the progressive masses of Sri Lanka. The highly successful savings campaigns also facilitated low-cost funding for the bank and high levels of liquidity.

The Bank also conducted a number of marketing and media promotional campaigns during the year to promote a new SME loan product, an enhanced leasing product, pawning services and mortgage facilities.

- **Enhanced Lakdaru savings**

The highly popular SDB Lakdaru savings account for minors was enhanced with new features to establish it as one of the best children's savings accounts in the market. SDB Lakdaru now offers highly attractive interest rates in the market, making it an ideal option for parents seeking effective savings solutions for their children. Moreover, SDB Lakdaru introduces tiered gifts and rewards, insurance schemes, and an exclusive scholarship award for top performers at the Grade-5 Scholarship Exam.

- **SDB Top Saver Plus promotions**

The SDB Top Saver Plus savings account that offers the best benefits for regular savers was promoted during the year to expand the Bank's savings base. The account offers an attractive interest rate, with interest being calculated based on the daily balance, for maximum value creation.

- **SDB Bank's Business Saver campaign**

The Bank continued to support SMEs by promoting the SDB Business Saver accounts that provide a flexible multi-option account that yields a high interest rate and provides digital connectivity to current accounts, for maximum flexibility and ease of access.

SDB BANK'S DIGITAL PRESENCE

Social media presence is now vital in Sri Lanka to remain relevant with the public and customers and SDB Bank maintains accounts in all major social media platforms including Facebook, Instagram, LinkedIn and Youtube. The Bank is also expanding the use of digital media to facilitate greater convenience for customers and to expand and diversify its customer base. Therefore, digital and social media activities were increased during the year to reach out to more customers. Social media was used to promote products and services, to respond to customer inquiries and to educate and assist customers select the best product options for their requirements.

The Bank's website is another digital marketing and communications channel that is gaining popularity.

LAKDARU DIGITAL CAMPAIGN

The Bank took its minor's savings account on a digital marketing campaign during the Christmas season, titled "Ko mage natthath thagga" (Where is my Christmas gift), to encourage parents to save for their children's future instead of toys and gifts. The digital campaign was conducted on YouTube, Facebook, Instagram and selected digital community channels, until the end of December 2023. The Bank also conducted interactive activities and contests to engage with its customers and potential customers and raise awareness about the benefits of the SDB Lakdaru savings account.

DATA SECURITY

As the Bank expands its digital capabilities rapidly as a core component of its growth strategy, systems security has gained relevance to protect both the Bank's assets

as well as customer privacy. The Chief Information Officer oversees the Bank's growing digital asset base and leads the Bank's in-house IT team. Please refer to the Intellectual Capital chapter for more information.

To protect customer data and ensure customer confidentiality, the Bank maintains systems and technologies in line with industry standards and best practices. A multi-layered security architecture is implemented along with security and data protection solutions/ technologies, backups and disaster recovery systems.

During the current financial year, SDB Bank did not face any breaches in data security, or loss of data, due to external interference.

CUSTOMER SEGMENTS

The Bank has a portfolio of products that have been tailored to meet the banking needs of different customer segments. These products are reviewed annually and updated according to market requirements. SDB Bank's main customer segments are:

1. SMEs: Micro, Small and Medium-sized enterprises
2. Individual/retail Customers: General Savers, Minors, Women, Youth, Senior Citizens and Veterans
3. Cooperatives: Small clusters of individuals collaborating with cooperative societies in community communities
4. Business Banking: Mid-scale to large corporate business

- **Micro and SME categories**

The Micro and SME categories represent the Bank's largest customer group in terms of business value. While economic conditions, for the most part, remained unfavourable for growth in demand for credit, SDB Bank continued to engage with these customers to develop business solutions for them, while also working with businesses in difficulties to recover and restructure their repayments.

During the year, the Bank disbursed Rs. 15.95 Bn to this sector, including credit lines from CBSL and the Ministry of Finance, in addition to the funds acquired from the Development Finance Corporation of USA.

SOCIAL AND RELATIONSHIP CAPITAL

The lending was mainly directed towards agriculture, dairy farming, and women entrepreneurs. The loan portfolio decreased by approximately 3,274 customers compared to the previous year.

Individual/Retail Customers

The Bank provides a range of general savings, fixed deposits and loan products to retail customers and also some specialised financial packages for women, children, youth, and senior citizens to assist with their specific financial requirements. The Bank also has a number of facilities to enhance banking convenience for retail customers, including digital onboarding facilities, mobile banking and the UPay payment app, doorstep banking and also ATMs in convenient locations.

NEW INITIATIVES

The bank re-launched the savings certificate and Lakdaru children's savings account. These products are designed to help our customers build a long-term savings portfolio with attractive rates and benefits for investors.

The bank established a High Net Worth Individual (HNI) Centre specifically designed to cater to our esteemed clientele. The HNI centre boasts a dedicated lounge area equipped with amenities, to create a comfortable and private setting for meetings and discussions.

Co-operatives

SDB Bank's interactions with Sri Lanka's cooperatives extend across the island across all ethnic and language groups, giving the Bank one of the most extensive community coverage networks in the country. The Bank works closely with cooperative societies, to educate and motivate staff of societies and also to transfer business and financial knowledge to communities.

The Bank has also continued to promote digital finances to cooperatives and their members through its mobile banking and UPay app and has a special savings account with high-interest rates - Co-op Saver - developed specifically for the cooperative sector.

NEW INITIATIVES

The Bank's Co-operative Division conducted a series of relationship development activities with cooperatives between, May and November 2023. These included motivation outbound training programmes, training on recovery, auditing and litigation, training for women entrepreneurs and financial literacy, and also training programmes for staff of the National Cooperative Department and award ceremonies for cooperatives. The cost for a majority of these events was borne by the Bank, while some societies covered the costs of their training with SDB Bank coordinating the event.

Region	Number of programmes
Western 1	28
Western 2	30
Sabaragamuwa	18
Uva	22
Southern	31
Wayamba	26
Central	30
North Central	12
Northern	2
Total	199
Total number of societies	1656
• Number of SANASA Societies	1538
• Number of Multi-Purpose Cooperative Societies (MPCSs)	118
Total number of individuals trained	8602
• Number of SANASA members trained	4730
• Number of MPCS members trained	3707
• Number of Cooperative Department members trained	165
• Training hours	22,440h+

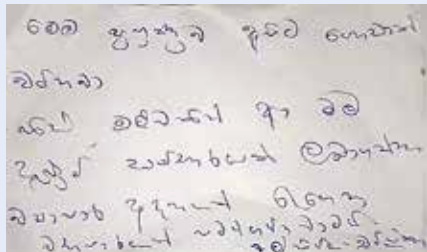
WORKSHOP FOR SANASA MEMBERS



An entrepreneurship development and financial literacy and business planning workshop was held for members of SANASA societies of the Kegalle SANASA Union, in the Warakapola Branch, in the Sabaragamuwa region. The event was held at the Ambagala Janaudawa Sanasa Society premises. The resource person was the Kegalle Entrepreneurship Development officer.

Social and Relationship Capital

FEEDBACK ON THE EVENT



"This training was very valuable for us. I came with an empty head and received a lot of knowledge. I will start my own business," Champika from Elpitiya.

SOCIETY MOTIVATION PROGRAMME



A society motivational and leadership training programme was held for the Kahatagasdigiliya MPCs in the Anuradhapura Branch of the Kahatagasdigiliya MPCs, in the North Central Province, Anuradhapura.

• Business Banking

SDB Bank commenced business banking services in 2020 by developing products and services targeted at larger corporates, that have different financial needs from the SME sector. The Bank's enhanced digital banking facilities have enabled competitive services for this sector.

The Bank has identified priority sectors in this category which are manufacturing, agriculture production, renewable energy, IT and export industries. The Bank provides short-term loans and working capital loan facilities to this sector and is also planning to expand its ongoing value chain financing within this sector.

EW INITIATIVES

- Value Chain Financing facility which will cover both pillars
 - Distributor/Dealer Finance facility
 - Supplier Finance facility
- Post dated Cheques facility
- Cheque warehousing facility
- Enhanced Business Internet Banking experience with more user-friendly features
- Tailor-made Short Term revolving facilities for working capital requirements of Business clients

SUPPLIERS

The suppliers play an essential role in our business operations as they provide the necessary support services required for the efficient functioning of the Bank. We ensure that all the suppliers comply with the required industry standards including the stipulated standards of the Bank.

As a development bank, priority is given to local suppliers when selecting suppliers.

BUSINESS PARTNERSHIPS

Business partnerships are a key strategic component of the Bank's sustainable growth model by facilitating access to funding, technical expertise and training. They are also crucial in creating and expanding the Bank's concept of local value chains and impact investment.

The Bank commenced talks with the Dutch multinational, cooperative bank – Rabobank – for a unique partnership in Sri Lanka.

The SDB Bank team and staff from BIO Belgium held discussions with the BOI to obtain support from the Belgian Investment Company for Developing Countries.

LOCAL PARTNERSHIPS

The Bank has a number of partnerships with local institutions to provide training and development for SMEs.

- **Institute of Chartered Accountants of Sri Lanka:** SDB Bank continued its partnership with the Institute of Chartered Accountants to educate SMEs on financial management and financial literacy through mentorships. Over 1,000 volunteer Chartered Accountants have been linked up with SMEs as mentors and financial educators. This partnership will support the expansion of the Bank's customer base in addition to developing community-level entrepreneurs.
- **MILCO (Pvt) Ltd:** SDB Bank's ongoing partnership with MILCO provides financial assistance to dairy farmers in the MILCO farming network, in the North Central Province to ensure uninterrupted supplies of fresh milk for the country.
- **DIMO:** SDB bank renewed its MOU with DIMO to provide access to modern agricultural equipment for farmers.
- **Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI):** The Bank remains active within the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI) as a Core Group Member.

GLOBAL PARTNERSHIPS

- Discussions are underway with European Development Financial Institutions, through the international cooperation section of the EU in Sri Lanka, to obtain long-term funding for sustainable agriculture for smallholder farmers.
- The Bank has also established associations with the International Cooperative Alliance, Asian Confederation of Credit Unions (ACCU), International Raiffeisen Union (IRU) and Centre for International Cooperation in Agriculture Banking (CICAB) in harnessing opportunities in the global cooperative arena.

SOCIAL AND RELATIONSHIP CAPITAL

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

MEMBERSHIP IN ASSOCIATIONS

The Bank maintains membership in a number of local trade bodies and associations

- Leasing Association of Sri Lanka
- Association of Professional Bankers' of Sri Lanka
- The Ceylon Chamber of Commerce
- Employers' Federation of Ceylon
- The Association of Banking Sector Risk Professionals in Sri Lanka
- Association of Compliance Officers of Banks in Sri Lanka
- Sri Lanka Banks' Association (Guarantee) Limited
- The Financial Ombudsman Sri Lanka (Guarantee) Limited

CORPORATE SOCIAL RESPONSIBILITY (CSR)

With its roots in community development through the SANASA Movement, the Bank's overall business model is developed to uplift vulnerable and marginalised communities. The Bank also has a long tradition of working with underserved communities to provide welfare facilities and also for environmental conservation and cultural engagements.

CSR ACTIVITIES

• Community-based cash livelihood development

The Bank has an ongoing partnership with the Dumbara SANASA Cooperative Union, to support income generation for the local community through cash crop cultivation and agroforestry amongst cooperative unions and farmer societies. The Bank is providing technical assistance to the cooperative societies and farmer societies for this project.



• Internships at the Bank

The Bank provided six-month internships for government university students and students from technical colleges.

• Rural students gain access to a new computer laboratory facility

Keeping to its promise of creating a brighter future for rural families, the Bank provided 10 computers and other infrastructure, to promote computer literacy at an underserved school in the interior of Kandy. The Devahandiya Primary School in Ududumbara, Kandy, has only 65 students, but they now have their own IT laboratory equipped with computers and other facilities to participate in the digital world.



ANNUAL LOTUS OFFERING

The SANASA Movement organised its annual lotus flower offering at the Ruwanweli Maha Seya and Jaya Sri Maha Bodhi in Anuradhapura for the 24th time, to bestow blessings on all Sri Lankans. Thousands of devotees from all parts of the island representing SANASA societies took part.

POSON BATHI GEE

A programme of hymns titled 'Poson Bathi Gee Saraniya' was organised by the Maharagama South Godigamuwa SANASA group, and was held at the SANASA premises on Poson Poya day.

DR SUNETHRA NUGAWELA SPEAKS AT THE SECRETARIES CONGRESS

Dr Sunethra Nugawela, the Executive Secretary of SDB Bank addressed the 25th Asia Pacific Secretaries Congress.

NATURAL CAPITAL



SDB BANK'S ENGAGEMENT WITH THE CLIENTS EMPHASISES LIVING IN HARMONY WITH NATURE AND ENVIRONMENTAL CONSERVATION. WHILE THE BANK HAS GROWN AND CONTINUES TO EVOLVE BY EXPANDING ITS DIGITAL FOOTPRINT AND CUSTOMER SEGMENTS, SDB BANK IS COMMITTED TO PRACTISING ITS ETHOS OF SUSTAINABLE BUSINESS AND PROMOTING CONCEPTS OF ENVIRONMENTAL RESPONSIBILITY AMONG ITS STAKEHOLDERS.

As a service organisation, the Bank's direct impact on the environment is minimal. However, the Bank acknowledges it has a broad indirect impact through its lending to all types of industries. Therefore, the Bank continually reviews its Environmental and Social Risk Management framework applicable to lending operations. The Bank has also already codified its sustainable financing areas, to fast track capital mobilisation for activities that have positive environmental and social impacts. These include sustainable agriculture, circular economy initiatives, as well as renewable energy projects and energy efficiency programs, which are aligned with the Green Finance taxonomy declared by the Central Bank of Sri Lanka in May 2022.

SDG FOCUS



We ensure energy management by implementing energy conservation measures across our operations



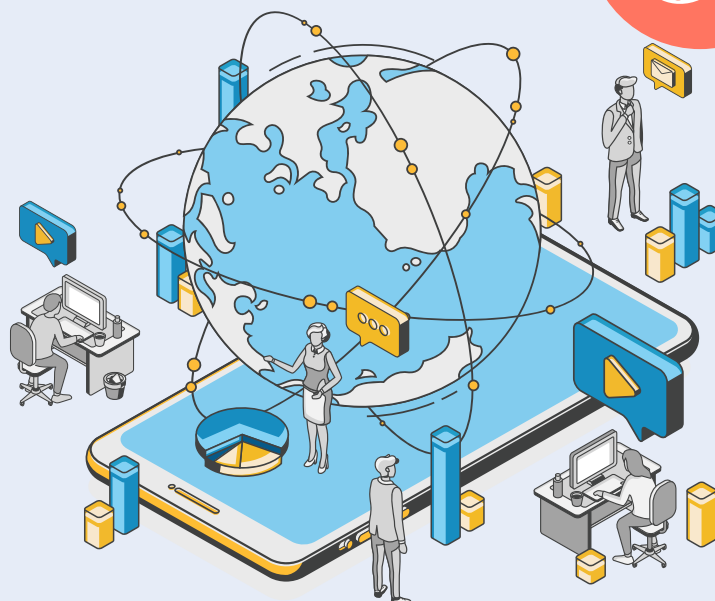
We effectively manage our environmental impact and promote resource conservation and waste reduction including the operationalising of the green procurement criteria



We commenced an agroforestry project and raised environmental awareness among employees



We contribute to environment and biodiversity conservation through our commitment to ecosystem restoration projects



Our Actions

Screening non-retail loans using an environmental and social due diligence process, with all business purpose loan facilities above Rs. 500,000 reviewed for Environmental & Social risks and loans above Rs. 30 Mn subject to enhanced environmental due diligence

Introducing renewable energy financing

Piloting an agroforestry initiative

Integrating renewable energy into the Bank's operations

Introducing procurement guidelines for green procurement

Outcomes

As a result of client engagement on Environmental and Social Risks, some clients have agreed to implement action plans on waste management and pollution control, biodiversity conservation, and emission reductions that have a positive impact on the environment. A notable example is the connecting of a leading conservation organisation working on Human-Elephant co-existence with a client who is engaged in sourcing sugarcane feedstock from smallholder farmers so that spatial data could be used in managing land use for sugarcane cultivation.

Emission reductions from over 3MW of Solar PV Systems financed over the past 3-years

The continuation of the forest restoration project in Ududumbara was affected by the drought. But with much effort, more than 50% of the plants could be saved favoring adjacent communities. The bank will be conducting a comprehensive review of the programme to extract valuable lessons for ecosystem restoration. Additionally, the bank will focus on enhancing the capacity of cooperatives in implementing climate adaptation best practices in 2024.

Two rooftop solar projects were commissioned at SDB Horana and SDB Karapitiya branches

Recommendations from the procurement consultant were partly operationalised with weightage given for sustainability criteria.

NATURAL CAPITAL

TAKEOUTS FOR THE NEXT FINANCIAL YEAR

- Continued implementation of energy saving measures across our operations
- Greater focus on environmental and social risk management and sustainable finance (sustainable energy solutions)
- Enhanced focus on financing value chains
- Engage in non-financing related initiatives to enhance social risk management at the community level.

MANAGING THE INTERNAL FOOTPRINT

SDB bank has adopted environmentally friendly initiatives as a core component of its sustainable business model. Therefore, in order to manage its internal carbon footprint, the Bank conducted an energy audit and A/C assessment in 2021 and also conducted a green building preliminary assessment through external consultants, at the Horana branch. A cost-benefit analysis for upgrades and retrofits to the Horana branch was also completed. However, the economic situation post-April 2022 made such investments cost-prohibitive with the escalation of prices of capital equipment. Therefore, the A/C upgrade has remained on hold. However, the Bank has continued with its other in-house environmental projects. Employees are being continually sensitised regarding sustainable practices, including electricity use, paper and water consumption and food waste, via e-flyers.

RENEWABLE ENERGY AND ENERGY CONSERVATION

The Bank successfully commissioned two rooftop solar projects at its Horana and Karapitiya branches in 2023. These two installations, which together constitute 45 KW of installed capacity, contribute to the reduction of approx. 866 tonnes of CO2 equivalents over the 20-year power purchase agreement. In addition to setting up the solar panels, the use of office space was rationalised to facilitate energy savings.

REDUCING WASTE

We are continuing our paper recycling efforts through licensed third-party vendors. Internal processes have been and are being improved and changed to reduce the overconsumption of paper in

all our operations. Result of initiatives implemented at the head office, there has been a reduction of 29% in the consumption of A4 papers. As a holistic approach the bank is aggressively working towards shifting to digital operations such as transactions and communications.

ENVIRONMENT AND SOCIAL RISK MANAGEMENT FRAMEWORK (ESMS) AND SUSTAINABLE FINANCE

SDB bank continued to implement its Environmental and Social Risk Management System with all business purpose loans above Rs. 500,000 reviewed for Environmental and Social risks, with enhanced due diligence conducted for facilities above Rs. 30 Mn. The review of the bank's portfolio that commenced in the latter part of 2023, which is currently ongoing, has shown that of the 2,281 loan facilities reviewed, approx. 15% has been identified as high risk, 20% as medium risk and 65% as low risk in terms of Environmental and Social Risk exposure. A key aspect to be addressed is the awareness among microenterprises of the benefits of identifying the Environmental and Social Risks early on and addressing these proactively rather than incurring higher costs later if risks materialise.

RESEARCH ON FINANCING NATURE BASED SOLUTIONS

In 2022, the bank initiated a landmark agroforestry project, to celebrate the Bank's 25th anniversary. This unique pilot project is designed to make a positive impact on biodiversity, climate action, land degradation neutrality and community resilience, through the renovation of degraded land.

A site near the Victoria, Randenigala, Rantembe (VRR) sanctuary was selected for the pilot and the Dumbara SANASA Union, a collective of cooperatives, was selected as a key partner with IUCN Sri Lanka.

The 25-hectare of land in Dewahandiya East village, located in Ududumbara, is situated adjacent to the VRR sanctuary. Over the course of several decades, this land has been degraded as a result of tobacco cultivation on the mountain slope. The local population had phased out tobacco cultivation over time and replaced it with vegetable cultivation. However, with the fertiliser ban/high input costs in 2021 and 2022, their production was low. Over the

past four years, the local community has also been impacted by climate change with rainfall variability affecting their pepper cultivation, which was a primary cash crop for the village. The area forms a part of the Randenigala Reservoir's catchment area and has been identified for high soil erosion. During the dry seasons, this degraded area is engulfed with mana and poses a risk of being the cause of forest fire that could spread to VRR sanctuary.

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

However, project progress came to a affected in 2023 as a result of prolonged drought conditions. The severe water shortages faced by the villagers prevented them from watering the plants, leading to the discontinuation of the planting efforts. As a result, the project is now in need of revitalisation. The Bank will continue working with the Dumbara SANASA Union to restore the project and also develop value chains in these perennial crops. The Bank is also discussing with the USAID Climate Adaptation programme, opportunities for the capacity development of cooperatives, to be robust aggregators in export-oriented value chains. The experience from this pilot project will support the Bank in attracting international sustainable finance to Sri Lanka and the Bank remains keen to support the Government of Sri Lanka in implementing nature-based solutions as part of a debt for nature swap.

RISK MANAGEMENT AND CORPORATE GOVERNANCE





RISK MANAGEMENT

APPROACH TO RISK MANAGEMENT

Given the unprecedented macro environmental changes within the past few years, prudent and calculated risk management is indispensable for the survival and sustainability of the Bank. The Bank's Board and management are fully cognisant of this reality and is committed towards adopting all possible measures to manage the Bank's risk environment to protect shareholder and other stakeholder interests in the Bank. Within the past few years, the Bank has repeatedly enhanced and adopted evolving methods in its risk management systems across all operational aspects and continually reviews the operating environment to enable rapid and flexible responses to persistent and emerging macro environmental threats. Risk controls are reviewed against external developments to minimise impacts, and an Integrated Risk Management Framework is operational clearly defining the Bank's governance structure, policies, processes, and procedures to manage the multiplicity of unpredictable risks faced by the Bank in its daily operations, as well as its strategic objectives for the future. This framework continues to serve the Bank in foreseeing potential risks, thereby alerting the Bank to take appropriate measures to manage risks in the current volatile macroeconomic backdrop.

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

In addition to the BIRMC the Bank has an additional risk management layer formed by the Executive Integrated Risk Management Committee (EIRMC). This committee is responsible for implementing the risk management framework and reviews the Bank's credit, market, liquidity, and operational risk indicators as well as its internal capital adequacy levels. The Chief Risk Officer reports to the BIRMC.

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

- i. The Integrated Risk Management Framework sets the ground rules for the Risk Management Framework, including, without limitation, risk governance, Risk

Appetite guidelines, definition of the risk management processes, as well as Risk Management policy documentation and reporting guidelines. The IRMF is also catering for risk categories not captured by risk specific policies. All the other components of the IRMF shall be developed consistently with the principles set out in the IRMF.

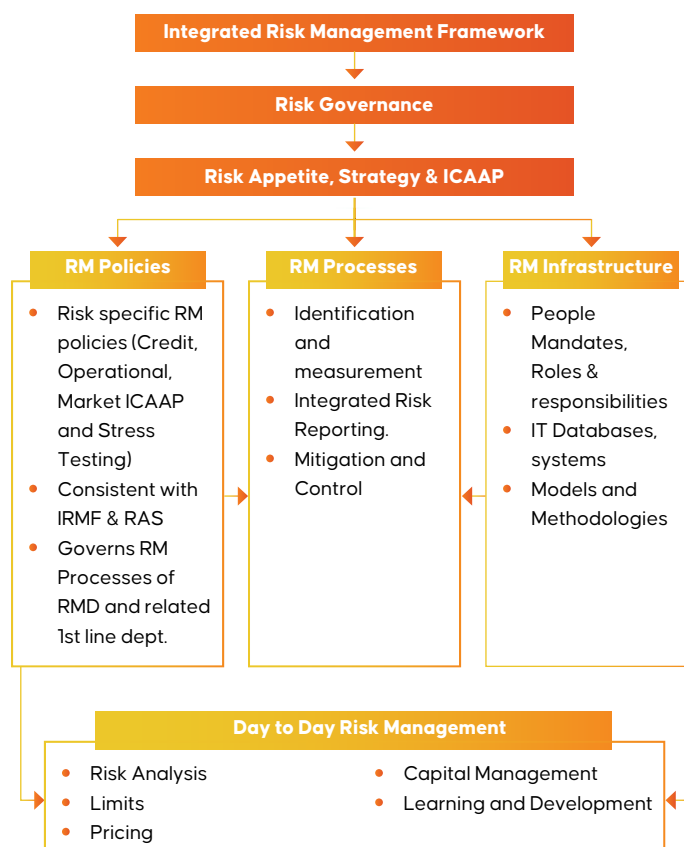
- ii. Risk Governance lays down the main roles and responsibilities, including levels of authority and reporting lines, of all key stakeholders involved in Risk Management. The Governance elements of the RMF are documented under IRMF (see next section)
- iii. Risk Appetite, Strategy and ICAAP define the risk strategy of the Bank in terms of risks the Bank wishes to assume, clear boundaries for each material risk type, integration of risk planning with business planning through ICAAP. Detailed descriptions of governance, processes and methodologies pertaining to Risk Appetite and ICAAP shall be documented in dedicated policies.
- iv. Specific Risk Management Policies and Processes are defined for credit, market & ALM risks, operational risk, and ESG risks following principles set out in the

IRMF. All these policies are standalone documents that govern specific segments of the RMF.

- v. Risk Management Infrastructure consists of all the resources deployed by the Bank to carry out the provisions set out in the risk management policies and procedures, including without limitation, people, systems, data, models and methodologies.
- vi. Day to day Risk Management Activities are the risk policies and procedures in action carried out by all relevant stakeholders.

SDB BANK'S POLICIES IN SUPPORT OF RISK MANAGEMENT

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



RISK MANAGEMENT**RISK ENVIRONMENT IN 2023**

For a major part of 2023, the risk landscape retained characteristics of 2022 but with intensification of some existing risk elements, due to persistent macroeconomic uncertainties, continued low economic activities across all economic sectors and also intensified weather patterns. Risks associated with the credit portfolio and in particular impairments, intensified during the year. Although moratorium extended to customers had ended in December 2022, the capacity for debt servicing continued to weaken in the case of both retail and business clients as the cost of living kept rising and interest rates remained exceptionally high for most of the year. The SME sector was the worst affected as many SMEs were already in cashflow difficulties. This situation inevitably impacted the Bank as SMEs account for almost 23% of the total lending portfolio. The adverse impact on the Upahara, Uththamachara and Personal loan was lower as almost 45% of the Bank's lending is to state sector pension earners. However, delinquency levels of salaried employees increased due to job losses, as well as lower disposable incomes due to the rising cost of living. Although interest rates were adjusted downwards during the latter part of the year, the adjustment time lag on Deposit rates vis-à-vis market rates, and the mismatch between the cost of funds and lending rates, continued to put pressure on net margins.

The Bank's exposure to market risks remained low as the Bank does not have trading positions/ portfolios and its operations are limited to local currency operations except for a small open positions in Foreign Currency due to Foreign currency denominated debt raised from overseas Development Financial Institutions. The Bank's investments are limited to short-term treasuries, of average 3-6-month duration and a small portion in longer term instruments. The Bank maintained surplus liquidity in 2022 to respond to any potential contingencies, and during 2023 given the low demand for credit, excess liquidity was invested in government securities as a low risk and stable investment, which has expanded the Bank's gilt edged portfolio in 2023. However, SDB bank is not exposed to government debt through International Sovereign Bonds and Sri Lanka

Development Bonds, and the exclusion of the banking sector from the domestic debt optimisation programme eliminates future risks pertaining to existing government debts. The Bank's debt portfolio remained stable during the year and the Bank is fully compliant with regulatory capital requirements.

However, the Bank's risks emanating from extreme weather patterns due to climate change was heightened during the year, due to the Bank's exposure to the country's food and agriculture sector. The increasing digitisation of banking systems and processes has also increased the potential risk of IT and cyber security.

KEY HIGHLIGHTS DURING 2023

- The BIRMC met every month during 2023, which is well above the regulatory requirement of quarterly meetings to have a more focused and proactive risk management.
- The coverage of IT risk incidents was expanded in order to track external threats more closely and regular Risk and Control Self Assessments (RCSA) were conducted with scenario analysis, and outcomes were reported to the BIRMC and the Board.
- The Board IT Steering Committee met frequently in 2023, to assess both IT risks as well as strategic risks and evaluate potential system changes for enhanced risk management for the Bank's Data Centre, Disaster Recovery capabilities, redundancies and other areas identified as pertinent.
- Recoveries and credit quality were prioritised to reverse the large impairments of 2022. Lending was prioritised to comparatively lower risk products and sectors with collateral and asset backed lending, leasing and pawning, in place of unsecured retail lending. Consequently, as of the end of 2023, the delinquency inflows were reduced, and recoveries were increased.
- Remediation efforts were intensified by working with customers and businesses in difficulties to restructure repayments. Models were developed for interest rate restructuring and extensions of repayment tenure.

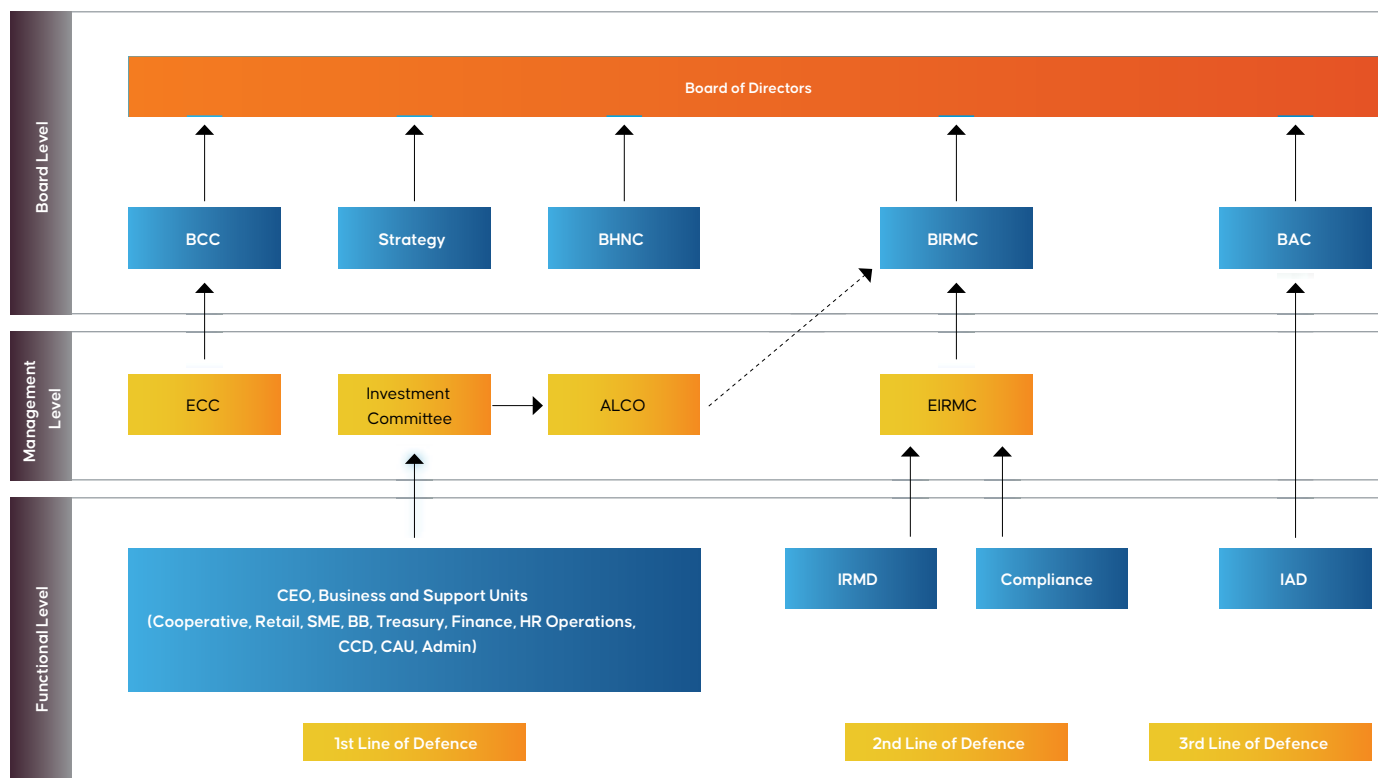
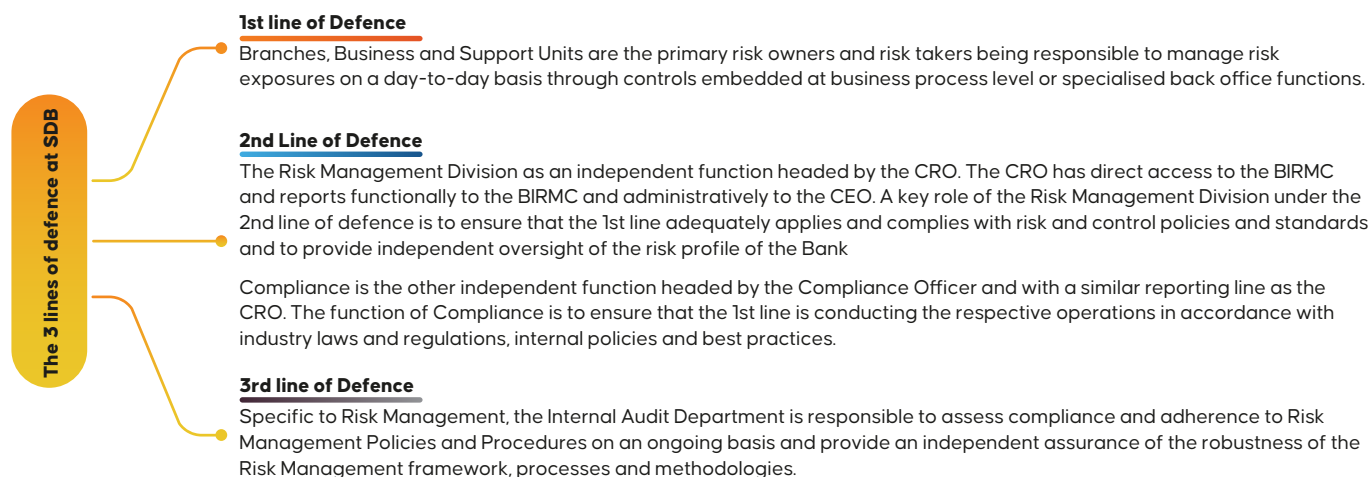
- Structural changes were made to the Bank's recoveries teams for closer monitoring of recoveries activities and to enable region specific follow up actions, and to facilitate standard collections, while also enabling recoveries, reposessions and legal action in the case of delinquent accounts. Some non-performing accounts were transferred to the regional office from branches, to enable direct interventions by headquarters.
- Stakeholder management was emphasised to support recovery and restructuring activities to manage the Bank's reputational risk when dealing with delinquents, and when restructuring payment plans by increasing interest rates or extending the payment period.
- Operational risk management aspects were strengthened by expanding the operational risk management team and by focusing on controls and violations, to strengthen overall risk awareness and promote a risk management culture within the Bank.
- Risk reporting was improved by expanding the risk monitoring dashboards for early alerts based on the MIS.
- Costs were controlled by expanding lower cost savings deposits.
- The Environment, Social and Governance (ESG) risks were continually monitored.

RISK GOVERNANCE

The Bank's risk governance structure is based on the three lines of defence model that separates risk oversight. All material risks as defined in the IRMF are managed based on the principle of three lines of defence.

Risk Management

THE 3 LINES OF DEFENCE AT SDB BANK



RISK CULTURE

In addition to a formal risk reporting process, training programmes are conducted regularly to foster a risk culture across all levels of the Bank. During the year, staff were trained on early detection of credit quality deterioration, operational risk reporting and data capture functions.

RISK APPETITE

Risk appetite refers to the amount of risk the Bank is willing to take in achieving its strategic objectives and ensuring the

maintenance of the desired risk profile. Hence, we have established the risk appetite of the Bank through a clear set of indicators, with limits and triggers, relating to the key risks the Bank is exposed to. These guidelines are reviewed and updated regularly by the Board of Directors in keeping with the evolving developments, strategic objectives, and the corporate plan for the year.

	Limit	December 2023
Credit Risk		
• Single Borrower Limit	7.5% (against to Capital)	3.71%
• Group Borrower Limit	10% (against to Capital)	3.71%

RISK MANAGEMENT

	Limit	December 2023
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Liquidity and Solvency

• Liquid asset ratio	>20%	38.25%
• Liquidity Coverage Ratio	Statutory minimum (100%)	287.06%
• Net Stable Funding Ratio	>100%	192.78%
• Capital Adequacy Ratio	>12.5%	16.45%

Operational Risk

• Operational Losses	<0.25% (Against operating Profit)	
• Fraud Cases	3	1

RISK REPORTING

Risk reporting is an integral component of monitoring the risk landscape. Reports on the Bank's risk exposures are submitted regularly to the Board of Directors, the relevant department heads, EIRMC and the BIRMC by the Chief Risk Officer on relevant risk aspects and risk alerts.

Risk Exposure Risk Reports

Credit Risk	Stage wise, PaR Models and DPD wise portfolio analysis on Products, Geography, and Sectors
Market Risk	Impact on interest rate shifts on Bank's Economic Value of Equity and Net Interest Income Approaches
Liquidity Risk	Asset & Liability and Liquidity Risk validation via - Stock Approach, Maturity Gap Analysis - Static approach and Maturity Gap Analysis - Behavioural/ Dynamic Approach
Operational Risk	Assessment of operational loss events, Key Risk Indicators and RCSA process reporting
Strategic and Reputational Risk	Reporting of actual against forecasted performances, monitoring and update of reputational risk scenarios bank is exposed to. Scorecard based questionnaire assessments

Risk Exposure Risk Reports

IT and Cyber Security Risk	Updates on the existing security levels of the bank, regular monitoring outcomes and way forward
ESG Risk	Validation of the adherence to the Environmental and Social Due Diligence requirements on transaction and portfolio levels.

RISK PROFILING

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

STRESS TESTING

Stress levels on the Bank's credit risk, market risk, and liquidity are evaluated regularly against capital and earnings positions. Such stress testing is conducted to identify potential impacts of the fluctuations in market variables and other risk factors that could have on the Bank's risk profile. The outcomes of stress tests are submitted to the Board Integrated Risk Management Committee (BIRMC) for review.

Risk Exposure Stress Scenario

Credit Risk	Increased Shifts in Staging and the respective provisioning, decrease in collateral values,
Credit Concentration Risk	Increase in HHI under stress - Name, Product and Sector Concentrations
Interest Rate Risk	The immediate impact of changes in interest rates on the Bank's earnings through changes in its Net Interest Income (NII)- using the EVE and EAR methodologies
Liquidity Risk	Impact on the liquidity and profitability ascertained via stress testing on Withdrawal of higher % of the deposits, Rollover of loans/ deferment of loan repayment, Increase in funding cost at stressed situations

Risk Exposure Stress Scenario

Forex Risk	Change in the value of foreign exchange in adverse direction Overall Credit Quality
Deterioration	Increase in Staging along with Credit Concentration Risk - HHI
Financial Crisis	Multifactor stress considering all the above stress scenarios

CREDIT RISK

As a Bank, a principal activity of SDB is the provision of credit, which exposes the Bank to credit risk. Credit risk relates to the potential losses that can arise when customers are unable to discharge their obligations for the repayment of loans and advances taken by them. Credit risk remained high during 2023 and containing this risk was a key component of risk management.

RISK RESPONSE

The Board Credit Committee is charged with the responsibility of implementing the Bank's credit risk management framework. A Board-approved Credit Risk Management policy outlines the responsibilities, tools and techniques for credit risk identification, measurement, mitigation and management.

Other key aspects of the Bank's credit policy include pre-credit sanctioning criteria, delegated approval authority, due diligence, collateral management and post-credit monitoring. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

In October 2023, Fitch Rating Lanka assigned a Stable Outlook and affirmed the National Long-Term Rating of SDB Bank at 'BB+' (Ika) and removed the Bank from the Rating Watch Negative list.

Risk Management

CREDIT RISK PERFORMANCE DURING 2023

Economic sectors	Capital Outstanding	
	(Rs. Mn)	(%)
Personal Loans – Floating Rate	22,470.39	22.20%
Upahara Loans	23,211.88	22.93%
SME	13,182.95	13.02%
Jawaya Loans	13,040.04	12.88%
Cash Margin	8,151.20	8.05%
Lease	5,244.04	5.18%
Gold Loans	6,355.37	6.28%
Staff Loans	3,053.99	3.02%
Housing	2,506.98	2.48%
Cooperative Loans	1,404.96	1.39%
Personal Loans -Fixed Rate	1,094.57	1.08%
Business/Corporate	794.53	0.78%
Uththamavi Loans	523.4	0.52%
Consumption Purpose Loans	183.56	0.18%
Group Loans	8.01	0.01%
Total	101,226	100.00%

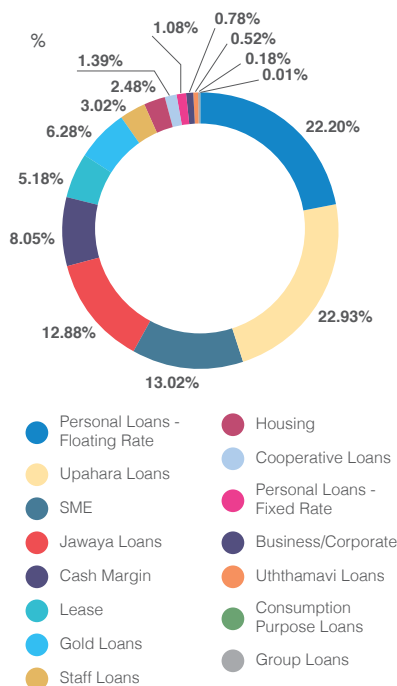
CONCENTRATION RISK

There were no significant changes in the Bank's concentration risk in 2023. Concentration risk is the potential for a loss in value of the loan portfolio when an individual or group of exposures move together in an unfavourable direction. The implication of concentration risk is that it can generate such a significant loss when recovery is unlikely. The exposures can be product type, geographical distribution and single and group borrower limits.

RISK RESPONSE

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

Product wise Exposure



MARKET RISK

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

Interest rate risk: Within markets the Bank is exposed to Interest Rate Risk, which is the risk exposure relating to interest rate changes in the trading portfolio of Government securities, and other investment securities.

Foreign exchange rate risk: Another risk is foreign exchange rate risk, which is the possibility of an adverse impact on the Bank's capital or earnings due to fluctuations in the market exchange rates. This risk arises due to the holding of assets or liabilities in foreign currencies. The Bank holds two-dollar denominated FDs with the Bank of Ceylon. These two deposits have been placed from the proceeds from the Subordinated Term Loan of USD 8 Mn received from the Belgian Investment Company for Developing Countries (BIO) and USD 40 Mn, an unsecured senior term loan received from the United States International Development Finance Corporation (DFC). To mitigate the foreign currency risk, without converting these into Sri Lankan Rupees (LKR), these two loans are kept as fixed deposits, matching the dollar repayment schedule of the lender with the Bank of Ceylon. The Bank borrows LKR term loans on the strength of dollar deposits, which is used to finance its loan portfolio growth, which can be repaid from the Bank's LKR collection and all dollar borrowing interest repayments can be serviced from USD fixed deposit interest and capital repayment can be made from USD fixed deposit maturity proceeds. This synthetic hedging structure enables the bank to operate smoothly under more volatile economic conditions.

Other than these foreign currency denominated FDs and borrowings, the Bank does not have any exposure to foreign currency in terms of assets and liabilities as of 31st December 2023.

RISK RESPONSE

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

RISK MANAGEMENT

LIQUIDITY RISK

Liquidity risk relates to the possibility that the Bank is unable to meet its financial obligations by settling them in cash or being able to convert a security or hard asset to cash without a loss of capital and/ or income in the process.

RISK RESPONSE

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

LIQUIDITY RISK PERFORMANCE DURING 2023

Statutory Liquid Asset Ratio Movements



INTEREST RATE RISK

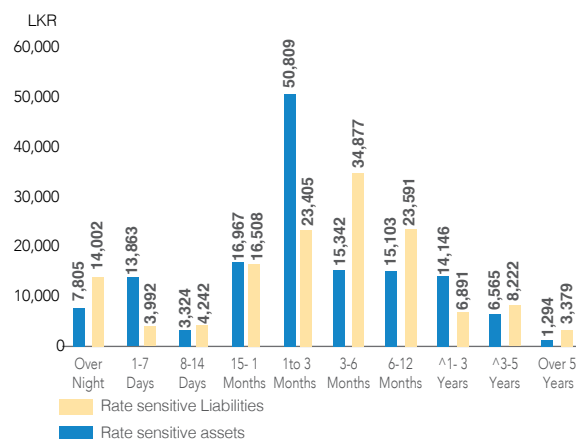
Interest rate risk in the banking book (IRRBB) refers more generally to the current or prospective risk to both the Bank's capital and earnings arising from adverse movements in interest rates, which affect the Bank's banking book exposures.

RISK RESPONSE

The Assets and Liabilities Management Committee (ALCO) is responsible for monitoring the Bank's IRRBB exposure. It reviews the impact of interest rate risk on the banking book as well as net interest margin, funding mismatches and the cumulative rate-sensitive gap. The Committee also undertakes stress tests on the net interest margin (NIM) and the equity, under different interest rate scenarios. A comprehensive set of policies is in place to govern all aspects of market risk. These policies are reviewed and updated regularly in view of emerging market risks.

INTEREST RATE SENSITIVITY ASSETS AND LIABILITIES AS OF 31 DECEMBER 2023

Interest rate sensitivity of the Bank



OPERATIONAL RISK

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

RISK RESPONSE

The risk department together with operations units administers the evaluation, to define operational risk parameters, of all key business units on their exposure. This is a mechanism that enables business units to identify and assess their risks and introduce measures to improve risk control. The Bank also maintains an Operational Risk Loss Data Base in line with Basel guidelines. Processes are also in place to capture all operational loss events which are then categorised in accordance with the guidelines.

IT RISKS

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

RISK RESPONSE

The Bank has developed policies and procedures for the management of IT risks which would be implemented to ensure that the Bank is not exposed to undue risks. IRMD has used the Risk & Control Self-Assessment (RCSA) for IT risk identification and assessment and would continuously track and monitor the potential risk incidents and the control effectiveness. Results of independent audit findings (both internal and external), analysis of information security incidents, external loss data and information

Risk Management

are also employed for IT risk identification and assessment purposes. Regular risk reporting is done to the EIRMC and BIRMC on IT-related risks.

LEGAL RISKS

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

RISK RESPONSE

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

STRATEGIC RISK

Strategic risk relates to the possibility that the strategic direction the Bank is taking does not lead to the desired outcome or results in losses. This may be due to external or internal factors which are responded to inadequately or ineffectively.

RISK RESPONSE

SDB bank in formulating its medium-term strategic plan has put in place performance indicators and set milestones in terms of achieving the required outcomes. The Board of Directors plays an active role in adopting relevant policies, monitoring progress through several reporting formats and helping the Bank maintain its focus on the end goals.

REPUTATIONAL RISK

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

RISK RESPONSE

Events that could lead to reputational risk are closely monitored, utilising an early warning system that includes inputs

from frontline staff, media reports, and internal and external market survey results. Though all policies and standards relating to the conduct of the Bank's business have been promulgated through internal communication and training, a specific policy was established to take action in case of an event which may affect the reputation. The Bank has zero tolerance for knowingly engaging in any business, activity, or association where foreseeable reputational damage has not been considered and mitigated. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to the Bank's good name is a part of all business decisions.

The complaint management process and the whistle-blowing process of the Bank include a set of key tools to recognise and manage reputational risk. Based on the operational risk incidents, any risks which could lead to reputational damage are presented to the Board and suitable measures are taken by the Bank to mitigate and control such risks.

COMPLIANCE RISK

Compliance refers to the adherence to applicable laws, regulations, directions, codes and standards on the banking industry and includes compliance with anti-money laundering (AML), know-your-customer (KYC) requirements, data privacy, consumer protection, financial stability, and other areas. As defined by the Basel Committee on Banking Supervision in 2005 "Compliance Risk" is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules related self-regulatory organisation standards, and Codes of Conduct applicable to its banking activities".

RISK RESPONSE

SDB Bank treats compliance as a non-negotiable component of its operations and emphasises standards of honesty and integrity from the Board downwards. The Bank maintains high ethical standards when carrying on business at all times striving to observe the spirit as well as the letter of the law and instils compliance as part of the organisation's culture.

The Bank has in place a comprehensive compliance Governance Structure to

manage the compliance risk of the Bank independently. The Compliance Officer independently reports to the Board Integrated Risk Management Committee through which the Board of Directors of the Bank are updated on compliance matters frequently. The Bank's Board of Directors are responsible for overseeing the management of the Bank's compliance risk. Accordingly, the Board has delegated its powers to the Board Integrated Risk Management Committee which takes appropriate action to establish a permanent, independent and effective compliance function in the Bank, ensuring that compliance issues are resolved effectively and expeditiously by the Senior Management of the Bank with the assistance of the compliance function and assess the extent to which the Bank is managing its compliance risk effectively. The Bank's Corporate/ Senior Management is responsible for the effective management of the Bank's compliance risk and an independent robust compliance culture has been established within the Bank with processes and workflows designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business and operational units to ensure consistent management of compliance risk. The Compliance Policy defines how this key risk is identified, monitored and managed by the Bank in a structured manner. The compliance framework is also regularly reviewed against industry best practices and to accommodate regulatory changes, or new Banking directives.

MESSAGE FROM THE CHAIRPERSON ON CORPORATE GOVERNANCE

Dear Stakeholders

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

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

The collective industry acumen, depth of skills and diversity of experience of Board of Directors have enriched Board discussions and will be a key driver of the Bank's strategic transformation over the next few years. The Bank's ability to attract international investors and employee confidence on the Bank's mission, providing renewed vigour and enthusiasm to our team. In 2023 the Board met 13 times and key areas of focus included implementation of the transformation strategies.

The reports on pages 86 to 125 describe the Bank's corporate governance practices and compliance with the Banking Act Direction No. 12 of 2007 and subsequent amendments thereto for Licensed Specialised Banks in Sri Lanka by the CBSL and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2017.

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

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

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



Dinithi Ratnayake
Chairperson

30th April 2024
Colombo, Sri Lanka

CORPORATE GOVERNANCE

OUR APPROACH

SDB Bank is a unique financial institution with social and economic sustainability at the core of its organisation philosophy. Therefore, the Board and management of the bank are fully cognisant of the vital importance of good governance with regard to advancing and sustaining the wide reaching social and economic development agenda of the Bank. Hence, regulatory compliance is implicit in all aspects of its operations, while also conforming to industry best practices and voluntary codes of good governance. The Bank's governance practices are regularly reviewed and updated based on regulatory amendments, risks and opportunities in the operating environment and improvements to internal operational aspects.

THE BANK'S CORPORATE GOVERNANCE FRAMEWORK

Regulatory framework

- Companies Act No. 07 of 2007
- Banking Act No. 30 of 1988 and amendments thereto
- Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and amendments thereto
- Listing Rules of the Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto
- Financial Transactions Reporting Act No. 06 of 2006
- Prevention of Money Laundering Act No. 05 of 2006
- Convention on the Suppression of Terrorist Financing Act No. 25 of 2005
- Inland Revenue Act No. 24 of 2017
- Financial Consumer Protection Regulations
- Customer Charter
- Road-map for Sustainable Finance in Sri Lanka
- Recommendations from Task Force on Climate-Related Financial Disclosures (TCFD)
- Developing a Body of Knowledge from the Task Force on Nature-Related Disclosures (TNFD)

Internal policies, manuals and codes of conduct

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

Voluntary external standards and codes

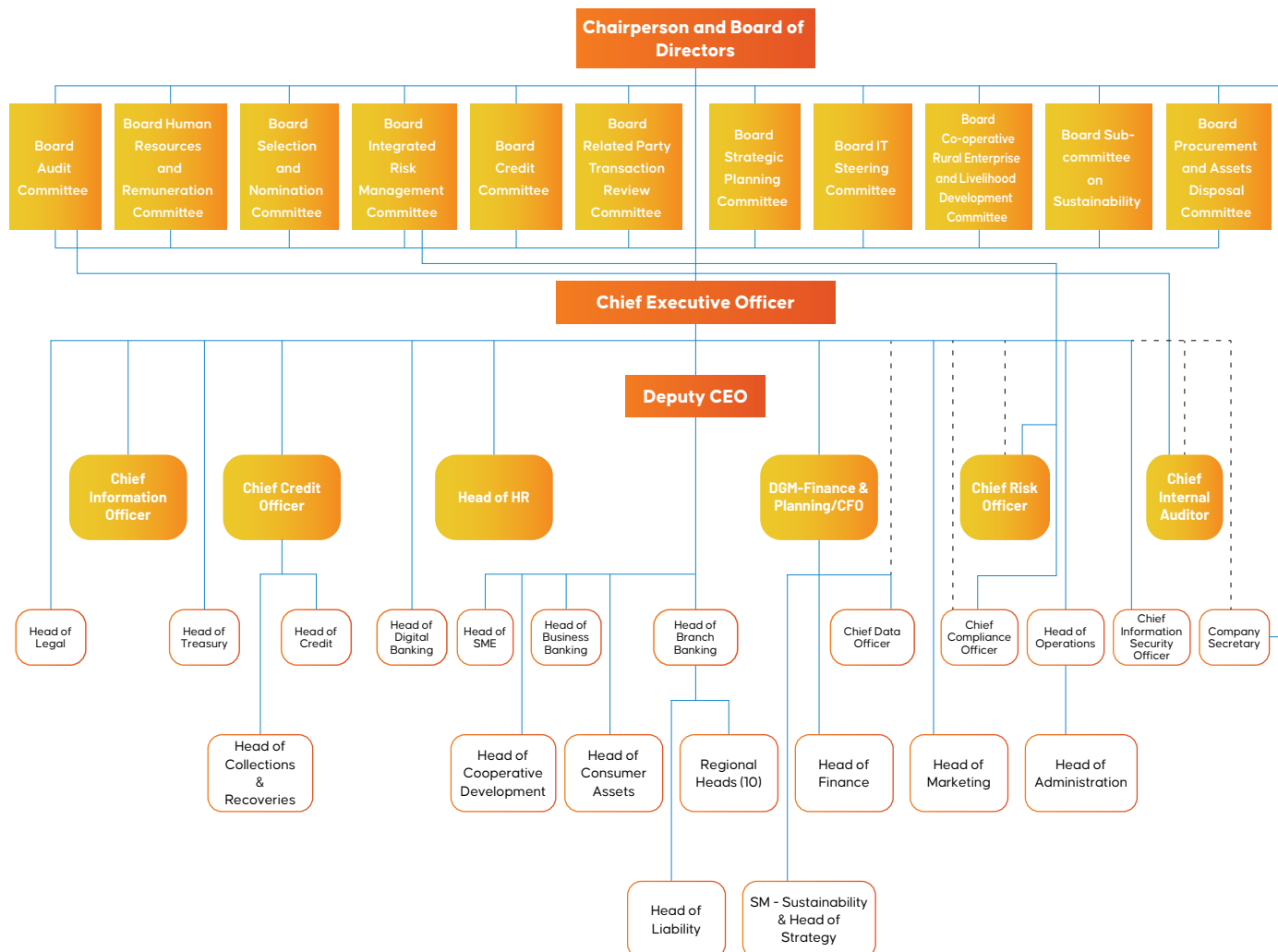
- Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (a Voluntary Code)
- Integrated Reporting Framework 2021
- United Nation's Sustainable Development Goals

GOVERNANCE STRUCTURE

The Board of Directors which is led by an Independent, Non-Executive Chairperson holds supreme accountability and responsibility for the affairs of the Bank. In this endeavour, the Board is supported by 11 Sub-Committees, which provide supervision with intense focus on specific areas, enabling the Board to commit sufficient time and focus on broader issues within its scope.

CORPORATE GOVERNANCE

Organization Structure - SANASA Development Bank PLC



BOARD OF DIRECTORS

As the apex decision making body, the Board of Directors hold the primary responsibility for formulating policy frameworks and executing robust governance practices in effectively driving the Company's strategic objectives.

Board Composition: 12 Non-Executive Directors of which 5 are Independent.

Board Diversity and Effectiveness: The Board comprises a mix of academic, technical and diverse industry specialisations to provide a broad and holistic perspective for risk management and strategy development. The Board comprises:

- Expertise in academics, rural development, administration, entrepreneurship and cooperatives.

- Strong financial acumen with a Director holding membership in professional accounting bodies and several Directors holding MBAs from reputed universities
- One Director is a PhD holder and BAC Chairman holds a membership in a professional accounting body and several Directors hold MBAs from reputed universities

APPOINTMENTS TO THE BOARD

- New Directors are appointed through a transparent procedure.
- Nominations for the vacancies are made through the Board Selection and Nomination Sub-Committee (BS and NC) as per the criteria laid down by the Banking Act

- The nominated person provides an affidavit of authenticity and the details are communicated to the CBSL for Fit and propriety approval.
- Appointments are thereafter communicated to the CSE and shareholders through press releases.

BALANCE OF POWER

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

Corporate Governance

CHAIRPERSON'S ROLE

- Provides leadership to the Board
- Ensures effective functioning through setting up the Board's annual work plan and agenda, timely meetings for clear and accurate information sharing
- Monitors the overall effectiveness of the Board
- Leads the bank towards the achievement of strategic objectives
- Monitor and report the Company's performance to the Board

BOARD REMUNERATION

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

BOARD ACCESS TO INFORMATION

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

BOARD MEETINGS

The Board met 13 times in 2023 and the details of meeting attendance are given in the Annual Report of the Board of Directors on the Affairs of the Company on page 145. Notices of all Board meetings (except Emergency Board meetings) are given at least seven days prior to the holding of the meeting, thereby providing the members with adequate time for preparation. Likewise, meeting agendas and Board papers are circulated to all Board members

prior to the meeting. Directors are supplied with comprehensive and timely information that is required for the effective discharge of their duties.

BOARD ASSESSMENT

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

SUB-COMMITTEES OF THE BOARD

The Board has established mandatory Board Sub-Committees and voluntary Board Sub-Committees to assist the Board. The composition of both mandatory and voluntary Board Sub-Committees, as of 31st December 2023 is given in the Annual Report of the Board of Directors on the Affairs of the Company on Pages 143 to 144 .

ACCOUNTABILITY AND AUDIT

The Board is responsible for presenting a balanced and accurate assessment of its financial performance and position. The Bank's Financial Statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by The Institute of Chartered Accountants of Sri Lanka. Furthermore, the Company's Annual Report conforms to the GRI Standards on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Directors' responsibility with regard to Financial Statements is given on page 153 of this Annual Report.

RISK MANAGEMENT

The Board is responsible for formulating the measures, tools, processes and policies to ensure that the Bank's risk exposures are managed within defined

parameters. The Board Integrated Risk Management Committee assists the Board in the discharge of its duties related to risk management. The Bank's risk management framework has been formulated to comply with the requirements of the Banking Act and the Guidelines of the CBSL. Detailed disclosures on the Company's key risk exposures and how they were managed during the year are given on pages 78 to 84 of this Report.

EXTERNAL AUDIT

The Board Audit Committee is responsible for overseeing the financial statements and reporting and makes recommendations to the Board regarding the appointment, service period, audit fee and engagement period of External Auditors. The Board has adopted a policy of rotating External Auditors every five years. Auditors submit an Annual Statement confirming independence as required by the Companies Act No. 07 of 2007.

BOARD SUBCOMMITTEE ON SUSTAINABILITY

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

GOOD CORPORATE CITIZENSHIP

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

The SDB bank Code of Conduct: The Code sets out the ethical behaviour expected from employees in dealing with other stakeholders and in their day-to-day operations, as well as administrative and grievance procedures. The Code of Conduct has been formulated in line with the Monetary Board's Customer Charter and the Secrecy Provision in the Banking Act. All employees are provided with a copy of the SDB bank Code of Conduct upon recruitment.

CORPORATE GOVERNANCE

Whistle-blowing Policy: The Bank has a Board-approved Whistleblowing Policy that enables any person, including a member of staff to report unlawful or unethical behaviour while protecting their anonymity.

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

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3 (1)(i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:		
	(a) Ensure that the Board-approved strategic objectives and corporate values are communicated throughout the Bank.	Strategic objectives and corporate values were approved by the Board of Directors for 2023-2026 and communicated to all employees through meetings covering all employees and staff and frequent meetings with the Corporate and Senior Managers.	Complied with
	(b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	The Bank's current Strategic Plan includes measurable goals and there is a Board-approved risk management policy which defines risk-related procedures and tools for identification, measurement and management of risk exposures.	Complied with
	(c) Identify the principal risks and ensure implementation of appropriate system to manage the risk prudently.	The Board has delegated its risk-related functions to a dedicated committee, namely the Board Integrated Risk Management Committee (BIRMC) and its findings are submitted on a monthly/ quarterly basis to the main Board for review.	Complied with
	(d) A policy of communication is available with all stakeholders, including depositors, creditors, shareholders and borrowers.	A Board-approved Communication Policy is in place.	Complied with
	(e) Reviewed the adequacy and the integrity of the Bank's internal control systems and management information system.	The Board reviews the adequacy and the integrity of the Bank's internal control system by way of internal audit reports submitted to the Board through the Audit Committee on a monthly basis, which is also assured by the External Auditor.	Complied with
		The Board Audit Committee (BAC) and the Board have reviewed the adequacy and the integrity of the Bank's Management Information System.	Complied with
	(f) Identified and designated Key Management Personnel, as defined in the Central Bank Guidelines.	Based on Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL), the Board has designated Key Management Personnel (KMP) of the Bank.	Complied with
	(g) Defined the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Areas of authority and key responsibilities of the KMPs are included in their Job Descriptions (JDs). Areas of authority and key responsibilities of the Board of Directors (BOD) are defined in the Articles of Association.	Complied with
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel that is consistent with Board policy.	The Board has exercised appropriate oversight of the affairs of the Bank by KMPs through the Chief Executive Officer (CEO) and when the need arises they are called upon by the Board to explain matters relating to their areas.	Complied with
	(i) Periodically assess the effectiveness of the Board of Directors own governance policies including -		

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(j) The selection, nomination and election of Directors and Key Management Personnel.	A transparent procedure for selecting and appointing new Directors upon the recommendation of the Board Selection and Nominations Committee and a Policy of selection, appointment and remuneration of the KMPs are in place.	Complied with
	(k) The management of conflicts of interests.	Directors' interests are disclosed to the Board and Directors who have a particular interest in a matter that is being discussed abstained from voting in such a situation and he/she is not counted for the quorum.	Complied with
	(l) The determination of weaknesses and implementation of changes where necessary.	Determination of weaknesses of BODs has been identified through the self-evaluation process for 2023.	Complied with
	(m) Ensure that the Bank has a succession plan for Key Management Personnel.	The Bank has developed a succession plan and one to one succession plan for certain KMPs is available in the Bank.	Complied with
	(n) Ensure that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	The Board meets the KMPs to review policies and monitor progress towards corporate objectives at performance review meetings. When the need arises they are called upon by the Board to explain matters relating to their areas.	Complied with
	(o) Understand the regulatory environment and that the Bank maintains a relationship with regulators.	All the new regulations and directions issued by regulators and non-compliances are reported to the BOD by the Compliance Department for their understanding of the regulatory environment. Awareness programmes are conducted if a need arises.	Complied with
	(p) Process in place for hiring and oversight of External Auditors.	The Board selects External Auditors through the BAC, which holds responsibility for overseeing their activities.	Complied with
3 (1)(ii)	The Board has appointed the Chairman / Chairperson and the Chief Executive Officer (CEO) and defined the functions and responsibilities of the Chairman / Chairperson and the CEO in line with Direction No. 3 (5).	Appointment of the Chairperson and the CEO is done by the Board and functions are defined as per Direction No. 3 (5).	Complied with
3 (1)(iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	13 meetings were held during the year.	Complied with
3 (1)(iv)	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	A Board-approved procedure is in place allowing all Directors to include matters and proposals in the agenda for regular Board meetings.	Complied with
3 (1)(v)	The Board has given notice of at least seven days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Directors are notified of Board meetings more than seven days in advance.	Complied with

CORPORATE GOVERNANCE

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3(1)(vi)	The Board has taken required action on Directors who have not attended at least two-third of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, is acceptable as attendance.	Such a situation did not arise during the period	Complied with
3(1)(vii)	The Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	The Company Secretary is an Attorney-at-Law who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with
3(1)(viii)	All Directors are to have access to advice and services of the Company Secretary.	All the Directors are free to access the Company Secretary for her advice and services.	Complied with
3(1)(ix)	The Company Secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	The minutes of Board meetings are maintained by the Company Secretary; and during each Board meeting the Board of Directors approves the minutes of the previous Board meeting.	Complied with
3(1)(x)	The minutes of a Board meeting contain or refer to the following: • A summary of data and information used by the Board in its deliberations; • The matters considered by the Board; • The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; • The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; • The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and • The decisions and Board resolutions.	Minutes of the Board meetings contain all the necessary information required under the direction.	Complied with
3(1)(xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	A Board-approved procedure is in place to seek independent professional advice when necessary, with the cost borne by the Bank.	Complied with
3(1)(xii)	There is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoiding conflicts of interests, or the appearance of conflicts of interest. A Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be in the quorum for the relevant agenda item at the Board meeting.	There is a provision in the Related Party Transactions Policy to determine, report, resolve and to take appropriate actions relating to Directors to avoid conflicts of interest, or the appearance of conflicts of interest.	Complied with
3(1)(xiii)	The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority	A formal schedule of matters specifically reserved for the Board is in place.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3(1)(xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	This situation did not arise during the year.	Complied with
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board.	The Bank was fully compliant with the Capital Adequacy Requirements during the year.	Complied with
3(1)(xvi)	The Board shall publish, in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction No. 3 of these directions.	This report serves this purpose.	Complied with
3(1)(xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	The Board has a scheme of self-assessment of Directors and the Company Secretary maintains records of such evaluations.	Complied with

3 (2) THE BOARD'S COMPOSITION

3(2)(i)	The Board comprises not less than 7 and not more than 13 Directors.	The Board comprised of twelve Directors as at 31st December 2023.	Complied with
3(2)(ii)	The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	This situation did not arise during the financial year 2023.	Complied with
3(2)(iii)	The number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	The Board comprises solely of Non-Executive Directors; the CEO is not a Board member.	Complied with
3(2)(iv)	The Board has at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.	The Board comprises of five Independent Non-Executive Directors as at the date of this report.	Complied with
3(2)(v)	In the event an Alternate Director was appointed to represent an Independent Director, the person so appointed meets the criteria that apply to the Independent Director.	This situation did not arise during the financial year 2023.	Complied with
3(2)(vi)	The Bank has a process for appointing Independent Directors.	A procedure is in place for appointing Independent Directors by the Board upon the recommendation of the Board Selection and Nominations Committee.	Complied with
3(2)(vii)	The stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.	Every meeting during the year was consistent with the required quorum and composition.	Complied with
3(2)(viii)	The Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	The composition of the Board has been disclosed under "Board of Directors" on pages 143 to 144 of this Annual Report.	Complied with
3(2)(ix)	There shall be procedure for the appointment of new Directors to the Board.	A procedure for appointing new Directors with the recommendation of the Board Selection and Nomination Committee is in place.	Complied with
3(2)(x)	All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.	Appointment of Directors is done according to the Bank's Articles of Association.	Complied with

CORPORATE GOVERNANCE

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3(2)(xi)	If a Director resigns or is removed from office, the Board – (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Directors' resignation/removal and the reason for such resignations are duly informed to the CBSL and Colombo Stock Exchange.	Complied with
3(2)(xii)	There is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another Bank.	Directors provide annual declarations regarding their employment or directorships in other organisations; None of the present Directors of the Bank acts as Director of another Bank. The Letter of Appointment and the Code of Conduct issued to the employees explicitly prevent employees from accepting any directorship of other banks without the prior permission from the Bank.	Complied with
3 (3) CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS			
3(3)(i)	The age of a person who serves as Director does not exceed 70 years.	Declarations given by Directors at the time of appointment indicate the date of birth. The age is monitored accordingly.	Complied with
3(3)(ii)	No person shall hold office as a Director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank.	As per the declaration made by Directors, none of the Directors is holding Directorship in more than 20 companies.	Complied with
3 (4) MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD			
3(4)(i)	The delegation arrangements have been approved by the Board.	The Board is empowered by the Articles of Association to delegate its powers to the CEO upon such terms and conditions and with such restrictions as the Board may think fit.	Complied with
3(4)(ii)	The Board has taken responsibility for the matters in 3(1)(i) even in the instances such actions are delegated.	The Board has delegated its authority to KMPs through the CEO subject to final responsibility being retained with them.	Complied with
3(4)(iii)	The Board reviews the delegation processes in place periodically to ensure that they remain relevant to the needs of the Bank.	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.	Complied with
3 (5) THE CHAIRMAN AND CEO			
3(5)(i)	The roles of Chairman and CEO are separate and not performed by the same individual.	Roles of Chairperson and CEO are held by two different individuals that carry out different functions.	Complied with
3(5)(ii)	The Chairman is a Non-Executive Director. In the case where the Chairman is not an Independent Director, the Board designates an Independent Director as the Senior Director with suitably documented terms of reference. The designation of the Senior Director is disclosed in the Bank's Annual Report.	The Chairperson is a Non-Executive, Independent Director as at the date of this report.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3(5)(iii)	The Board has a process to identify and disclose in its Corporate Governance Report, which shall be a part of its Annual Report, relationship, if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	There is a process to obtain an annual declaration from each Director about relationships, if any, between the Chairperson and the CEO and Board members and its nature.	Complied with
3(5)(iv)	The Board has a self-evaluation process where the Chairman – - Provides leadership to the Board; - Ensures that the Board works effectively and discharges its responsibilities; and - Ensures that all key and appropriate issues are discussed by the Board in a timely manner.	A scheme of self-assessment process for the BOD is in place.	Complied with
3(5)(v)	A formal agenda approved by the Chairman is circulated by the Company Secretary.	The Agenda for each Board meeting is prepared by the Company Secretary, which is approved by the Chairperson.	Complied with
3(5)(vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings	The Chairperson ensures that the Directors receive adequate information in a timely manner and Directors are properly briefed on issues arising at the Board meeting. The minutes of the previous month's meetings are distributed to the Board members in advance and tabled at the next Board meeting for approval.	Complied with
3(5)(vii)	The Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman takes the lead to act in the best interest of the Bank.	A scheme of self-assessment process for the BOD is in place which covers the requirement.	Complied with
3(5)(viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Assessment process covers the contribution of Non- Executive Directors as well. All the Directors are Non-Executive.	Complied with
3(5)(ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	The Chairperson is a Non-Executive Director and has not engaged in any activities involving direct supervision of KMPs or any other executive duties during the financial year 2023.	Complied with
3(5)(x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	AGM of the Bank is the main platform through which the Board maintains effective communication with shareholders and further, the communication policy of the Bank is evidence that there is a process in this regard.	Complied with
3(5)(xi)	The CEO functions as the apex executive-in- charge of the day-to-day management of the Bank's operations and business.	The CEO functions as the apex executive-in charge of the day-to-day management of the Bank's operations and business.	Complied with

CORPORATE GOVERNANCE

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3 (6) BOARD-APPOINTED COMMITTEES			
3 (6)(i)	The Bank has established at least four Board committees as set out in Direction 3 (6)(ii), 3 (6)(iii), 3 (6)(iv), and 3 (6)(v) of these Directions. The Committee reports are addressed directly to the Board. The Board presents in its Annual Report, a report on each committee on its duties, roles, and performance.	Following committees have been established and they directly report to the Board and minutes of the same are discussed and ratified at the main Board meeting: 1. Board Audit Committee (BAC) 2. Board Human Resources and Remuneration Committee (BHRRRC) 3. Board Selection and Nomination Committee (BS & NC) 4. Board Integrated Risk Management Committee (BIRMC) 5. Board Credit Committee (BCC) 6. Board Related Party Transactions Review Committee (BRPTRC) 7. Board Strategic Planning Committee (BSPC) 8. Board Co-operative, Rural Enterprise and Livelihood Development Committee (BCRELDC) 9. Board IT Steering Committee (BITSC) 10. Board Sub Committee on Sustainability (BSCS) 11. Board Procurement and Assets Disposal Committee (BP & ADC) This is disclosed under the "Annual Report of the Board of Directors".	Complied with
3 (6)(ii)	Board Audit Committee		
	(a) The Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.	The Chairman is an Independent Non-Executive Director who is a qualified Chartered Accountant.	Complied with
	(b) All members of the Committee are Non-Executive Directors.	All members are Non-Executive Directors.	Complied with
	(c) The Committee has made recommendations on matters in connection with – (i) The appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the Auditors; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re- engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee makes recommendations regarding those matters.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(d) The Committee has obtained representations from the External Auditor on their independence, and that the audit is carried out in accordance with SLAuS.	External Auditors are independent since they report directly to the BAC. The Report on the Financial Statements of the Bank for the year 2023 indicates that the audit is carried out in accordance with SLAuS.	Complied with
	(e) The Committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	The Committee has implemented a policy in this regard.	Complied with
	(f) The Committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	The Committee has discussed and finalised the Audit Plan 2023, nature and scope of the audit and deliverables, with the External Auditors in accordance with SLAuS before the audit commences.	Complied with
	(g) The Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts, and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following: (i) Major judgemental areas; (ii) Any changes in accounting policies and practices; (iii) The going concern assumption; and (iv) The compliance with relevant accounting standards and other legal requirements; and (v) In respect of the Annual Financial Statements the significant adjustments arising from the audit.	The BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, when the Annual Financial Statements and other accounts are submitted to the BAC by the CFO.	Complied with
	(h) The Committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.	The Committee has met the External Auditors in the absence of the Executive Management during the year.	Complied with
	(i) The Committee has reviewed the External Auditors' Management Letter and the Management's response thereto.	The BAC reviews the External Auditors' Management Letter and Management, response at the meeting.	
	(j) The Committee shall take the following steps with regard to the internal audit function of the Bank;		
	(i) Review the adequacy of the scope, functions, and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	The Committee reviews the adequacy of the scope, functions, and resources of the Internal Audit Department.	Complied with
	(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	The Committee reviewed the internal audit programmes, and progress of internal audit function for the year 2023 and was discussed at BAC.	Complied with
	(iii) Review any appraisal or assessment of the performance of the Head and Senior staff members of the Internal Audit Department;	The BAC has evaluated the performance of the Head of Internal Audit and senior staff members for the year 2023.	Complied with

CORPORATE GOVERNANCE

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(iv) Recommend any appointment or termination of the head, senior staff members, and outsourced service providers to the internal audit function;	No any appointment or termination of head, senior staff in the year 2023.	Complied with
	(v) The Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	There were no outsourced service providers or resignations of senior staff members of the Internal Audit Department during the period.	Complied with
	(vi) The internal audit function is independent of the activities it audits.	Internal Audit Department is independent since they report directly to the BAC and is not involved in any operational activities of the Bank. Its functions are performed with impartial proficiency and due professional care.	Complied with
	(k) The minutes to determine whether the Committee has considered major findings of internal investigations and Management's responses thereto;	The Committee has reviewed all the findings and advised the internal investigation officers for appropriate actions.	Complied with
	(l) Ensure that whether the Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	There are no Executive Directors on the Board and the Committee met on two occasions with the External Auditors.	Complied with
	(m) The Terms of Reference of the Committee to ensure that there is – (i) Explicit authority to investigate into any matter within its Terms of Reference; (ii) The resources which it needs to do so; (iii) Full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	The Board approved Terms of Reference (ToR) of the Committee addresses all those matters.	Complied with
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties.	During the year 2023, the BAC held 24 regular meetings and its minutes are maintained by the Company Secretary.	Complied with
	(o) The Board has disclosed in the Annual Report, (i) Details of the activities of the Audit Committee; (ii) The number of Audit Committee meetings held in the year; and (iii) Details of attendance of each Individual Director at such meetings.	This information is disclosed in the Annual Report under the following headings: "Report of the Board Audit Committee". and (iii) "Annual Report of the Board of Directors on the Affairs of the Company"	Complied with
	(p) The secretary of the Committee is the Company Secretary or the Head of the internal audit function.	The secretary of the Committee is the Chief Internal Auditor.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.	This requirement has been documented in the "Whistle-blowing" policy and approved by the Board.	Complied with
3(6)(iii)	The following rules apply in relation to the Human Resources and Remuneration Committee:		
	(a) The Committee has implemented a policy to determine remuneration (salaries, allowances, and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the "Terms of Reference" and minutes.	The BHRRC has implemented a policy to determine the remuneration of Directors. The Committee has implemented a policy to determine the remuneration relating to CEO and KMPs of the Bank.	Complied with
	(b) The goals and targets for the Directors, CEO and the Key Management Personnel are documented.	Goals and targets of CEO and KMPs for the year 2023 have been set and reviewed by the committee in March 2024. However goals and targets for the year 2024 have been set timely during the month of March 2024. No Executive Directors are available on the Board.	
	(c) The Committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits, and other payments of performance-based incentives.	The Bank has a process to review and evaluate the performance of CEO and KMPs by the BHRRC or BAC or BIRMC as appropriate. The performance evaluations of the CEO and Key Management Personnel have been completed against the set targets and the goals for 2022 and the same are in progress for 2023.	Complied with
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	The CEO is present at all meetings other than when matters relating to the CEO are discussed.	Complied with
3(6)(iv)	The following rules apply in relation to the Nomination Committee:		
	(a) The Committee has implemented a procedure to select/appoint new Directors, CEO, and Key Management Personnel.	The Board has a policy and procedure for the selection and appointment of the Directors, CEO and KMPs	Complied with
	(b) The Committee has considered and recommended (or not recommended) re-election of current Directors.	Duly recommended.	Complied with
	(c) The Committee has set the criteria such as qualifications, experience, and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions.	Criteria such as qualifications, experience, and key attributes required for eligibility for appointment or promotion to the post of CEO are submitted at the Selection and Nomination Committee. Criteria for KMPs are included in their job descriptions approved by the BHRRC. These job descriptions are submitted at the Nomination Committee for their review.	Complied with

CORPORATE GOVERNANCE

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(d) The Committee has obtained from the Directors, CEO, and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction No. 3(3) and as set out in the Statutes.	Signed declarations are obtained from Directors, CEO, and KMPs that they are fit and proper persons to hold the office.	Complied with
	(e) The Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel	The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank.	Complied with
		The Bank has a succession plan for KMPs.	Complied with
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	The Committee is chaired by an Independent Director, and the majority of the members are also Independent Directors as at the date of this report.	Complied with
		The CEO participates only on invitation.	
3(6)(v)	The following rules apply in relation to the Board Integrated Risk Management Committee (BIRMC):		
	(a) The Committee shall consist of at least three Non-Executive Directors, CEO, and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks, and work within the framework of the authority and responsibility assigned to the Committee.	At present the BIRMC consists of five Non-Executive Directors. The Committee includes CEO and KMPs supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks as members of the Committee.	Complied with
	(b) The Committee has a process to assess all risks, i.e. credit, market, liquidity, operational, and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	Credit, market, operational, and strategic risks are evaluated on a monthly basis by the Risk Management Department and minutes are submitted to the BIRMC on a monthly/quarterly basis.	Complied with
	(c) The Committee has reviewed the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset and Liability Committee, and report any risk indicators periodically.	The Committee reviews quantitative risk limits of management level committees such as Credit Committee and the Asset and Liability Committee. This process will be further strengthened moving forward.	
	(d) The Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	The BIRMC reviews risk indicators which have exceeded the defined limits.	Complied with
	(e) The Committee has met at least quarterly.	The Committee met twelve times during 2023.	
	(f) The Committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Disciplinary actions to be taken against officers responsible for failure to identify specific risk is discussed at the Committee and it is incorporated into the disciplinary procedure manual.	Complied with
	(g) The Committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	A risk assessment report is submitted to the Board within a one week of each BIRMC meeting.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(h) The Committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls, and approved policies on all areas of business operations and that there is a dedicated Compliance Officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.	Compliance function is in place to ensure that the Bank complies with all relevant regulations, rules, and guidelines. A dedicated senior officer has been appointed by the Bank in this regard who has designated as a KMP. The Compliance Officer submits a monthly compliance status to the Board and a Related Party Transactions Report on a monthly basis to the Board.	Complied with

3 (7) RELATED PARTY TRANSACTIONS

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

CORPORATE GOVERNANCE

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
3(7)(iii)	The Board has a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i), in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.	The Board approved "Related Party Transactions Policy" is in place. It defines related parties and types of related party transactions and how the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.	Complied with
	(a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board.	The Bank modified the system to enable the effective identification of related party transactions and to ensure that there are no favourable treatments offered to such related parties than that accorded to other constituents of the Bank carrying on the same business.	
	(b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counter-party.		
	(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;		
	(d) Providing services to or receiving services from a related party without an evaluation procedure;	Monitoring is being carried out covering all the products of the Bank to ensure that the Bank does not offer "more favourable treatment" to related parties.	
	(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential, or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	However, this process needs to be strengthened, implementing a mechanism to get a "pop up" when the name or other identifying data of a related party is entered into systems of the Bank.	
3(7)(iv)	The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two- third of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	This requirement is documented in the Board approved Related Party Transactions Policy.	Complied with
3(7)(v)	(a) The Bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, the steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	No such matters were pending as at 31st December 2023.	Complied with

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied
	(b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	No such matters are outstanding as at 31st December 2023.	Complied with
	(c) There is a process to identify any Director who fails to comply with the above sub directions, be deemed to have vacated the office of Director and has the Bank disclose such fact to the public.	Such a situation did not occur during 2023.	Complied with
	(d) Process in place to ensure Clause 3(7)(v)(c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Such a situation did not occur during 2023.	Complied with
3(7)(vi)	There is a process in place to identify when the Bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	No favourable treatment was given to the employees under any category other than staff benefit schemes approved by the Board of Directors.	Complied with
3(7)(vii)	There is a process to obtain prior approval from the Monetary Board for any accommodation granted by the Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	Not applicable due to the reasons mentioned in 3(7)(v) and 3(7)(vi) above.	Complied with

3 (8) DISCLOSURES

3(8)(i)	The Board ensures that the Board has disclosed:		
	(a) Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Annual Audited Financial Statements including the basis of preparation and presentation and statement of compliance is disclosed in the Annual Report 2023 and such Audited Financial Statements and quarterly Financial Statements have been published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
	(b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.		
3(8)(ii)	The Board has made the following minimum disclosures in the Annual Report:		

CORPORATE GOVERNANCE

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied												
	(a) The statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Specific disclosures are available on page 153 of this Annual Report under “Statement of Directors Responsibility for Financial Reporting”.	Complied with												
	(b) The report by the Board on the Bank’s internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Specific disclosures are available on pages 149 to 150 of this Annual Report under “Directors’ Statement on Internal Control over Financial Reporting”.	Complied with												
	(c) The Board has obtained the assurance report issued by the Auditors under “Sri Lanka Standards on Assurance Engagements SLSAE – 3050 – Assurance reports for banks on Directors Statement on Internal Control” referred to in Direction 3(8)(ii)(b) above.	The Board has obtained the Assurance Report issued by the Auditors under “Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors’ Statement on Internal Control” and included on page 151 of this Annual Report.	Complied with												
	(d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline, fitness and propriety, transactions with the Bank, and the total of fees/remuneration paid by the Bank.	Details on the same are disclosed under heading “Board of Directors”.	Complied with												
	(e) Total net accommodation as defined in Direction 3 (7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank’s regulatory capital.	Disclosures of accommodation outstanding as of balance sheet date to related parties are made under Notes to the Financial Statements in the Annual Report. Net accommodations granted to each category of related parties and its percentage as a Bank capital is as follows: <table><tr><th>Category of Related party</th><th>Balance (LKR Mn)</th><th>%</th></tr><tr><td>Board of Directors</td><td>34.22</td><td>0.24%</td></tr><tr><td>Corporate Management</td><td>238.48</td><td>1.67%</td></tr><tr><td>Related Companies</td><td>203.86</td><td>1.43%</td></tr></table> Spouses and other family members of related parties – NIL	Category of Related party	Balance (LKR Mn)	%	Board of Directors	34.22	0.24%	Corporate Management	238.48	1.67%	Related Companies	203.86	1.43%	
Category of Related party	Balance (LKR Mn)	%													
Board of Directors	34.22	0.24%													
Corporate Management	238.48	1.67%													
Related Companies	203.86	1.43%													

Corporate Governance

Guideline	Function of the Board	Level of Compliance	Complied/ Not Complied												
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and Directors, and the aggregate values of the transactions of the Bank with its Key Management Personnel and Directors, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Disclosure of remuneration paid by the Bank to its KMP and Directors and other transactions with KMPs and Directors are disclosed below. <table> <tr> <th>Category of KMP</th><th>Balance as at 31 December 2023 (LKR Mn)</th><th>Loan Deposits outstanding</th><th>Remuneration fees paid during the year (LKR Mn)</th></tr> <tr> <td>Board of Directors</td><td>-</td><td>-</td><td>34.22</td></tr> <tr> <td>Corporate management (AGM grade and above)</td><td>22.71</td><td>55.44</td><td>183.04</td></tr> </table>	Category of KMP	Balance as at 31 December 2023 (LKR Mn)	Loan Deposits outstanding	Remuneration fees paid during the year (LKR Mn)	Board of Directors	-	-	34.22	Corporate management (AGM grade and above)	22.71	55.44	183.04	Complied with
Category of KMP	Balance as at 31 December 2023 (LKR Mn)	Loan Deposits outstanding	Remuneration fees paid during the year (LKR Mn)												
Board of Directors	-	-	34.22												
Corporate management (AGM grade and above)	22.71	55.44	183.04												
	(g) Board has confirmed in its Annual Corporate Governance Report that all the findings of the "Factual Findings Report" of Auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the Annual Corporate Governance Report.	The Board has confirmed in the Annual Corporate Governance Report that all the findings of the "Factual Findings Report" of Auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in Annual Corporate Governance Report.	Complied with												
	(h) A report setting out details of the compliance with prudential requirements, regulations, laws, and internal controls and measures taken to rectify any material non-compliance.	This aspect is covered by the "Board of Directors on the affairs of the Company" on pages 139 to 148 of this Annual Report.	Complied with												
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	No such direction was issued by the Monetary Board during the year.	Complied with												

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
A. DIRECTORS			
A.1. THE BOARD			
The Bank should be headed by a Board, which should direct, lead, and control the Bank			
All Directors of the Bank function in a Non-Executive capacity. The Board consists of professionals in the fields of Banking, Accounting, Rural Development, Management and Economics. All Directors possess the skills, experience and knowledge combined with a high sense of integrity and independent judgement. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment.			
1. Board meetings	A.1.1	The Board should meet regularly. At least once a quarter.	The Board meets regularly on a monthly basis. During the year the Board met 13 times.
2. Board responsibilities	A.1.2	Board should provide an entrepreneurial leadership within a framework of prudent and effective controls.	The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the management of business. The Board has provided strategic direction in vision statement, mission statement and the Annual budget.
3. Compliance with laws and access to independent professional advice	A.1.3	The Board collectively and Directors individually must act in accordance with rules and regulations.	The Board collectively as well the Directors individually, recognise their duties to comply with laws of the country which are applicable to the Bank. A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This is being carried out through the Board Secretary, as and when it is requested.
4. Board secretary	A.1.5	All Directors should bring an independent judgement to bear on issues of strategy.	Directors are responsible for bringing independent and objective judgement, and scrutinising the decisions taken by the Corporate Management led by the CEO, on issues of strategy, performance, resource utilisation and business conduct.
5. Independent judgement	A.1.5	All Directors should bring an independent judgement to bear on issues of strategy.	Directors are responsible for bringing independent and objective judgement, and scrutinising the decisions taken by the Corporate Management led by the CEO, on issues of strategy, performance, resource utilisation and business conduct.
6. Dedication of adequate time and effort by the Board and Board Committees	A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	Chairperson and members of the Board have dedicated adequate time for the fulfilment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended Subcommittee meetings and also have made decisions via circular resolution where necessary. Papers relating to the Board meetings are sent well in advance allowing sufficient time for preparation.

Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
7. Training for new Directors	A.1.7	Every Director should get an appropriate training.	The Board of Directors recognises the need for continuous training and expansion of knowledge and undertakes such professional development as they consider necessary in assisting them to carry out their duties as Directors.

A.2 CHAIRMAN AND CEO

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

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

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

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

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

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

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
A.5 BOARD BALANCE			
It is preferable for the Board to have balance of Executive and Non-Executive Directors such that no individual or a small group of individuals can dominate the Board's decision-taking.			
1. Presence of Non-Executive Directors	A.5.1	The Board should include at least two Non- Executive Directors or a number equalling to 1/3 of all Directors whichever is higher and in the event of CEO and Chairman is same the majority should be consistent with Non- Executives.	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2023.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive Directors out of all, should be Independent Directors.	Board comprises five Independent, Non- Executive Directors as at the report date.
3. Criteria to evaluate Independence of Non- Executive Directors	A.5.3	For a Director to be deemed as "Independent", such Director should be independent from management and free of any business or other relationships that could materially interfere.	Board comprises five Independent, Non- Executive Directors as at the report date. Compliant with independent criteria as at the report date.
4. Signed declaration of independence by the Non- Executive Directors	A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/ her independence.	A declaration of Independence is signed by all Non-Executive Directors.
5. Determination of independence of the Directors by the Board	A.5.5	The Board should make a determination annually as to the independence or Non- Independence of each Non-Executive Director.	The Board has determined that the submission of declaration/s by the Non- Executive Directors, as to their independence, as fair representation and will continue to evaluate their submission annually.
6. Appointment of alternate Director	A.5.6	If an Alternate Director is appointed by a Non- Executive Director such Alternate Director should not be an Executive of the Bank.	No Alternate Director was appointed during the year 2023.
7. Senior Independent Directors	A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent Non- Executive Directors to be the "Senior Independent Director" and disclose this appointment in Annual Report.	Roles of the Chairperson and the CEO are held by two different individuals that carry out different functions.
8. Confidential discussion with the Senior Independent Director	A.5.8	The Senior Independent Director should make himself available for confidential discussions with other Directors.	The roles of the Chairperson and the CEO are segregated.
9. Meeting of Non-Executive Directors	A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Directors are Non-Executive Directors and meet on a monthly basis.
10. Recording of concerns in Board minutes	A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes.	Concerns of Directors have been duly recorded in Board minutes.

Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
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A.6 SUPPLY OF INFORMATION

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

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

A.7 APPOINTMENTS TO THE BOARD

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

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

A.8 RE-ELECTION

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

1. Appointment of Non-Executive Directors	A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions of Companies Act relating to the removal of Directors and their reappointment should not be automatic.	Articles of Association of the Bank requires each Director other than the CEO and any nominee Director, to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior review.
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CORPORATE GOVERNANCE

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
2. Election of Directors by the shareholders	A.8.2	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment and re-election thereafter at intervals of no more than three years.	Complied with.

A.9 APPRAISAL OF BOARD PERFORMANCE

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

1. Appraisal of Board performance	A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2.	Self-assessments for Board of Directors were done for the year 2023.
2. Annual self- evaluation of the Board and its committees	A.9.2	The Board also should undertake an annual self-evaluation of its own performance and that of its committees.	There is a self-performance evaluation procedure for the Board of Directors of the Bank.
3. Disclosure of the method of appraisal of Board and Board Subcommittee performance	A.9.3	The Board should state how such evaluation was done in the Annual Report.	Refer the "Board of Directors" in the Annual Report.

A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS

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

1. Details in respect of Directors	A.10.1	The Annual Report of the Company should disclose details regarding Directors.	Details of the Directors are given in the Annual Report under "Board of Directors" and "Annual Report of the Board of Directors on the Affairs of the Company".
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A.11 APPRAISAL OF THE CEO

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

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

B. DIRECTORS' REMUNERATION**B.1. REMUNERATION PROCEDURES**

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

1. HR and Remuneration Committee	B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board.	The HR and Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy of the Directors and KMPs, and for making all relevant disclosures.
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Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
2. Composition of the HR and Remuneration Committee	B.1.2 and B.1.3	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman who should be appointed by the Board and the Chairman and members of the Committee should be stated in the Annual Report.	All Committee members are Non-Executive Directors and the Chairman is appointed by the Board. Composition of the Committee is given in the Annual Report under "Report of the Board Human Resources and Remuneration Committee".
3. Remuneration of the Non-Executive Directors	B.1.4	The Board as a whole or as required by the Articles of Association the shareholders should determine the remuneration of Non-Executive Directors.	Remuneration of Non-Executive Directors is determined by the Board Human Resources and Remuneration Committee.
4. Consultation of the Chairman and access to professional advice	B.1.5	The Remuneration Committee should consult the Chairman and CEO about its proposals relating to the remuneration of other executive Directors and have access to other professional advice.	Input of the Chairperson is obtained by her involvement as a member of the said subcommittee and access is available to obtain professional advice, if necessary.

B.2 LEVEL AND MAKE UP OF REMUNERATION

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

1. Level and make up of the remuneration of Executive Directors	B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors.	The Board is mindful of the fact that the remuneration of the Executive and the Non- Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Bank.
2. Comparison of remuneration with other companies	B.2.2	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors.	The Board is mindful of the fact that the remuneration of Executive and the Non- Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Bank.
3. Comparison of remuneration with other companies	B.2.3	The Remuneration Committee should judge where to position the level of remuneration of the Company relative to other companies.	The Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the CEO) takes into consideration the level of remuneration paid by the other comparable companies, performance and risk factors.
4. Comparison of remuneration with other companies in the Group	B.2.4	The Remuneration Committee should be sensitive to remuneration and employment conditions.	Please refer the above comment under B.2.2.
5. Performance – related payment to Executive Directors	B.2.5	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	The Bank does not have Executive Directors.
6. Executive share options	B.2.6	Executive share options should not be offered at a discount.	Such a share option scheme is not in practice in the Bank

CORPORATE GOVERNANCE

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
7. Deciding the Executive Directors' remuneration	B.2.7	In designing schemes for performance-related remuneration, Remuneration Committee should follow the relevant SEC regulations.	The Bank does not have Executive Directors.
8. Early termination of Directors	B.2.8	Remuneration Committee should consider what compensation commitments, their Directors' contracts of service, if any, entail in the event of early termination.	Compensation on early termination will be discussed on a case by case basis considering the relevant facts.
9. Early termination not included in the initial contract	B.2.9	Where the initial contract does not explicitly provide for compensation commitments, remuneration committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	Compensation on early termination will be discussed on a case by case basis by the Remuneration Committee.
10. Remuneration of the Non-Executive Directors	B.2.10	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	The level of remuneration of Non-Executive Directors reflect the time commitment and responsibility of their role taking into consideration market practices.

B.3 DISCLOSURE OF REMUNERATION

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

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

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

Boards should use the AGM to communicate with shareholders.

1. Encourage their participation	C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged in each resolution, and the balance for and withheld after it has been dealt with on a show of hands, except where a poll is called.	The Bank has a mechanism to record all proxy votes and proxy votes lodged on each resolution.
2. Separate resolution for all separate issues	C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	The Bank proposes a separate resolution at the AGM on each substantially separate issue.
3. Availability of all Board Subcommittee Chairmen at the AGM	C.1.3	The Chairman of the Board should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Board which includes the Chairman of the Audit, Remuneration, Nomination, and Integrated Risk Management Committees are present at the AGM to answer any questions.

Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
4. Adequate notice of the AGM	C.1.4	The Company should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	The Bank gives notice of the AGM and related papers to the shareholders 15 working days prior to the Meeting date.
5. Procedures of voting at General Meetings	C.1.5	The Company should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	Voting procedures at General Meetings are circulated to the shareholders along with the Annual Report.

C.2 COMMUNICATION WITH SHAREHOLDERS

The Board should implement effective communication with shareholders.

1. Dissemination of timely information	C.2.1	There should be a channel to reach all shareholders of the Company in order to disseminate timely information.	All the financial information of the Bank could be accessed through newspapers and the Bank's website by stakeholders.
2. Policy and Methodology for communication with shareholders	C.2.2	The Company should disclose the policy and methodology for communication with shareholders.	Communication with shareholders is done through individual letters, through inquiries from Company Secretary Department, Annual Report, Bank Facebook page and Bank Website.
3. Implementation Of communication Policy and Methodology	C.2.3	The Company should disclose how they implement the above policy and methodology.	A Board-approved communication policy is in place.
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication.	Following is the contact number of person to be contacted - The Company Secretary - 011 2832 590
5. Awareness of Directors on major issues and concerns of shareholders	C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.	Non-Executive Directors are selected by the shareholders at the AGMs. Shareholders can inform their concerns through those directors to discuss at Board Meetings. Moreover Shareholders can direct the concerns to the Company Secretary via the above given contact number to discuss at Board Meetings.

CORPORATE GOVERNANCE

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
6. The Contact person in relation to shareholders' matters	C.2.6	The Company should decide the person to contact relating to shareholders matters. The relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board of Directors.	Following is the contact number of person to be contacted relating to shareholders' matters. Company Secretary – 011 2832 590
7. The process of responding to shareholder matters	C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed.	Answering the shareholders' matters is done by Company Secretary / through the above contact numbers and at the AGM.

C.3 MAJOR AND MATERIAL TRANSACTIONS

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

1. Statutory and regulatory reporting	D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators.	SDB bank has reported a true and fair view of its position and performance for the year ended 31st December 2023 and at the end of each month of 2023. In the preparation of quarterly and annual financial statements, SDB bank has strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. SDB bank has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka.
2. Directors' Report in the Annual Report	D.1.2	The Directors' Report which forms a part of the Annual Report, should contain a declaration by the Directors stating that Bank's operations are in line with statutory requirements.	The "Annual Report of the Board of Directors on the Affairs of the Company" given in the Annual Report covers all areas of this section.
3. Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board on preparation and presentation of Financial Statements, and a statement of Internal Control.	This requirement is satisfied by the "Statement of Directors' Responsibility for Financial Reporting" and "Directors' Statement on Internal Control over Financial Reporting" given in the Annual Report. Statement of Internal Control is also given in the Annual Report.
4. Management Discussion and Analysis	D.1.4	Annual Report should contain a "Management Discussion and Analysis".	The Annual Report contains a "Management Discussion and Analysis".

Corporate Governance

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
5. Declaration by the Board that the business is a going concern	D.1.5	The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.	This is given in the "Annual Report of the Board of Directors on the affairs of the Company" in the Annual Report.
6. Summoning an EGM to notify serious loss of capital	D.1.6	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an EGM of the Company to notify shareholders of the position and remedial actions.	Such a situation has not arisen during the period
7. Disclosure of Related Party Transactions	D.1.7	The Board should adequately disclose the Related Party Transactions in its Annual Report.	Related party transaction details are given in the Annual Report.

D.2 INTERNAL CONTROL

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

1. Annual evaluation of the internal controls system	D.2.1	The Directors should at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal control.	The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls was evaluated by the Board Audit Committee in the year 2023. Risk has been reviewed by BIRMC quarterly. The Board of Directors was satisfied with the effectiveness of the system of internal controls, which is evidenced through the "Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC" given in the Annual Report under "Directors' Statement on Internal Control over Financial Reporting".
2. Need for internal audit function	D.2.2	Companies should have an internal audit function.	The Bank has a separate Internal Audit Department. The Board of Directors reviews the internal audit function once a year.
3. Reviews of the process and effectiveness of risk management and internal controls	D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls.	Complied with. Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.
4. Sound system of internal control and its content	D.2.4	Directors should follow the said guidance on responsibilities in maintaining a sound system of internal control.	Complied with. Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.

CORPORATE GOVERNANCE

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
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D.3 AUDIT COMMITTEE

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

1. Composition of the Audit Committee	D.3.1	The Audit Committee should comprise of a minimum of two Independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	Complied with. (Please refer the composition of Board Audit Committee in the Annual Report.)
2. Review of objectivity of the External Auditor	D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	The Audit Committee ensures the independence and objectivity of External Auditors.
3. Terms of reference of the Audit Committee	D.3.3	The Audit Committee should have a written Terms of Reference.	Bank has written Terms of Reference for Audit Committee which addresses requirements of the code.
4. Disclosures of the Audit committee	D.3.4	The names of the Directors of the Audit Committee, determination of the independence of the Auditors and its basis should be disclosed in the Annual Report.	The names of the members of the Audit Committee are given in the Annual Report. The Committee ensures the rotation of External Audit Engagement Partner once in every five years. The External Auditor has provided an Independent confirmation in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC.

D.4 CODE OF BUSINESS CONDUCT AND ETHICS

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

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

D.5 CORPORATE GOVERNANCE DISCLOSURES

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

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

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
E. INSTITUTIONAL INVESTORS			
E.1 SHAREHOLDERS' VOTING			
Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.			
1. Institutional shareholders	E.1.1	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and of concern.
E.2 EVALUATION OF GOVERNANCE DISCLOSURES			
1. Evaluation of Governance Disclosures	E.2.1	When evaluating the Company's governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention.	Institutional investors' concerns are addressed as and when raised.
F. OTHER INVESTORS			
F.1 INVESTING/DIVESTING DECISION			
1. Individual shareholders	F.1.1	Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	Information is readily available for individual shareholders investing directly in shares of the Company to encourage and carry out adequate analysis.
F.2 SHAREHOLDER VOTING			
2. Individual shareholders' voting	F.2.1	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	All individual shareholders are given the opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and newspaper notices.
G. SUSTAINABILITY REPORTING			
G.1 PRINCIPLES OF SUSTAINABILITY REPORTING			
1. Principle 1 Economic sustainability	G.1.1	Principle of economic sustainability governance recognises how organisations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate in their sphere of influence and how this is integrated through the organisation.	The Board of Directors through multiple subcommittees guides and reviews the performance of the bank in relation to economic sustainability. Key Board Subcommittees in this regard includes the Board Strategic Planning Committee, Board Cooperative, Rural Enterprise and Livelihood Development Committee, Board Subcommittee on Sustainability, Board Integrated Risk Management Committee and the Board Credit Committee. The management executes a Board approved integrated strategy, where the performance is reviewed and discussed in afore mentioned Board Subcommittees and also in the meetings of the Board of Directors. Bank considers its regional influence and its impact when planning its strategies, activities and decisions on economic performance for economic sustainability governance.

CORPORATE GOVERNANCE

Corporate Governance Principle	CA Sri Lanka Code Reference	Description of the Requirement	SDB bank's Extent of Compliance in 2023
2. Principle 2 – The environment	G.1.2	Environmental governance of an organisation should adopt an integrated approach that takes into consideration economic, social, health and environmental implications of their decisions and activities.	The Board of Directors through the Board Subcommittee on Sustainability reviews the implementation of the integrated strategy. Bank's seven pronged approach to sustainability management considers the economic, social, health and environmental implications of the decision and activities undertaken by the bank.
3. Principle 3 – Labour practice	G.1.3	Labour practices governance of an organisation encompasses all policies and practices relating to work performed by or on behalf of the organisation.	The Board of Directors through the Board Human Resources and Remuneration Committee reviews the implementation of the labour practices.
4. Principle 4 – Society	G.1.4	Society governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community development.	The Board of Directors through the Board Subcommittee on Sustainability reviews the Social Performance Management of the organisation in alignment with the Universal Standards for Social and Environmental Performance Management. It is supported by other committees such as the Board Cooperative, Rural Enterprise and Livelihood Development Committee and Board Strategic Planning Committee.
5. Principle 5 – Product responsibility	G.1.5	Product responsibility governance includes manufacturing quality products and distributing them and ensuring that the products are safe for the consumers and the environment.	The Board of Directors through the Board Subcommittee on Sustainability reviews the product responsibility aspects (value propositions on responsible finance) through Social Performance Management System of the bank in alignment with the Universal Standards for Social and Environmental Performance Management.
6. Stakeholder identification, engagement and effective communication	G.1.6	Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communication should be proactive and transparent.	The Board Strategic Planning Committee reviews stakeholder materiality aspects when formulating the integrated strategy. This involves identification and engagement of stakeholders through various functions of the bank.
7. Principle 7 – Formalisation of sustainability report	G.1.7	Sustainability reporting and disclosure should be formalised as part of the Company's reporting process and take place on a regular basis.	The Board of Directors through the Board Subcommittee on Sustainability and the Board Strategic Planning Committee reviews sustainability performance of the bank and its adherence to reporting and disclosure requirements. This requirement is met through the presentation of this report.

Corporate Governance

COMPLIANCE WITH COLOMBO STOCK EXCHANGE (CSE) LISTING RULES - SECTION 09 ON CORPORATE GOVERNANCE

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
9.1	APPLICABILITY OF THE CORPORATE GOVERNANCE RULES		1st October 2023	
	The Bank is to publish a statement confirming the extent of compliance with the Corporate Governance Rules set out herein, in the Annual Report of the Entity.	This report serves this purpose.		Complied
9.2	POLICIES		1st October 2024	
9.2.1	Establish and maintain the following policies, and disclose its existence and details of implementation on the website- • Policy on the matters relating to the Board of Directors • Policy on Board Committees • Policy on Corporate Governance, Nominations and Re-election • Policy on Remuneration • Policy on Internal Code of Business Conduct and Ethics for all Directors and employees, • Including policies on trading in the Bank's listed securities • Policy on Risk management and Internal controls • Policy on Relations with Shareholders and Investors • Policy on Environmental, Social and Governance Sustainability • Policy on Control and Management of Company Assets and Shareholder Investments • Policy on Corporate Disclosures • Policy on Whistle blowing • Policy on Anti-Bribery and Corruption	Following policies and procedures as required under the rule are currently in force at the Bank; Remuneration Policy and Procedure for Directors, Succession Plan policy and Procedure for Directors, Procedure to seek expert advice, Goals and Targets for Directors, Responsibilities of the Chairman and the CEO, Policy and Procedure for the Selection and Appointment of the Directors (Independent) and CEO, Code of Business Conduct & Ethics for Directors, Communication Policy, Assets & Liability Management Policy, Policy on Corporate Disclosures, Policy on Whistleblowing The Bank endeavours to improve and align its policies with Rule 9.2.1 and disclose the existence of such policies together with details of implementation of same on the Bank's official website, by 1st October 2024, as is required under Rule 9.2.1.		Will be fully compliant on or before 01.10.2024

CORPORATE GOVERNANCE

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
9.3	BOARD SUB COMMITTEES		1st October 2024	
9.3.1/ 9.3.2	Following Board Committees to be established and the Bank to be compliant with the composition, responsibilities and disclosure requirements set out in the Rules • Nominations and Governance Committee • Remuneration Committee • Audit Committee • Related Party Transactions Review Committee	The following Board Sub Committees referred to in the Rule are constituted and maintained and are functioning effectively; • Board Audit Committee (BAC) • Board Human Resources and Remuneration Committee (BHRRC) • Board Selection and Nomination Committee (BS&NC) • Board Integrated Risk Management Committee (BIRMC) • Board Related Party Transactions Review Committee (BRPTRC) In view of the revised Listing Rules, the TOR of the BS & NC was amended and renamed the BS & NC as Board Nominations & Governance Committee, incorporating the governance aspect. Said amendments are submitted to the recommendation of the Board Selections & Nominations Committee. And thereafter to be submitted for the approval of the Board of Directors. Compliance with Rule 9.3.1/ 9.3.2 will be ensured on or before the prescribed deadline of 1st October 2024.		Complied
9.3.3	The Chairperson of the Board shall not be the Chairperson of the above Board Committees	Complied w.e.f. 29.02.2024		Complied
9.4	PRINCIPLES OF DEMOCRACY IN SHAREHOLDER DEALINGS			
9.4.1	The Bank is to maintain records of all resolutions and the requisite information of shareholder resolutions and provide copies to the SEC or CSE if requested.	The Company Secretary maintains records of all shareholder resolutions and requisite information and is able to provide extracts of such resolutions to the SEC and CSE if required.	1st October 2023	Complied
9.4.2	A shareholder communications and relations policy is to be established and its existence is to be disclosed in the Annual Report and website.	The Bank's Communication Policy ensures this requirement. This report in the annual report 2023 serves the disclosure requirement.	1st October 2024	Complied
	Bank to have and disclose a contact person for communication with shareholders.	Details of the contact personnel are provided in the "Corporate Governance" section under "Communication with Shareholders" of this Report.	1st October 2023	Complied

Corporate Governance

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
9.5	POLICY ON BOARD RELATED MATTERS		1st October 2024	
9.5.1	Bank to establish and maintain a formal policy governing matters relating to the Board of Directors covering the requisites in 9.5.1	The Related Party Transactions Policy of the Bank and the TOR of the Board Related Party Transactions Review Committee were amended during the year 2023 keeping in line with the CSE rule 9.5.1.		Complied
9.6	CHAIRPERSON AND CEO		1st October 2023	
9.6	The Chairperson of the Bank should be a Non-Executive Director and the position of the Chairperson and CEO shall not be held by the same person.	The chairperson of the Bank is not an Executive Director. The positions of Chairperson and CEO are held by two different individuals.		Complied
9.6.3	If the Chairperson and CEO are the same person; or if the Chairperson and CEO are close family members or related parties, the Bank is to appoint a Senior Independent Director (SID) and comply with the requirements in 9.6.3	Such a situation has not arisen during the year.		N/A
9.7	FITNESS OF DIRECTORS AND CEO		01st April 2024	
9.7.1/ 9.7.2/ 9.7.3/ 9.7.4	The Bank is to ensure that the Directors and CEO and the persons recommended by the Nominations and Governance Committee are at all times, fit and proper persons as per the criteria in 9.7.3. Bank to obtain declarations from all directors and CEOs on an annual basis confirming their fitness and propriety.	The Company Secretary obtains declarations from the Directors on an annual basis. The Director's fitness and propriety in line with the Listing Rules have been obtained and submitted to the Board to assess and ensure that the Directors are fit and proper persons to hold office as specified in the criteria.		Complied
9.8	BOARD COMPOSITION		1st October 2024	
9.8.1	The minimum number of Directors shall be 5.	The number of Directors during the year 2023 complied with the thresholds detailed in these Rules. As at 31st December 2023, the Board comprised twelve (12) Directors.		Complied
9.8.2	The minimum number of Independent Directors shall be 2 or 1/3rd of the total number of Directors (whichever is higher).	The Board comprises of five independent Non-Executive Directors as at the date of this report.		Complied
9.8.3	Any change is to be rectified within 90 days.			
9.8.5				
9.9	ALTERNATE DIRECTORS		1st October 2024	
	The Bank is to follow the requirements laid down in 9.9 when appointing an Alternate Directors.	Such a situation has not arisen during the year		N/A

CORPORATE GOVERNANCE

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
9.10	DIRECTOR DISCLOSURES		1st October 2023	
9.10.1	The Bank is to disclose policy on the maximum number of directorships allowed to be held by a Director. If such a number is exceeded, an explanation is to be provided in the Annual Report	As required by the Banking Act Directions, no Director holds Directorships of more than 20 companies. The Directorships of each of the Directors are disclosed under the section of "Board of Directors" of the Annual Report.		Complied
9.10.3	The bank shall make an immediate Market Announcement regarding any changes to the composition of the Board Committees referred to in Rule 9.3 containing, at minimum, the details of changes including the capacity of directorship with the effective date thereof.	The Bank makes the required announcements as and when necessary.		Complied
9.11	NOMINATIONS AND GOVERNANCE COMMITTEE		1st October 2024	
9.11.1	The bank shall have a Nominations and Governance Committee (NGC). NGC to have written Terms of Reference.	In view of the revised Listing Rules, the TOR of the BS & NC was amended, incorporating the governance aspect of TOR.		Will be compliant on or before 01.10.2024
9.11.3		Said amendments are submitted to the recommendation of the Board Selections & Nominations Committee. And thereafter, to be submitted for the approval of the Board of Directors. The name of the BS & NC was amended as Board Nominations and Governance Committee and will be effective with the approval of the Board of Directors.		
		Compliance with Rule 9.11.1/ 9.11.3 will be ensured on or before the prescribed deadline of 1st October 2024.		
9.11.2	Establish and maintain a formal procedure for appointments and re-election of Directors through the Nominations and Governance Committee	The BS & NC considers Board vacancies and recommends suitable candidates, when necessary, in accordance with the Board-approved procedure for selection and appointment of Directors and in line with applicable laws and regulations.		Complied
9.11.4	Functions and Composition of the NGC -	Please see the detailed report under the section "Report of the Board Selection and Nomination Committee" of the Annual Report for the functions and composition.	W.e.f. 1st October 2024 (for composition)	Will be compliant on or before 01.10.2024
9.11.5	Comprise a minimum of 3 Directors out of which a minimum of 2 shall be Independent - not consist of Executive Directors - Chairperson to be an Independent Director	Compliance with Rule 9.11.4/ 9.11.5 will be ensured on or before the prescribed deadline of 1st October 2024.		

Corporate Governance

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
9.12	REMUNERATION COMMITTEE		1st October 2024	
9.12.2	The bank shall have a Remuneration Committee and the Committee to have written Terms of Reference.	The Bank has a Board Human Resources & Remuneration Committee & written Terms of Reference to such committee is in force.		Complied
9.12.5				
9.12.3	BHRRC shall establish and maintain a formal and transparent procedure for developing policy on Executive Directors' remuneration and for fixing the remuneration packages of individual directors.	The Bank has a Board-approved Policy and Procedure for the Selection, Appointment, and Remuneration of the Directors (Independent) and CEO addressing the remuneration aspects of Directors & CEO.		Complied
9.12.4				
9.12.6	Functions and Composition of the HRRC -Comprise a minimum of 3 Directors out of which a minimum of 2 shall be independent - not consist of Executive Directors - Chairperson to be an Independent Director.	Please see the detailed report on "Board Human Resources & Remuneration Committee" in the Annual Report.		Complied
	The Remuneration Committee shall comprise of Non-Executive Directors a majority of whom shall be Independent. One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	Please see the detailed report on the "Board Human Resources & Remuneration Committee" in the Annual Report.	Until 1st October 2024, the Listed Entity shall at a minimum comply with previous Rule 7.10.5(a)	Complied
9.13	AUDIT COMMITTEE AND BIRMC		1st October 2024	
9.13.1/ 9.13.2	Where Listed Entities do not maintain separate Committees to perform the Audit and Risk Functions, the Audit Committee of such Listed Entities shall additionally perform the Risk Functions set out in Rule 9.13 of these Rules. Audit Committee to have written Terms of Reference.	The Bank has a separate Board Audit Committee (BAC) and a Board Integrated Risk Management Committee (BIRMC) with separate written Terms of References.		Complied
9.13.3/ 9.13.4	Functions and Composition of the BAC -Comprise a minimum of 3 Directors out of which a minimum of 2 or a majority (whichever higher) shall be Independent - not consist of Executive Directors - chairperson to be an independent director	The BAC had 24 meetings in 2023 with at least 1 meeting per quarter and the Rule was complied with during all those meetings. Further, the BIRMC has had 12 meetings in 2023 and the CEO/CFO attended all those meetings by invitation.		Complied
	- Compulsory meetings on a quarterly basis prior to recommending the financials to be released to the market - Quorum- the majority of those in attendance shall be independent - CEO and CFO to attend meetings by invitation. - Provided however where there is a separate Risk Committee, the CEO shall attend the Risk Committee meetings by invitation.			
	Where the parent and subsidiary are both listed the AC of the parent may be permitted to function as the AC of the subsidiary.	Not Applicable		N/A

CORPORATE GOVERNANCE

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
	The Chairperson of the BAC shall be a Member of a recognised professional accounting body. Provided, however this Rule shall not be applicable in respect of Risk Committees where there is a separate Risk Committee and Audit Committee.	The Chairman of the BAC, Mr. Chaaminda Kumarasiri is a chartered accountant and possesses over 25 years of experience. His qualifications are detailed under the section of "Board of Directors" of the Annual Report.		Complied
	The Audit Committee shall comprise of Non-Executive Directors a majority of whom shall be independent. One Non-Executive Director shall be appointed as the Chairman of the committee by the board of Directors. Unless otherwise determined by the audit committee, the Chief Executive Officer and the Chief Financial Officer of the Listed Entity shall attend audit committee meetings. The Chairman or one member of the committee should be a Member of a recognised professional accounting body.	See the detailed report on the "Board Audit Committee" included in the Annual Report	Until 1st October 2024, the Listed Entity shall at Minimum comply with previous Rule 7.10.6(a) for the composition of Audit Committee	Complied
	In a situation where both the parent company and the subsidiary are 'listed Entities', the audit committee of the parent company may function as the audit committee of the subsidiary.	Not Applicable.		N/A
	Functions and Annual Report Disclosures of the Audit Committee.	See the detailed report on the "Board Audit Committee" included in the Annual Report.	Until 1st October 2024, the Listed Entity shall at a minimum comply with previous Rules 7.10.6(b) and (c) relating to the functions and disclosures in the Annual Report relating to the Audit Committee.	Complied

Corporate Governance

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
9.14	RELATED PARTY TRANSACTIONS REVIEW COMMITTEE		1st October 2024	
9.14.1	The bank shall have a Related Party Transactions Review Committee (RPTRC)	The Terms of Reference of the Bank's Related Party Transactions Review Committee were amended in view of the revised Listing Rules.		Complied
9.14.2/ 9.14.3	Functions and Composition of the BRPTRC -Comprise a minimum of 3 Directors out of which 2 shall be Independent - may include Executive Directors - Chairperson to be an independent director	Please see the detailed report of "the Board Related Party Transactions Review Committee" included in the Annual Report.		Complied
	Where the parent and subsidiary are both listed the RPTRC of the parent may be permitted to function as the RPTRC of the subsidiary.	Not Applicable.		N/A
9.14.4	GENERAL REQUIREMENTS			
	The frequency of meetings shall be at least quarterly.	In 2023, the BRPTRC had 04 meetings, with 1 meeting per quarter.		Complied
	Minutes of meetings are properly documented and communicated to the Board of Directors. The minutes of the RPTRC are tabled at the meetings of the Board of Directors on a periodic basis.	Please see the detailed report of "the Board Related Party Transactions Review Committee" included in the Annual Report.		Complied
	Members of the BRPTRC to ensure they have or have access to adequate knowledge expertise and advice.	The members being aware of the same, exercise this right as and when needed.		Complied
	Where necessary, the BRPTRC shall request the Board of Directors to approve the Related Party Transactions which are under review by the RPTRC. In such instances, the approval of the Board of Directors should be obtained prior to entering into the relevant Related Party Transaction.	When necessary, Related Party Transactions were submitted to the Board in 2023.		Complied
	Interested Directors shall not vote on or shall not be present during the deliberations on the specific matter	Interested Directors did not vote on or participate in any discussions during the deliberations on the interested matters in 2023.		Complied
9.14.5	Subject to the exemptions, RPTRC shall review in advance all proposed RPTs	The BRPTRC reviews all transactions falling within the scope of this rule.		Complied
	In the event of any material changes to a previously reviewed Related Party Transaction in terms of Rule 9.14.5(1) such proposed material changes shall also be reviewed by the RPTRC prior to the completion of the transaction.	This requirement has been incorporated into the policy of Related Party Transactions to be followed in the Bank.		Complied
	The RPTRC shall be provided with all the facts and circumstances of the proposed RPT by the senior management to facilitate the review of a RPT.	This requirement has been incorporated into the policy of Related Party Transactions and is followed in the Bank.		Complied

CORPORATE GOVERNANCE

Rule No.	Corporate Governance Requirement	Level of Compliance	Effective date of Compliance	Complied/ Not Complied
	Directors shall not participate in discussions where there is conflict except for the express purpose of providing information. Where necessary, a special committee to be created to review a proposed RPT.	Interested Directors did not vote on or participate in any discussions during deliberations on the interested matters in 2023.		Complied
	For recurrent RPTs, the BRPTRC may establish guidelines for the senior management to follow in its ongoing dealings with the Related Party. Thereafter, the RPTRC on an annual basis, shall review and assess ongoing relationships with the Related Party to determine whether they are in compliance with the Committee's guidelines and that the RPT remains appropriate.	These requirements have been incorporated into the policy of Related Party Transactions and the Terms of Reference of the BRPTRC.		Complied
9.14.6	Bank to obtain shareholder approval by Special Resolution for the RPTs specified in 9.14.6	No such transactions took place in 2023.		N/A
9.14.9	Acquisition and Disposal of substantial assets from/to related parties are to be done with shareholder approval as per Rule 9.14.9.	No such transactions took place in 2023.		N/A
9.16	ADDITIONAL DISCLOSURES			
	The Board of Directors must include declarations in the Annual Report, including disclosures about material interests in contracts, a review of internal controls, awareness of applicable laws and regulations, disclosure of areas of material non-compliance, and any relevant fines imposed by regulatory authorities.	This report serves this purpose.		Complied

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

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

COMPOSITION OF THE BIRMC

The BIRMC comprised the following Directors and members:

- Mr. Prasanna Premaratna - Chairman (BIRMC), Independent, Non-Executive Director (Appointed to the BIRMC w.e.f 25.08.2023)
- Prof. Sampath Amaratunge - Independent, Non-Executive Director
- Mr. Chaaminda Kumarasiri - Independent, Non-Executive Director
- Mr. Conrad Dias - Non-Independent, Non-Executive Director
- Mr. Chandana Dissanayake - Non-Independent, Non-Executive Director

Ms. Dinithi Ratnayake, Chairperson, Independent, Non-Executive Director served as a member of the BIRMC and resigned from the committee on 25.08.2023. Prof. Sampath Amaratunge, Independent, Non-Executive Director resigned from the Chairmanship of the BIRMC on 25.08.2023. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by them.

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

TERM OF REFERENCE (TOR) OF THE COMMITTEE

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

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

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

- The Committee shall assess all risks i.e. credit, market, liquidity, and operational risks of the Bank on a monthly basis through appropriate risk indicators.
- The Committee shall review the adequacy and effectiveness of all management-level committees.
- The committee shall take prompt and corrective action to mitigate the effect of specific risk when such risk is beyond the prudential levels decided by the committee.
- The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory authorities, internal controls, and approved policies in all areas of business operations. A dedicated compliance officer selected from the Key Management Personnel shall carry out the compliance function and report to the Committee periodically.

COMMITTEE ACTIVITIES DURING THE YEAR

During the year under review, several value additions and procedures were introduced by the Committee to further strengthen the Risk Management Process of the Bank. The Bank-wide Operational Risk goals including IT and Cyber Security were approved by the Committee during the year, enabling the Bank to report and mitigate high-level operational risk incidents. The Committee also reviewed and approved changes to

internal limits for credit and integrated risk indicators in line with the risk appetite of the Bank. The Committee convened several meetings to discuss the risks arising out of the economic crisis and the uncertainties in the macroeconomy and mitigate such risks.

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

The Committee also reviewed the significant risks arising from Credit, Market, Liquidity and Operational areas in addition to reviewing the effectiveness and efficiency of Key Management Committee meetings held during the year.

MEETINGS

The BIRMC met twelve (12) times during the year under review. The attendance of the Committee members at the meetings of the committee is tabled on page 145. The minutes of meetings are regularly forwarded to the Board together with detailed key risk indicators, stress testing reports, and forecasts. All key risk indicators and potential risks were discussed and reviewed at each meeting and appropriate mitigatory measures were taken where necessary.

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



Prasanna Premaratna
Chairman
Board Integrated Risk Management Committee

30th April 2024
Colombo, Sri Lanka

REPORT OF THE BOARD AUDIT COMMITTEE

COMPOSITION OF THE BOARD AUDIT COMMITTEE (BAC)

The Board Audit Committee appointed by and responsible to the Board of Directors ("the Board") comprises three (03) Independent, Non-Executive Directors and one (01) Non- Independent, Non- Executive Director.

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

- Mr. Chaaminda Kumarasiri – Chairman (BAC), Independent, Non-Executive Director
- Prof. Sampath Amaratunge – Independent, Non-Executive Director
- Mr. Naveendra Sooriyarachchi – Non-Independent, Non- Executive Director
- Mr. Prasanna Premaratna – Independent, Non- Executive Director (Appointed to BAC w.e.f 25.08.2023)

The Chairman of the BAC, Mr. Chaaminda Kumarasiri is an Independent Non-Executive Director. Brief profile of Mr. Chaaminda Kumarasiri and other members of the BAC are given on pages 40 to 43 in the Annual Report.

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

TERMS OF REFERENCE

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

REGULATORY COMPLIANCE

The roles and functions of the BAC are regulated by the Banking Act Direction No. 12 of 2007, the mandatory Code of Corporate Governance for Licensed Specialised Banks in Sri Lanka, issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per the

Section 7.10 of listing rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

DUTIES AND ROLE OF THE BOARD AUDIT COMMITTEE

The BAC is responsible for:

- Reviewing financial information of the Bank in order to monitor the integrity of the Financial Statements, its Annual Report, accounts and quarterly reports prepared for disclosure.
- Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices.
- Assessing the reasonableness of the underlying assumptions for estimates and judgements made in preparing the Financial Statements.
- Reviewing of the accounting and financial reporting, risk management processes and regulatory compliance.
- Reviewing of the Financial Statements (including interim financial statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies.
- Reviewing of the internal audit reports and liaising with Corporate Management in taking precautionary measures to minimise control weaknesses, procedure violations and frauds.
- Assessing the independence and reviewing the adequacy of the scope, functions and resources of the Internal Audit Department, including the appointment of the Chief Internal Auditor (CIA) and the performance of the CIA and senior staff members of the Internal Audit Department.
- Overseeing the appointment, re-appointment, compensation, resignation, dismissal of the External Auditor, including review of the external audit, its scope, cost and effectiveness and monitoring of the External Auditor's independence.
- Reviewing of the adequacy and effectiveness of the Bank's systems of internal control over financial reporting to provide reasonable assurance regarding the reliability of

financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the applicable accounting standards and the regulatory requirements.

- Reviewing of the Terms of Reference (TOR) of the Committee periodically and ensuring that it reflects the best practices of the industry at all times.
- Ensure that the Bank adopts and adheres to high standards of Corporate Governance Practices.
- Engaging independent advisors on specialised functions where it is deemed necessary.

MEETINGS

For the purpose of discharging its duties, the BAC met twenty four (24) times during the year. Attendance of the Committee members of each of these meetings is given in the table in page 145 of the Annual Report. The minutes of the meetings have been regularly reported to the Board of Directors. Chief Internal Auditor and Chief Financial Officer have normally attended meetings on invitation and Chief Executive Officer and the relevant Senior Management/ Officers in other grades are also participated in the meetings on invitation. On the invitation of the Committee, the Engagement Partner and or the Senior Officers of the Bank's External Auditors, Messrs Ernst & Young attended for three (03) Committee meetings during the year. In seven (07) Out of twenty four (24) meetings, it has been discussed and recommended the Quarterly and Annual Financial Statements for the Board approval.

The Committee met Chief Internal Auditor without the presence of Management in an occasion to assess the independence and other confidential matters. The BAC met the External Auditors in three (03) occasions during the year and in which two (02) occasions were without the presence of the CEO and the Management to ensure that there were no limitations of scope in relation to the External Audit and to allow for full disclosure of any incident which could have had a negative impact on the effectiveness on the external audits.

Report of the Board Audit Committee

FINANCIAL REPORTING

The Committee, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors with regard to the interim and the Annual Financial Statements prior to their release for publication. The review included the quality and acceptability of accounting policies and practices, the clarity of the disclosures and the extent of compliance with Sri Lanka Accounting Standards (SLFRS and LKAS), the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto and other relevant financial and governance reporting requirements. The Committee continuously reviewed the extent to which the Bank complies with the CBSL Directives No. 13 of 2021 and No. 14 of 2021 on Classification, Recognition and Measurement of Credit Facilities & Other Financial Assets in Licensed Banks, that came into effect from 1st January 2022 and the implementation of Sri Lanka Accounting Standards – SLFRS 9 “Financial Instruments” issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1st January 2018. To facilitate their review, the BAC considered reports from the Chief Financial Officer and also reports from the External Auditors on the outcome of their review of the annual audit.

The Committee also assessed the prevailing macro-economic challenges and their collective impact on SDB Bank's financial reporting process. Accordingly, the Committee reviewed the key assumptions used for the 'expected credit loss' impairment computations as at the end of each quarter, prior to the publication of the Quarterly Financial Statements. Further the Committee considered the management overlay against the Bank's lending portfolio and the adequacy of disclosures made by the management.

As part of the BAC's responsibilities, notably its review of financial results, reports from Internal and External audits, the Bank's Accounting Policies, as well as the Annual Financial Statements; the BAC took cognisance of the Key Audit Matters as reported in the Independent Auditors' Report.

In addition, the Committee reviewed Management's judgements on significant Accounting and External reporting requirements and obtained External auditor's agreement with the treatment thereof.

INTERNAL CONTROL OVER FINANCIAL REPORTING (ICOFR)

The Bank is required to comply with Section 3 (8)(ii)(b) of the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka and assessed the adequacy and effectiveness of internal control over financial reporting as of 31st December 2023.

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

The Bank's assessment was concentrated on processes documented by the respective process owners with the guidance of the Bank's Internal Audit and External Auditors. Based on Internal Auditors' and External Auditors' assessments, the Board has concluded that, as of 31st December 2023, the Bank's internal control over financial reporting is effective. Directors' Report on the Bank's Internal Control over Financial Reporting is provided on pages 149 and 150 in the Annual Report. The Bank's External Auditors have reviewed the effectiveness of the Bank's internal control over financial reporting and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. External Auditor's Report on the Bank's Internal Control over Financial Reporting is provided on page 151 of the Annual Report.

ANNUAL CORPORATE GOVERNANCE REPORT

As required by Section 3 (8)(ii)(g) of the Banking Act Direction No. 12 of 2007, on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka, the Annual Corporate Governance Report for 2023 is provided on pages 86 to 125 in the Annual Report. The External Auditors of the Bank have performed procedures set-out in Sri Lanka Related Services Practice Statement (SLRSPS) 4750 issued by The Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Corporate Governance directive. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported by the Board on page 149.

EXTERNAL AUDIT

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

- Conducting the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process. To ensure that the Auditors had the independence to discuss and express their opinions on any matter, they were granted a further opportunity to meet the Audit Committee separately, without the presence of Management.
- Further BAC reviewed the Independent Confirmation issued by the External Auditor as required by the Companies Act No. 07 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of the Institute of Chartered Accountants of Sri Lanka.
- The Committee discussed with the External Auditors on their audit plan, scope and the methodology they propose to adopt in conducting the annual audit, prior to commencement of the audit for financial year 2023. There was no limitation of scope and the Management has fully provided all information and explanations requested by the Auditors.

REPORT OF THE BOARD AUDIT COMMITTEE

- The Committee ensured that the engagement of the Audit Partner does not exceed five years and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
- Reviewed the Audited Financial Statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.
- Reviewed the Key Audit Matters (KAM) Report and Management Letters issued by the External Auditor together with Management responses thereto.
- Reviewed the non-audit services provided by the External Auditor and was of the view that such services were not within the category of services identified as prohibited under
 - a) The guidelines issued by the Central Bank of Sri Lanka, for External Auditors, relating to their statutory duties in terms of Section 39 of the Banking Act No. 30 of 1988 and amendments thereto.
 - b) The Guideline for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

The BAC has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed for the financial year ending 31st December 2024 subject to the approval of shareholders at the Annual General Meeting.

INTERNAL AUDIT

The BAC monitored and reviewed the scope, extent and effectiveness of the activities of the Bank's Internal Audit Department.

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

During the year, BAC reviewed the Internal Audit Plan and monitored the progress of same on regular basis. The Committee reviewed all major findings revealed through audit investigations and potential fraud monitoring activities carried out during the year.

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

Along with the significant findings, the Internal Audit Department has engaged in sharing and providing knowledge through audit exit meetings to the Bank's staff for better control awareness and identifying early warning signals. In keeping with BAC recommendations, the internal audit has also provided inputs to the Corporate Management for effective control and prevention of frauds. Further the Internal Audit Department conducted awareness sessions on the Whistleblowing Policy of the bank during 2023. The Committee reviewed the performance appraisal of the Chief Internal Auditor and other Senior Staff members of the Internal Audit Department.

INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL

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

WHISTLEBLOWING

SANASA Development Bank's Whistleblowing Policy is intended to serve as a channel of fraud risk management. The policy allows any member who has a legitimate concern on an existing or potential "wrong doing", by any person within the Bank, to come forward voluntarily, and bring such concerns to

the notice of an independent / designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, even anonymous complaints are looked at. A process has been established to track such whistleblowing and take necessary actions. This procedure is being monitored by the BAC.

REPORTING TO THE BOARD

The Minutes of the BAC meetings were tabled at Board meetings thereby providing Board members with access to the deliberations of the Committee.

PROFESSIONAL ADVICE

The BAC has the authority to seek external professional advice from time to time on matters within its purview.

BOARD AUDIT COMMITTEE EVALUATION

The annual evaluation of the BAC was conducted by the Board of Directors during the year and concluded that its performance was effective. Also a self-assessment review of the BAC was done by the BAC directors annually following the good governance practices of the industry.

On behalf of the Board Audit Committee (BAC),



Chaaminda Kumarasiri
Chairman
Board Audit Committee (BAC)

30th April 2024
Colombo, Sri Lanka

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

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

COMPOSITION OF THE BHRRC

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

- Mr. Thusantha Wijemanna - Chairman (BHRRC), Independent, Non-Executive Director
- Mr. Chaaminda Kumarasiri - Independent, Non-Executive Director
- Mr. Prasanna Premaratna - Independent, Non-Executive Director
- Mr. Naveendra Sooriyarachchi - Non-Independent, Non-Executive Director
- Mr. Chandana Dissanayake - Non-Independent, Non-Executive Director

Prof. S. Amaratunge, Independent, Non-Executive Director served as a member of the BHRRC and resigned on 25.08.2023. We take this opportunity to place on record the Committee's appreciation for the valuable services rendered by Prof. S. Amaratunge as a member of the Committee.

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

COMMITTEE MEETINGS OF BHRRC

The Committee held ten (10) Board Human Resources and Remuneration Committee meetings during the year under review to endorse proposals related to a wide array of aspects relating to the Human Resources function of the Bank. The Committee has been able to continuously direct the HRM functions of the Bank to align with its strategic direction while complying with the regulatory and statutory framework of the Bank.

SCOPE AND RESPONSIBILITIES

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

- Guide the implementation of Human Resource Management and Human Resource Development functions of the Bank.
- Provide guidance to ensure that HR policies and strategies are aligned with the strategic direction of the Bank.
- Provide the necessary direction for fostering a performance culture within the Bank.
- Ensure conformity of the Bank's HR policies and practices with labour laws, Central Bank Regulations and other applicable standards.

KEY HR INITIATIVES DURING THE YEAR

The Committee comprehensively reviewed the performance of the Key Management Personnel (KMP) of the Bank for the year 2022 against the set goals and targets. BHRRC also set goals and targets for KMPs for 2023 in line with the strategic vision and direction of the Bank in 2023.

The Committee acknowledges that in addition to effective strategic planning and talent management, cultivating a work environment that supports and sustains a culture of superior performance that drives success both currently and in the future is essential and thus approved a performance-linked bonus plan for all staff according to the overall achievement of Bank level profit target. The committee also provided its approval to the Annual Training Plan.

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

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

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



Thusantha Wijemanna
Chairman
Board Human Resources and Remuneration Committee

30th April 2024
Colombo, Sri Lanka

REPORT OF THE BOARD SELECTION AND NOMINATION COMMITTEE

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

COMPOSITION OF THE BS & NC

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

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

Ms. Dinithi Ratnayake Independent, Non-Executive Director served as the Chairperson of BS & NC till 29.02.2024. Mr. Chaaminda Kumarasiri Independent, Non-Executive Director was appointed as the Chairman of BS & NC and Mr. Chandana Dissanayake Non-Independent, Non-Executive Director was appointed as a member of the BS & NC on 29.02.2024.

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

PRIMARY OBJECTIVES OF THE BS & NC

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

RESPONSIBILITIES OF THE BS & NC

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

- To ensure the implementation of the Board approved policy and procedure in the selection and nominations of new Directors and Key Management Personnel of the Bank and to make recommendations regarding such appointments.
- To recommend the re-appointment/ re-election of current Directors considering the performance and contribution made by such Directors towards the overall discharge of responsibilities of the Board.
- To review and determine the criteria such as qualifications, experience, and key attributes, required for the eligibility for appointment of CEO and appointment/promotion for other Key Management Positions.
- To ensure that the Directors, CEO, and other Key Management Personnel are fit and proper persons to hold such positions as required by the Banking Act and applicable statutes.
- To consider from time to time the requirement of additional/ new skills and expertise at the Board level and make a suitable recommendation to the Board, to mobilise such skills and expertise.
- To put in place a proper succession plan for retiring Directors and Key Management Personnel with a view to ensuring the uninterrupted and smooth functioning of all aspects of the Bank's operations and decision-making process in the long run and business continuing in unforeseen situations.

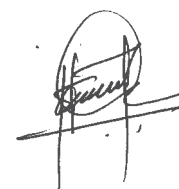
The Terms of Reference of the Board Selection and Nomination Committee was adopted by the Board in 2012 and it was further reviewed and refined in 2023.

MEETINGS OF THE BS & NC AND ITS EFFECTIVENESS

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

- Board composition – Identified the skills required and recommended the appointment of one new Director with expertise in Finance, Banking and Management aspects.
- Filling the skills gaps in the Key Management Team – The Board Selection and Nomination Committee continuously reviewed the required skills and experience at the Top Management level and made recommendations to the Board with regard to the appointment of Key Management Personnel.
- Recruitments/ Service confirmation – During the period under review, BS&NC made recommendations to the Board to recruit, CIO, HHR, Chief Credit Officer, CISO, Head of Branch Banking and Chief Compliance Officer and also service confirmations of DGM – Finance and Planning / CFO and CIO.
- Succession Plan – BS & NC proposed the Management to identify on Critical Role and Succession Plan. During the year under review, BS & NC examined and made recommendations to the Board on Critical Role & Succession Plan.
- Job grading – BS & NC made a recommendation to the Board, for Chief Internal Auditor to be promoted to DGM grade.

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



Chaaminda Kumarasiri

Chairman
Board Selection and Nomination
Committee

30th April 2024
Colombo, Sri Lanka

REPORT OF THE BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

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

COMPOSITION OF THE BRPTRC

The Committee consisted of four (04) Independent, Non- Executive Directors as appended below:

- Prof. Sampath Amaratunge - Chairman (BRPTRC), Independent, Non-Executive Director (Appointed as the Chairman BRPTRC w.e.f.25.08.2023)
- Mr. Chaaminda Kumarasiri - Independent, Non-Executive Director
- Mr. Prasanna Premaratna - Independent, Non-Executive Director
- Mr. Thushantha Wijemanna - Independent, Non-Executive Director

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

TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference (TOR) of the BRPTRC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the TOR in March 2023. The Committee carries out the following duties and responsibilities:

- All transactions with Related Parties of the Bank in order to ensure that Related Parties are treated in par with other shareholders of the Bank;
- Implementing regulations relating to Related Parties issued by the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka;

- Ensure that the interests of Shareholders as a whole are taken into account by the Bank when entering into related party transactions; and
- Ensure that there is a safeguard to prevent of taking advantage of their positions by Directors, Key Management Personnel or Substantial Shareholders.

COMMITTEE MEETINGS OF BRPTRC

The Committee met four (04) times on a quarterly basis during the year under review and the attendance of Committee members at meetings is stated in the table on page 145 of the Annual Report. Attendance of Committee meetings is compulsory for the Chief Executive Officer, Chief Compliance Officer, and Chief Risk Officer except when matters related to those positions are discussed.

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

OBJECTIVE OF THE COMMITTEE

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

SUMMARY OF ACTIVITIES

The committee reviewed the transactions relating to loan proposals of Rs. 400,000,000/- to E.B Creasy & Company PLC and Jt. Borrower Candy Delights Ltd, Loan proposal of Rs. 400,000,000/- to Darley Butler and Company Ltd, Loan proposal of Rs. 500,000,000/- to Galoya Plantations (Pvt) Ltd and a few other related party transactions with SANASA Federation Ltd, SANASA Printers & Publishers Ltd. etc.

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

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

The Committee has reviewed the Related Party Transactions of the Bank during the period of 1 January 2023 to 31 December 2023 and has thus complied with the rules pertaining to Related Party Transactions as set out in Section 9 of the Listing Rules of the CSE.

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



Prof Sampath Amaratunge
Chairman
Board Related Party Transactions Review Committee

30th April 2024
Colombo, Sri Lanka

REPORT OF THE BOARD STRATEGIC PLANNING COMMITTEE

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

COMPOSITION OF THE BSPC

BSPC comprises five (05) Non-Executive Directors, appointed by the Board of Directors. The following Directors served on BSPC.

- Ms. Dinithi Ratnayake – Chairperson (BSPC), Independent, Non- Executive Director
- Mr. Chaminda Kumarasiri – Independent, Non-Executive Director
- Mr. Conrad Dias – Non-Independent, Non-Executive Director
- Mr. B R A Bandara – Non-independent, Non- Executive Director (Appointed to the BSPC w.e.f.25.08.2023)
- Dr. Mahesha Ranasoma – Non-independent, Non-Executive Director (Appointed to the BSPC w.e.f.25.08.2023)

Independent, Non-Executive Director Mr. Prasanna Premaratna, served as a member of BSPC until 25.08.2023. We take this opportunity to place on record the Committee's appreciation for the valuable services rendered by Mr. Prasanna Premaratna as a member of the Committee.

The DGM – finance and planning / CFO of the Bank serves as secretary to the Committee.

MEETINGS OF BSPC

The Committee met four (04) times during the year. The committee reviewed and finalised the SDB bank Strategies 2023 – 2025 and monitored its implementation including the communication plan and roll out. In addition, the committee also evaluated and recommended for approval such initiatives strategic in nature to the progress of the Bank during 2023 including strategic engagements and alliances.

During the period under review BSPC, due to the evolving operating environment on the back of the unprecedented economic crisis, decided to prepare a high-level 3-year Strategy framework for the period 2023-2025. The Strategy framework was based on on the economic outlook for the country post crisis and identified growth opportunities to maximise the strengths of the Bank

The outline of the framework;

- Each of the Strategic Segments/ Horizons is based on core, growth and explore perspectives.
- Reaffirm the Bank's identity & positioning – to focus on Banking the progressive masses
- Co-operative Strategy
- Retail / SME Strategy
- ESG Strategy
- Data & Digital Strategy
- Communication Strategies were drawn

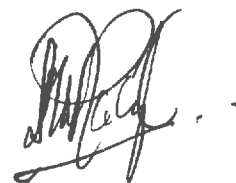
The finalisation of the Strategy for 2023-2025 encompassing the implementation, cascading of the goals, and KPI setting is an ongoing exercise.

THE SCOPE OF TOR

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

- Guide the Corporate Management and the Board on potential business expansion opportunities, especially in new markets and new technological platforms.

For and on behalf of the Board Strategic Planning Committee.



Dinithi Ratnayake
Chairperson
Board Strategic Planning Committee

30th April 2024
Colombo, Sri Lanka

REPORT OF THE BOARD CREDIT COMMITTEE

The main income generation activity of the Bank is its lending operation. It has employed the capital funds of its shareholders as well as deposits mobilised from its depositors to engage in this exercise.

Therefore, it has cast a considerable responsibility on the Board of Directors of the Bank to employ these funds with the highest degree of prudence to ensure the safety of the funds and maximum profitability to the Bank.

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

COMPOSITION OF THE BCC

The membership of the Board Credit Committee comprised of five (05) Non-Executive Directors who meet at least 10 times annually to deliberate on issues under its purview:

The following Directors served on the BCC:

- Ms. Dinithi Ratnayake - Chairperson (BCC), Independent, Non-Executive Director
- Mr. Thusantha Wijemanna - Independent, Non-Executive Director
- Mr. Naveendra Sooriyarachchi - Non-Independent, Non-Executive Director
- Mr. Romani De Silva - Non - Independent, Non -Executive Director
- Mr. Sarath Nandasiri - Non - Independent, Non-Executive Director (appointed to the BCC w.e.f. 25.08.2023)

Mr Prasanna Premaratna, Independent, Non-Executive Director served as the Chairman of BCC till 25.08.2023. Mr. B R A Bandara Non-Independent, Non- Executive Director served as a member of the BCC and resigned on 25.08.2023. Ms. Dinithi Ratnayake Independent, Non-Executive Director served as the Chairperson of BCC till 29.02.2024. Mr. Naveendra Sooriyarachchi Non-Independent, Non-Executive Director was appointed as the Chairman of BCC w.e.f 29.02.2024. We

take this opportunity to place on record the committee's appreciation for the valuable services rendered by Mr. Prasanna Premaratna and Mr. B R A Bandara as members of the committee.

The Company Secretary is functioning as the Secretary of the Committee. Chief Executive Officer, Deputy Chief Executive Officer, Chief Credit Officer, Chief Risk Officer, Head of Credit, Head of Collection and Recoveries, and Head of Legal shall attend the Meetings and Segment Heads, Deputy Head of Credit and Divisional Head of Central Credit Department shall attend the Meetings by invitation to assist them and to provide expert knowledge on different areas of issues.

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

- Formulate the Credit Policy and Recovery Policy of the Bank and review and recommend timely changes for the approval of the Board of Directors
- Monitor the credit growth/ performance of the Bank vis-à-vis the annual budget forecasts and the previous year performance
- Analytically appraise credit proposals and recommend to the Board of Directors for approval
- Evaluate the market potential due to the prevailing economic crisis in the country together with inherent risks attached and provide appropriate guidelines
- Monitor the interest rate behaviour of the market and the internal and external factors affecting such fluctuations
- Monitor the portfolio mix to ensure sectoral exposure, collateral diversification, term diversification, and lending to priority sectors
- Provide relevant directions to ensure adherence to statutory and regulatory compliance requirements
- Ascertain the quality of the credit portfolio by monitoring credit collections and delinquent loan recoveries
- Evaluate and afford interest concessions where appropriate, for full and final settlements of hard-core

loans and write-offs of loan capitals whenever it deems necessary and recommend to the Board of Directors

- Apart from the aforementioned, the Board Credit Committee has the prerogative to call for any other information or special report relating to the Credit Operation of the Bank, if it deems it necessary for its scrutiny

COMMITTEE MEETINGS OF BCC

The Committee met Twelve (12) times, during the year under review to discuss the normal scope of work and the proceedings of the Committee meetings have been reported to the Board of Directors.

The Committee carried out the following activities:

- Reviewed and agreed on the revised Terms of Reference of the Committee and recommended for approval of the Board of Directors
- Reviewed and approved credit proposals comprising new facilities, annual review of revolving facilities, changes to terms and conditions of facilities already approved and interest rate concessions given to past due facilities
- Reviewed the progress of the Recovery Department on the implementation of action plans approved by the Board Credit Committee on handling of non-performing loan facilities
- Reviewed the Top 20 Watch List Customers and Top 20 NPL Customers List and advised the Management on recoveries
- Reviewed performance of pawning, Co-operative, SME & Business Banking Pipelines on a monthly basis
- Reviewed the Top 25 loan customer details and advised the Management
- Reviewed ALCO meeting minutes and giving special focus on the changes in the lending rates
- Reviewed the progress of Remedial Management and Revival Unit Activities
- Reviewed the supplier finance product manual and Distributor / Dealer finance product manual
- Reviewed the Re-finance progress on a monthly basis

REPORT OF THE BOARD CREDIT COMMITTEE

- Quarterly review the Auction properties but possession to be taken and advised the management on the steps to be taken.
- Strengthen the Screening process of accepting the guarantors especially for the personal loans.
- Revised existing supply chain projects and advised for the necessary improvement.
- Reviewed the progress of Turmeric Farmer Project - Uhana / Eastern Region.
- Reviewed the SME Lending strategy and Lending Strategy 2023.

For and on behalf of the Board Credit Committee,



Naveendra Sooriyarachchi
Chairman
Board Credit Committee

30th April 2024
Colombo, Sri Lanka





FINANCIAL STATEMENTS

FINANCIAL CALENDAR

Financial Calendar - 2023

Annual General Meeting

27th Annual General Meeting	To be held on 31 May 2024	
26th Annual General Meeting	Held on 19 May 2023	
Annual Financial Statements*		
Annual Financial Statements 2023	Signed on 19 April 2024	
Annual Financial Statements 2022	Signed on 12 April 2023	
Interim Financial Statements**	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
4th Quarter 2022	31 March 2023 (Audited)	31-Mar-23
1st Quarter 2023	15-May-23	30-May-23
2nd Quarter 2023	15-Aug-23	28-Aug-23
3rd Quarter 2023	15-Nov-23	28-Nov-23
4th Quarter 2023	28 March 2024 (Audited)	29-Mar-24

Proposed Financial Calendar - 2024

Annual General Meeting

28th Annual General Meeting	To be held on or before 31 May 2025	
Annual Financial Statements*		
Annual Financial Statements 2024	To be signed in February 2025	
Interim Financial Statements**	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
1st Quarter 2024	15-May-24	31-May-24
2nd Quarter 2024	15-Aug-24	31-Aug-24
3rd Quarter 2024	15-Nov-24	30-Nov-24
4th Quarter 2024	28-Feb-25	31-Mar-25

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

GENERAL

The Directors have pleasure in presenting to the shareholders the Annual Report of the SANASA Development Bank PLC together with the Audited Financial Statements for the year ended 31st December 2023 and the Auditors' Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder including the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

The Financial Statements of the Bank for the year ended 31st December 2023, including the comparatives for 2022 were approved and authorised for issue by the Board of Directors on 12th April 2023 in accordance with the Resolution of the Directors. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

SANASA Development Bank PLC ("The Bank") is a licensed specialised bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability company in Sri Lanka on 6 August 1997 under the Companies Act No. 17 of 1982. The Bank was reregistered as per the requirements of the Companies Act No. 07 of 2007 ("Companies Act") on 30 October 2007. The reregistration number of the Bank is PB 62 PQ. The Registered Office as well as the Head Office of the Bank is at No. 12, Edmonton Road, Kirulapone, Colombo 6, Sri Lanka.

The ordinary voting shares of the Bank are listed on the Main Board of the Colombo Stock Exchange since May 2012. The Bank has been assigned a National Long-Term Rating of BB+(lka) by Fitch Ratings Lanka Ltd.

VISION, MISSION, GOALS, VALUES AND CORPORATE CONDUCT

The Bank's Vision and Mission statements are exhibited on page 1 of the Annual Report.

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

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

PRINCIPAL BUSINESS ACTIVITIES

The principal activities of the Bank include accepting deposits at competitive rates of interest and the investment of these deposits in community-based lending programmes, with a special focus on Cooperative Societies, their members, and other micro-enterprises, and issuing local and international debit cards. The Bank's range of products includes Special Deposits, Credit, Pawning, Leasing, and Re-finance Loan Schemes.

At the end of 2023, the Bank has established 94 delivery points (2022 - 94) across all districts of the country.

REVIEW OF OPERATIONS

The "Chairperson's Review" on pages 32 to 35 the "Chief Executive Officer's Review" on pages 36 to 37, and the "How we create value" on Pages 22 to 23, together with the Audited Financial Statements provide an overall review of business performance and the state of affairs of the Bank together with important events that took place during the year as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices

FUTURE DEVELOPMENTS

The Bank intends to expand its network of delivery channels by employing a client-focused strategy with effective management of capital, liquidity, and risks. Please refer to sections on "Chairperson's Review", "Chief Executive Officer's Review" on pages 32 to 37, and "How we create value" on pages 22 to 23 for initiatives taken in this regard.

FINANCIAL STATEMENTS

The Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988. The Financial Statements of the Bank for the year ended 31st December 2023 duly signed by the Chief Financial Officer and Chief Executive Officer, two Directors of the Bank, and the Company Secretary are given on P&L is in Page No. 157, which form an integral part of the Annual Report of the Board of Directors.

DIRECTOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Bank, which reflect a true and fair view of the financial position and performance of the Bank. The Directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies, and Notes thereto appearing on pages 161 to 235 have been prepared in conformity with the requirements of the SLFRSs and LKASs as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The "Statement of Directors' Responsibility" appearing on pages 149 to 150 forms an integral part of this Report.

AUDITORS' REPORT

The External Auditors of the Bank are Messrs Ernst and Young, Chartered Accountants. Messrs Ernst & Young, Chartered Accountants carried out the Audit on the Financial Statements of the Bank for the year ended 31st December 2023 and their report on these Financial Statements, as required by the Section 168(1)(c) of the Companies Act is given on pages 154 to 156 of this Annual Report. The Auditors' remuneration details are stated in Note 15.2 to the Financial Statements on page 183. As per the knowledge of the Directors, the

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

Auditors are independent and do not have any relationships or any interest in contracts with the Bank.

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

SIGNIFICANT ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of the Financial Statements are given on pages 161 to 174 and comply with Section 168(1)(d) of the Companies Act No. 07 of 2007

GOING CONCERN

The Directors have made an assessment of the Bank's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

FINANCIAL RESULTS AND APPROPRIATIONS

GROSS INCOME

The gross income of the Bank for 2023 was Rs. 30.79 Bn (2022: Rs. 24.03 Bn). An analysis of the gross income is given in Note 06 to the Financial Statements on page 175.

PROFITS AND APPROPRIATIONS

The net profit before tax of the Bank amounted to Rs. 771.92 Mn in 2023 (2022: Rs. 96.96 Mn) and this has increased by 696.15% when compared to 2022. Further, the net profit after tax of the Bank amounted to Rs. 466.82 Mn in 2023 (2022: Rs. 61.17 Mn) and this was an increase of 663.20% when compared to 2022. A detailed breakup of profits and appropriations of the Bank is given below:

Description	2023 LKR	2022 LKR
Profit before Tax	771,926,150	96,957,129
Less: Taxation	(305,103,937)	(35,790,791)
Net profit after tax	466,822,213	61,166,337
Other Comprehensive Income (OCI)		
Actuarial Gain/(losses) on defined benefit plans	92,684,997	(39,667,970)
Deferred tax relating to defined benefit plans	(27,805,499)	11,644,579
Revaluation surplus on property plant & Equipment	74,939,000	259,036,868
Total comprehensive income for the year	606,640,711	292,179,814
Unappropriated profit brought forward from the previous year	1,748,524,509	2,481,101,312
Balance available before adjustment	2,355,165,220	2,773,281,125
Appropriations		
Transfer to the statutory reserve fund	(23,341,111)	(3,058,317)
Dividend		
Final cash dividend		(241,048,248)
Other transaction		(521,613,182)
Unappropriated balance carried forward as of 31 December	2,331,824,110	2,007,561,378

TAXATION

The Bank applied the revised rate of 30% and other amendments in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the income tax and deferred tax assets/liabilities as of 31st December 2023.

Bank applied the revised rate of 30% to compute the deferred tax as of 31st December 2023.

STATUTORY PAYMENTS

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

RESERVES

A summary of the Bank's reserves position is given below

As at 31 December	2023 LKR	2022 LKR
Statutory reserve fund	340,572,452	317,231,342
Other reserves	361,581,217	286,642,217
Retained profits	2,275,937,733	1,767,576,134

Information on the movement of reserves is given in the Statement of Changes in Equity on page 159 and in Notes 36 to 38 to the Financial Statements on pages 208 and 209.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

CAPITAL EXPENDITURE

The total capital expenditure on the acquisition of property plant and equipment of the Bank amounted to Rs. 92,141,023 (2023) Rs. 137,227,904 (2022). Details are given in Note 25 to the Financial Statements.

CAPITAL COMMITMENTS

The contracted and approved capital expenditure as at the date of the reporting is given in Note 39 to the Financial Statements

PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LEASEHOLD PROPERTY

Information on property, plant and equipment and leasehold property of the Bank are given in Note 25 to the Financial Statements on pages 195 to 197. Particulars of intangible assets are given in Note 28 to the Financial Statements on pages 199 to 200.

Investment properties of the Bank are disclosed in accordance with Sri Lanka

Accounting Standard – 40 – “Investment Property”. Specific information on extent, location of the land and buildings held by the Bank are given under Note 27 to the Financial Statements on page 198.

STATED CAPITAL

The stated capital of the Bank as at 31st December 2023 amounted to Rs. 11,287,765,221 consisting of 160,698,832 ordinary voting shares.

DISTRIBUTION SCHEDULE OF SHAREHOLDINGS

	As at 31 December 2023		As at 31 December 2022	
	Number of Shareholders	Number of Shares	Number of Shareholders	Number of Shares
Individual	35,134	29,569,154	35,344	27,853,380
Institution				
Foreign	5	36,617,211	6	36,750,921
Local and other institutions	60	72,815,390	64	74,386,564
SANASA Federation				
Acc 1	1	780,970	1	780,970
Acc 2		30,846		30,846
SANASA Societies	3400	10,040,102	3401	10,182,488
SANASA Unions	35	3,453,115	35	3,321,619
MPCCS	24	1,242,737	24	1,242,737
Trust Companies	105	6,149,307	105	6,149,307
Total	38,764	160,698,832	38,980	160,698,832

	31 December 2023				31 December 2022			
	Number of Shareholders	%	Number of Shares	%	Number of Shareholders	%	Number of Shares	%
1 - 1, 000	36,427	93.97	4,851,314	3.02	36,545	93.75	4,887,545	3.04
1,001 - 10,000	1,765	4.55	5,594,235	3.48	1,857	4.76	5,832,092	3.63
10,001 - 100,000	492	1.27	15,733,918	9.79	500	1.29	15,730,744	9.79
100,001 - 1,000,000	64	0.17	15,299,757	9.52	62	0.16	16,522,108	10.28
1,000,001 - and above	16	0.04	119,219,608	74.19	16	0.04	117,726,343	73.26
	38,764	100	160,698,832	100	38,980	100	160,698,832	100

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

SUBSTANTIAL SHAREHOLDING

Names of the 20 (Twenty) largest shareholders, with their respective shareholdings and percentage holdings as at 31st December 2023 with their comparative shareholding as at 31 December 2022 are as follow;

No.	Name of the Shareholder	31 December 2023 (Amalgamated)		31 December 2022 (Amalgamated)	
		No of Shares	%	No of Shares	%
1	LOLC INVESTMENT HOLDINGS ONE (PRIVATE) LIMITED*	24,104,800	15.0000	24,104,800	15.0000
2	SENTHILVERL HOLDINGS (PVT) LTD	19,306,601	12.0142	16,458,256	10.2417
3	NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V.	17,609,503	10.9581	17,609,503	10.9581
4	BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES SA/NV	16,069,800	9.9999	16,069,800	9.9999
5	AYENKA HOLDINGS PRIVATE LIMITED	14,460,956	8.9988	17,604,953	10.9552
6	DR. T. SENTHILVERL	4,798,223	2.9859	3,484,112	2.1681
7	SANASA LIFE INSURANCE COMPANY PLC	4,715,996	2.9347	4,715,996	2.9347
8	ALLIANCE FINANCE COMPANY PLC	3,516,310	2.1881	3,516,310	2.1881
9	PEOPLES LEASING & FINANCE PLC/L.P.HAPANGAMA	3,102,528	1.9306	2,627,722	1.6352
10	SBI EMERGING ASIA FINANCIAL SECTOR FUND PTE. LTD	2,885,618	1.7957	2,885,618	1.7957
11	PEOPLES LEASING & FINANCE PLC	2,271,260	1.4134	2,271,260	1.4134
12	BANK OF CEYLON A/C CEYBANK UNIT TRUST	1,539,241	0.9578	1,539,241	0.9578
13	HATTON NATIONAL BANK PLC/SARRAVANAN NEELAKANDAN	1,440,010	0.8961	1,440,010	0.8961
14	KEGALLE SANASA SHARE HOLDERS TRUST COMPANY LIMITED	1,260,246	0.7842	1,260,246	0.7842
15	SANASA GENERAL INSURANCE COMPANY LTD	1,124,418	0.6997	1,124,418	0.6997
16	POLGAHAWELA SANASA SOCIETIES UNION LTD	1,014,098	0.6311	1,014,098	0.6311
17	NIKAWARATIYA THRIFT AND CREDIT CO-OPERATIVE SOCIETY UNION LIMITED	992,849	0.6178	992,849	0.6178
18	BINGIRIYA MULTI PURPOSE COOPERATIVE SOCIETY LTD	970,900	0.6042	970,900	0.6042
19	SANASA FEDERATION LIMITED	811,816	0.5052	811,816	0.5052
20	DFCC BANK PLC/N.G.N.MADURANGA	648,412	0.4035	577,206	0.3592

*ICONIC PROPERTY TWENTY-THREE (PRIVATE) LIMITED" now known as "LOLC INVESTMENT HOLDINGS ONE (PRIVATE) LIMITED".

**ANNUAL REPORT OF THE BOARD OF
DIRECTORS ON THE AFFAIRS OF THE
BANK****EQUITABLE TREATMENT TO SHAREHOLDERS**

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

INFORMATION ON THE DIRECTORS OF THE BANK

The Board of Directors of the Bank consists of twelve (as at 31/12/2023) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31st December 2023 are given below as per Section 168 (1)(h) of the Companies Act. Their brief profiles appear on pages 40 to 43 of the Annual Report.

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

No	Name of Director	Executive / Non - Executive Status	Independent / Non - Independent Status
1.	Ms. Dinithi Ratnayake (Chairperson)	Non-Executive	Independent*
2.	Prof.S.Amaratunge	Non-Executive	Independent
3.	Mr.Chaaminda Kumarasiri	Non-Executive	Independent
4.	Mr.Prasanna Premaratna	Non-Executive	Independent
5.	Mr.B.R.A.Bandara	Non-Executive	Non - Independent
6.	Mr.Thusantha Wijemanna	Non-Executive	Independent
7.	Mr.S.H.Sarath Nandasiri	Non-Executive	Non - Independent
8.	Mr.Conrad Dias	Non-Executive	Non - Independent
9.	Mr.Naveendra Sooriarachchi	Non-Executive	Non - Independent
10.	Mr.Romani De Silva	Non-Executive	Non - Independent
11.	Mr.Chandana Dissanayake	Non-Executive	Non - Independent
12.	Dr.Mahesha Ranasoma	Non-Executive	Non - Independent
<i>*for further information refer to Corporate Governance Report</i>			
New Appointments made during 2023			
	Dr. Mahesha Ranasoma (Appointed to the Board w.e.f 28.04.2023)	Non-Executive	Non - Independent
Resignations/ Retirement during 2023			
	Mr. Senthil Aathavan (Resigned from the Board w.e.f. 24.04.2023)	Non-Executive	Non - Independent

Further, at the 26th AGM held on 19 May 2023, Director Mr. Romani de Silva who represents Alliance Finance Company PLC and Director Mr. Sarath Nandasiri who represents SANASA Federation and Director Dr. Mahesha Ranasoma, who represents Ayenka Holdings Private Limited (to fill a casual vacancy) were re-elected as Non-Executive, Non- Independent Directors of the Bank.

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

In terms of Article 6(4)(i) the following Directors shall retire by rotation at the 27th AGM and the Board recommended their re-election.

- Mr. B.R.A.Bandara
- Mr. Conrad Dias

BOARD SUBCOMMITTEES

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

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

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

The composition of both mandatory and voluntary Board Subcommittees, as at 31st December 2023 and the details of the attendance by Directors at meetings are tabulated on page 145 while the reports of these composition of the board sub committees in the page 144 in this Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

BOARD SUBCOMMITTEES

Committee	Mandate	Composition as at 31.12.2023
Board Integrated Risk Management Committee	Monthly	Mr Prasanna Premaratna (Chairman – BIRMC) Prof Sampath Amaratunge (Director) Mr Chaaminda Kumarasiri (Director) Mr Conrad Dias (Director) Mr Chandana Dissanayake (Director)
Board Audit Committee	Monthly	Mr Chaaminda Kumarasiri (Chairman – BAC) Prof Sampath Amaratunge (Director) Mr Naveendra Sooriyarachchi (Director) Mr Prasanna Premaratna (Director)
Board Human Resources and Remuneration Committee	At least 6 times annually	Mr Thusantha Wijemanna (Chairman – BHRRC) Mr Chaaminda Kumarasiri (Director) Mr Prasanna Premaratna (Director) Mr Naveendra Sooriyarachchi (Director) Mr Chandana Dissanayake (Director)
Board Selection and Nomination Committee	If and when it is required	Ms Dinithi Ratnayake (Chairperson – BS & NC) Prof Sampath Amaratunge (Director) Mr Chaaminda Kumarasiri (Director) Mr Thusantha Wijemanna (Director)
Board Related Party Transactions Review Committee	Quarterly	Prof Sampath Amaratunge (Chairman – BRPTRC) Mr Chaaminda Kumarasiri (Director) Mr Prasanna Premaratna (Director) Mr Thusantha Wijemanna (Director)
Board Credit Committee	At least 10 times annually	Ms Dinithi Ratnayake (Chairperson – BCC) Mr Thusantha Wijemanna (Director) Mr Naveendra Sooriyarachchi (Director) Mr Romani De Silva (Director) Mr Sarath Nandasiri (Director)
Board Strategic Planning Committee	Quarterly	Ms Dinithi Ratnayake (Chairperson – BSPC) Mr Chaaminda Kumarasiri (Director) Mr Conrad Dias (Director) Mr B R A Bandara (Director) Dr Mahesha Ranasoma (Director)
Board Co-operative, Rural Enterprise and Livelihood Development Committee	Quarterly	Mr B R A Bandara (Chairman- BCRELDC) Prof Sampath Amaratunge (Director) Mr Prasanna Premaratna (Director) Mr Sarath Nandasiri (Director) Mr Romani De Silva (Director)
Board IT Steering Committee	Quarterly	Mr Conrad Dias (Chairman – BITSC) Ms Dinithi Ratnayake (Chairperson) Mr Chaaminda Kumarasiri (Director)
Board Sub-Committee on Sustainability	Quarterly	Mr Romani De Silva (Chairman – BSCS) Ms Dinithi Ratnayake (Chairperson) Mr Chaaminda Kumarasiri (Director) Mr Chandana Dissanayake (Director) Dr Mahesha Ranasoma (Director)
Board Procurement & Assets Disposal Committee	If and when it is required	Mr Thusantha Wijemanna (Chairman – BP & ADC) Mr Prasanna Premaratna (Director) Mr Naveendra Sooriyarachchi (Director) Mr Chandana Dissanayake (Director)

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

MEETINGS

Details of the Meetings of the Board of Directors which comprises with Board Meetings, Board Audit Committee Meetings, Board Selection and Nomination Committee Meetings, Board Human Resources and Remuneration Committee Meetings, Board Credit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board Strategic Planning Committee Meetings, Board Related Party Transactions Review Committee Meetings, Board Co-operative Rural Enterprise and Livelihood Development Committee Meetings, Board Subcommittee on Sustainability Meetings, Board IT Steering Committee Meetings and Board Procurement and Assets Disposal Committee Meetings and the attendance of Directors at these meetings are given below

No	Name of Director	Board Meeting	Board Credit Committee (BCC)	Board Audit Committee (BAC)	Board Human Resources and Remuneration Committee (BHRC)	Board Selection and Nomination Committee (BS&NC)	Board Strategic Planning Committee (BSPC)	Board Co-operative Rural Enterprise and Livelihood Development Committee (BCRELDLC)	Board Subcommittee on Sustainability (BSCS)	Board IT Steering Committee (BITSC)	Board Procurement and Assets Disposal Committee (BP & ADC)	Total
1	Ms D Ratnayake	13/13	04/12			11/11	04/04		01/03	04/04		37/47
2	Prof S Amaratunge	12/13		24/24	08/10	10/11		05/06				59/64
3	Mr C Kumarasiri	13/13		24/24	10/10	11/11	04/04		03/03	04/04		69/69
4	Mr P Premaratna	13/13	07/12	07/24	07/10		02/04	05/06	00/03		02/02	43/74
5	Mr B R A Bandara	13/13	08/12				02/04	06/06				29/35
6	Mr T Wijemanna	12/13	11/12		10/10	11/11					02/02	46/48
7	Mr S Nandasiri	12/13	04/12					06/06				22/31
8	Mr C Dias	13/13					02/04			04/04		19/21
9	Mr N Sooriyarachchi	13/13	12/12	23/24	10/10						02/02	60/61
10	Mr R De Silva	11/13	11/12					06/06	03/03			31/34
11	Mr S S Aathavan	2/13								00/04		2/17
12	Mr C Dissanayake	13/13			10/10				03/03		02/02	28/28
13	Dr M Ranasoma	08/13					01/04		01/03			10/20

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE MEETING

S/N	Name of the member	Dates of meetings												Total
		23.01.2023	21.02.2023	21.03.2023	26.04.2023	16.05.2023	26.06.2023	27.06.2023	18.07.2023	19.09.2023	19.09.2023 Performance Evaluation	23.11.2023	12.12.2023	
1	Prof S Amaratunge* (Chairman - BIRMC)	P	P	P	P	P	P	P	P	P	P	P	p	12/12
2	Mr P Premaratna** (Chairman - BIRMC)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	P	P	P	p	4/12
3	Ms D Ratnayake	P	P	P	P	P	P	P	P	N/A	N/A	N/A	N/A	8/12
4	Mr C Kumarasiri	P	P	P	P	P	P	P	P	P	P	P	p	12/12
5	Mr C Dias	P	P	P	Ex	Ex	P	P	P	P	P	P	Ex	9/12
6	Mr C Dissanayake	P	P	P	P	P	P	P	P	P	P	P	p	12/12

*Prof S Amaratunge served as the Chairman of the BIRMC till 25.08.2023

**Mr P Premaratna appointed as the Chairman of the BIRMC w.e.f. 25.08.2023

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE MEETING

S / N	Name of the member	Dates of meetings			
		14.03.2023	14.06.2023	12.09.2023	05.12.2023
1	Mr C Kumarasiri* (Chairman - BRPTRC)	P	P	P	P
2	Prof S Amaratunge** (Chairman - BRPTRC)	P	Ex	P	P
3	Mr P Premaratna	P	P	P	P
4	Mr T Wijemanna	P	P	P	P
					Total

*Mr. C. Kumarasiri served as the chairman of the BRPTRC till 25.08.2023

**Prof. S. Amaratunge appointed as the Chairman of the BRPTRC w.e.f. 25.08.2023

Ms. D Ratnayake

Resigned from the Chairmanship of BSCS w.e.f. 25.08.2023

Appointed as the Chairperson of BCC w.e.f. 25.08.2023

Resigned from the BIRMC w.e.f. 25.08.2023

Resigned from the Chairmanship of BS & NC and BCC w.e.f. 29.02.2024

Mr. R. De Silva

Appointed as the Chairman of BSCS w.e.f. 25.08.2023

Mr. S. S. Aathavan

Resigned from the Board and BITSC w.e.f. 24.04.2023

Mr. C. Dissanayake

Appointed to the BS & NC w.e.f. 29.02.2024

Prof. S. Amaratunge

Resigned from the BHRRC w.e.f. 25.08.2023

Appointed as the Chairman of BRPTRC w.e.f. 25.08.2023

Resigned from the Chairmanship of BIRMC w.e.f. 25.08.2023

Dr. M. Ranasoma

Appointed to the Board w.e.f. 28.04.2023

Appointed to the BSCS w.e.f. 25.08.2023

Appointed to the BSPC w.e.f. 25.08.2023

Mr. C. Kumarasiri

Resigned from the Chairmanship of BRPTRC w.e.f. 25.08.2023

Appointed as the Chairman of BS & NC w.e.f. 29.02.2024

Mr. P. Premaratna

Appointed to the BAC w.e.f. 25.08.2023

Appointed as the Chairman of BIRMC w.e.f. 25.08.2023

Resigned from the BSCS w.e.f. 25.08.2023

Resigned from the BCC w.e.f. 25.08.2023

Resigned from the BSPC w.e.f. 25.08.2023

Mr. B. R. A. Bandara

Resigned from the BCC w.e.f. 25.08.2023

Appointed to the BSPC w.e.f. 25.08.2023

Mr. S. Nandasiri

Appointed to the BCC w.e.f. 25.08.2023

Mr. N. Sooriyarachchi

Appointed as the Chairman of BCC w.e.f. 29.02.2024

DISCLOSURE OF DIRECTORS' DEALING IN SHARES NUMBER OF SHARES

Individual Ordinary Voting Shareholdings of person who were Directors of the Bank at any time during the financial year are as follows:

Name of the Director	As at 31 December 2023	As at 31 December 2022
Ms. D. Ratnayake	-	-
Prof. S. Amaratunge	-	-
Mr. C. Kumarasiri	-	-
Mr. P. Premaratna	1,500	1,500
Mr. B. R. A. Bandara	11,000	11,000
Mr. T. Wijemanna	-	-
Mr. S. Nandasiri	-	-
Mr. C. Dias	-	-
Mr. N. Sooriyarachchi	-	-
Mr. R. De Silva	104,650	104,650
Mr. S. S. Aathavan (resigned from the Board w.e.f. 24.04.2023)	-	-
Mr. C. Dissanayake	-	-
Dr. M. Ranasoma (Appointed w.e.f. 28.04.2023)	-	-
Mr. P. Subasinghe* (Mr. P. Subasinghe resigned from the Board w.e.f. 31.12.2022)	-	112,815

**ANNUAL REPORT OF THE BOARD OF
DIRECTORS ON THE AFFAIRS OF THE
BANK****DIRECTORS' SHAREHOLDING PERCENTAGE**

	As at 31 December 2023	As at 31 December 2022
Directors	0.07	0.14
Public	73.74	59.30
CEO and Related Parties	26.19	40.60

DIRECTORS' STATEMENT OF INTERNAL CONTROL

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

DIRECTORS' REMUNERATION

As required under the Section 168(1)(f) of the Companies Act No. 07 of 2007, Directors' Remuneration and other benefits in respect of the Bank for the financial year ended 31st December 2023 are given in Note 15 to the Financial Statements on page 183.

RELATED PARTY TRANSACTIONS

Directors have disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standards – LKAS 24 "Related Party Disclosures" which is adopted in preparation of the Financial Statements. Those transactions are given in Note 41 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

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

DIRECTORS' AND OFFICERS' INSURANCE

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

ENVIRONMENTAL PROTECTION

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

**EVENTS AFTER THE
REPORTING PERIOD**

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the reporting period, other than those disclosed in Note 40 to the Financial Statements on page 211.

**APPOINTMENT OF
AUDITORS AND THEIR
REMUNERATION**

The Bank's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Audit fees and reimbursement of expenses paid to Messrs Ernst & Young during the year under review by the Bank amounted to Rs. 3,921,500 (2022: Rs. 2,530,000). Further Rs. 5,524,151 (2022: Rs. 6,429,946) were paid by the Bank for audit-related and non-audit services including reimbursement of expenses.

Details of the audit fees paid are given on Note 15.2 to the Financial Statements on page 183.

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

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

INFORMATION ON RATIOS, MARKET PRICES OF SHARES AND CREDIT RATINGS

Information that requires disclosures as per Rule 7.6(xi) of the Listing Rule of the CSE are given in the Section on "Investor Relations" on pages 252 to 260.

RISK MANAGEMENT AND INTERNAL CONTROL

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the Section on "Managing our Risks" on pages 78 to 84 and in Note 47 to the Financial Statements on pages 220 to 235.

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

BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

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

forms an integral part of the Annual Report of the Board of Directors, is given on pages 146 and 148.

The Board has obtained an assurance report from the External Auditors on Directors' Statement on Internal Control which is given on page 151 of the Annual Report.

OUTSTANDING LITIGATIONS

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 39.3 of the Financial Statements given on pages 210 to 211 will not have a material impact on the financial position of the Bank or its future operations.

CORPORATE GOVERNANCE

DIRECTORS' DECLARATIONS:

- I. The Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee
- II. The Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested.
- III. All endeavors have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue;
- IV. The business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business Plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank are prepared based on the going concern assumption; and
- V. They have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their

effectiveness and proper adherence. The measures taken and the extent to which the Bank has complied with the Code of Best Practice on Corporate Governance issued by the CA Sri Lanka and the SEC, the CSE and the CBSL are given on pages 89 to 125.

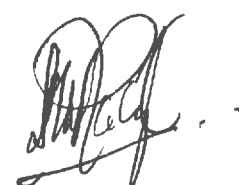
ANNUAL GENERAL MEETING AND THE NOTICE OF MEETING

The 27th Annual General Meeting of the bank will be held at the Board Room of SANASA Development Bank PLC, No. 12, Edmonton Road, Kirulapone, Colombo 06 through an "online- virtual" platform by using "audio-visual" tools on 31 May 2024 at 10.00 a.m

ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by Section 168(1)(k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report

For and on behalf of the Board of Directors,



Dinithi Ratnayake
Chairperson



Tamarika Rodrigo
Company Secretary

30th April 2024
Colombo, Sri Lanka

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

In line with the, Section 3(8)(ii)(b) of the Banking Act Direction No. 12 of 2007 and with principle D.1.5 of the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Board of Directors presents this report on Internal Control Over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at SANASA Development Bank PLC ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of Banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatements of financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating, and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the guidelines for Directors of Banks on the Directors' statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting considering the principles for the assessment of internal control system as given in that guideline.

The Board is of the view that the System of Internal Controls over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the policies and procedures on risk by designing and implementing suitable internal controls to mitigate risks faced by the Bank.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies and annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis through the application of Risk Based Audit Procedures. Audits are carried out on Head office functions, regional offices, and branches in accordance with the annual Risk Based Audit Plan approved by the Board Audit Committee (BAC). Onsite audits, Process Audits and Thematic Audits are carried out covering high

risk units and branches to provide independent and objective reports. The frequency of which is determined by the level of risk assessed. Findings of the Internal Audit Department are submitted to the BAC for review at their periodic meetings. The BAC also review and updates on the scope and the adequacy of the internal audit function against the approved audit plan.

- The BAC reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities, including Key Audit Matters (KAM) given by the External Auditors and evaluates the adequacy and effectiveness of the risk management and internal control systems. The minutes of the BAC meetings are forwarded to the Board on a periodic basis. Further, details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (BAC).
- The Board Integrated Risk Management Committee (BIRMC) was established to assist the Board to oversee the overall risk management of the principal areas of the Bank. The Executive Integrated Risk Management Committee (EIRMC) includes representation from all key business, operating and control units of the Bank to assist BIRMC to execute the assigned functions as per the ToR.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Assets and Liability Management Committee, Investment Committee and the Information Technology Steering Committee.
- In assessing the internal control system over financial reporting, the process owners of the Bank collate all the procedures and controls to ensure that the Financial Statements of the Bank provide accurate information. These in turn were reviewed by the Internal Audit Department for suitability of the design and effectiveness on an ongoing basis, throughout the year.

Directors' Statement on Internal Control over Financial Reporting

The BAC continuously monitored the implementation of the Sri Lanka Accounting Standards – SLFRS 9 “Financial Instruments” issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1st January 2018 and CBSL Directives No. 13 of 2021 and No. 14 of 2021 on Classification, Recognition and Measurement of Credit Facilities & Other Financial Assets in Licensed Banks. To facilitate their review, the BAC considered reports from the Chief Financial Officer and also reports from the External Auditors on the outcome of their review of the annual audit.

Comments made by the External Auditors in connection with Internal Control System over Financial Reporting in previous years have been reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors during the year, in connection with the Internal Control System over Financial Reporting will be dealt within future.

CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and Regulatory Requirements.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs Ernst & Young have reviewed the above Directors' Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31st December 2023 and reported to the Board that nothing has come to their

attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control over Financial Reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given on page 151 of this Annual Report.

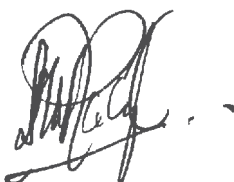
By Order of the Board,



Chaaminda Kumarasiri
Chairman – Board Audit Committee (BAC)



Mr. Prasanna Premaratna
Chairman – Board Integrated Risk Management Committee (BIRMC)



Dinithi Rathnayake
Chairperson
SANASA Development Bank PLC.

30th April 2024
Colombo, Sri Lanka

INDEPENDENT ASSURANCE REPORT



Ernst & Young
Chartered Accountants
Rotunda Towers
No. 109, Galle Road
P.O. Box 101
Colombo 03, Sri Lanka

Tel : +94 11 246 3500
Fax : +94 11 768 7869
Email: eysl@lk.ey.com
ey.com

TO THE BOARD OF DIRECTORS OF SANASA DEVELOPMENT BANK PLC

REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of SANASA Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31st 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 section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

OUR INDEPENDENCE AND QUALITY CONTROL

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

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance

with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050 (REVISED)

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

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

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

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

SUMMARY OF WORK PERFORMED

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

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

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

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

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

OUR CONCLUSION

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

30th April 2024
Colombo

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

Principals: T P M Ruberu FCCA MBA (USJ-SL), G B Goudian ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), D L B Karunathilaka ACMA, W S J De Silva Bsc (Hons) - MIS Msc - IT, V Shakthivel B.Com (Sp)

A member firm of Ernst & Young Global Limited

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of SANASA Development Bank PLC (The Bank) as of 31st December 2023 are prepared in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- Companies Act No. 07 of 2007 (Companies Act);
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto;
- Listing Rules of the Colombo Stock Exchange;
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka; and
- Section 3(8)(ii) of the Banking Act Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka, which is also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard (LKAS 1) "Presentation of Financial Statements".

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. The significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and External Auditors. Comparative information has been restated wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained in the Notes to the Financial Statements.

The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system

of internal controls and procedures for safeguarding assets, preventing and detecting frauds and/or errors as well as other irregularities which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

We confirm, compliance with Section 3(8)(ii) of the Banking Act Direction No. 12 of 2007 on Corporate Governance (Internal Control Over Financial Reporting - ICOFR) issued by the Central Bank of Sri Lanka as of 26 December 2007 and that the Bank's Internal Controls over Financial Reporting is adequate and effective. Annual Report of the Board of Directors on the Affairs of the Bank on pages 140 to 148 has briefly covered the Bank's Internal Control over Financial Reporting. In addition, Directors' Statement on Internal Control over Financial Reporting is provided on pages 149 and 150. The Bank's External Auditors, Messrs Ernst & Young, have audited the effectiveness of the Bank's Internal Controls over Financial Reporting and have given an unqualified opinion on page 154 of this Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on pages 154 to 156 of this Annual Report.

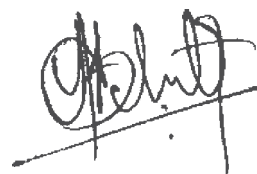
The Audit Committee of the Bank meets periodically with the Internal Auditors and the Independent External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss issues relating to auditing, internal controls, and financial reporting issues.

To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee report is given on pages 127 and 129.

The Audit Committee approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not impair Messrs Ernst & Young's independence.

We confirm that to the best of our knowledge:

- the Bank has complied with all applicable laws, regulations and prudential requirements;
- there are no material non-compliances; and
- there are no material litigations that are pending against the Bank other than those disclosed in Note 39.3 to the Financial Statements in the Annual Report.



Priyantha Thalwatte
Chief Executive Officer

20th February 2024



Shanka Abeywardene
Chief Financial Officer

30th April 2024
Colombo, Sri Lanka

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibilities of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the provisions of the Companies Act No. 07 of 2007 are set out in the following statement. The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on pages 154 to 156 of the Annual Report.

As per the provisions of Sections 150 (1), 151, 152 and 153 (1) and (2) of the Companies Act No. 07 of 2007 the Directors are required to prepare Financial Statements that give a true and fair view of the financial position of the Bank for each financial year and place them before the Annual General Meeting. The Financial Statements comprise the Statement of Financial Position as at the end of the financial year, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and Notes thereto.

The Financial Statements are prepared by the Chief Financial Officer under the supervision of the Chief Executive Officer. The Directors confirm that the Financial Statements of the Bank give a true and fair view of:

1. The state of affairs of the Bank as at 31st December 2023; and
2. The financial performance of the Bank for the financial year ended 31st December 2023.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing these Financial Statements;

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgements and estimates have been made that are reasonable and prudent; and
3. All applicable Accounting Standards, as relevant, have been complied with.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying

the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Bank has maintained sufficient accounting records to disclose, with reasonable accuracy the financial position of the Bank. The Financial Statements prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards which came into effect from 1 January 2012, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of Licensed Specialised Banks.

The Directors have also instituted effective and comprehensive systems of Internal Control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises internal reviews, internal audits and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2023 are given in pages 149 and 150 of the Annual Report, "Directors Statement on Internal Control over Financial Reporting". External Auditors' Assurance Report on the "Directors Statement on Internal Control" is given on page 151 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Bank maintain proper books of accounts and reviews the financial reporting system directly at their regular meetings and also through the Board

Audit Committee. The report of the said Committee is given on pages 127 to 129 in the Annual Report. The Board of Directors also approves the Interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Directors are required to prepare the Financial Statements and to provide the Bank's External Auditor, Messrs Ernst & Young, Chartered Accountants, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the Financial Statements

The Financial Statements of the Bank have been certified by the Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1)(b) and 152 (1)(b) of the Companies Act. Also the Financial Statements of the Bank have been signed by two Directors, Chief Executive Officer and Company Secretary of the Bank on 12th April, 2023 as required by Sections 150 (1)(c) and 152 (1)(c) of the Companies Act.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Statement of Financial Position date have been paid or where relevant provided for. The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,



Tamarika Rodrigo
Company Secretary

30th April 2024
Colombo, Sri Lanka

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
Chartered Accountants
Rotunda Towers
No. 109, Galle Road
P.O. Box 101
Colombo 03, Sri Lanka

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TO THE SHAREHOLDERS OF SANASA DEVELOPMENT BANK PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Sanasa Development Bank PLC ("the Bank"), which comprise the statement of financial position as at 31st December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements of the Bank gives a true and fair view of the financial position of the Bank as at 31st December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion

on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Provision for credit impairment for loans and receivables to other customers carried at amortised cost Impairment for expected credit losses of financial assets measured at amortised cost comprising of loans and receivables to other customers as stated in Note 21 and 21.1, respectively, is determined by management based on the accounting policies described in Note 3.2.6. This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets. Key areas of significant judgements, assumptions and estimates used by management in the assessment of the impairment for expected credit losses for financial assets measured at amortised cost included: - management overlays to incorporate the current economic contraction. - forward-looking macroeconomic scenarios. - associated weightages which are subject to inherently heightened levels of estimation uncertainty.	In addressing the adequacy of the provision for credit impairment for loans and receivables to other customers carried at amortised cost, our audit procedures included the following key procedures. - Assessed the alignment of the Bank's Impairment for expected credit losses computations and underlying methodology including responses to current economic conditions with its accounting policies, based on the best available information up to the date of our report. - Evaluated the design, implementation and operating effectiveness of controls over estimation of expected credit losses, which included assessing the level of oversight, review and approval of allowances for expected credit losses, policies and procedures by the Board and management. - Checked the completeness, accuracy and reasonableness of the underlying data used in the expected credit loss computations by agreeing details to relevant source documents and accounting records of the Bank. - Evaluated the reasonableness of credit quality assessments and related stage classifications. In addition to the above, the following procedures were performed: - For loans and receivables to other customers assessed on an individual basis for impairment: - Checked the arithmetical accuracy of the underlying individual impairment calculations. - Evaluated the reasonableness of key inputs used in the allowance for expected credit losses made with particular focus on current economic volatility. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries and status of recovery actions of the collaterals. - For loans and receivables to other customers assessed on a collective basis for impairment: - Tested the key inputs and the calculations used in the allowance for expected credit losses. - Assessed the reasonableness of judgements, assumptions and estimates used by the Management in the underlying methodology and the management overlays. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. We assessed the adequacy of the related financial statement disclosures set out in Notes 12, 21 and 47.
Information Technology (IT) systems related internal controls over financial reporting Bank's financial reporting process is significantly reliant on multiple IT systems, the reports derived from such system and manual internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems related internal controls over financial reporting were considered a key audit matter.	Our audit procedures included the following key procedures: - We obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures. - We involved our internal specialised resources and; - Identified, evaluated and tested the design and operating effectiveness of IT systems related internal controls, including those related to user access and change management, and - Obtained a high-level understanding of the cybersecurity risks affecting the bank and the actions taken to address these risks primarily through inquiry. - We tested source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE BANK'S 2023 ANNUAL REPORT

Management is responsible for the other information. Other information consists of the information included in the Bank's 2023 Annual Report, other than the financial statements and our auditor's report thereon. The Bank's 2023 Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to

fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

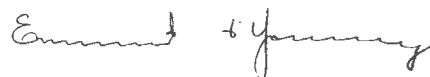
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



30th April 2024
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023	Note	2023 LKR	2022 LKR
Gross Income	6	30,792,731,044	24,034,136,121
Interest income		29,904,604,368	23,101,048,459
Less: Interest expenses		(21,402,708,282)	(16,261,994,676)
Net interest income	7	8,501,896,086	6,839,053,783
Fee and commission income		353,932,735	504,650,370
Less: Fee and commission expenses		(36,170,237)	(26,705,960)
Net fee and commission income	8	317,762,498	477,944,410
Net gain/(loss) from trading	9	1,257,500	(1,077,912)
Net fair value gain/(loss) of financial assets at fair value through profit or loss	10	476,058,048	166,508,518
Net other operating income	11	56,878,394	263,006,686
Total operating income		9,353,852,526	7,745,435,485
Less: Impairment for loans and other losses	12	(1,819,895,158)	(1,898,476,112)
Net operating income		7,533,957,368	5,846,959,373
Less: Operating expenses			
Personnel expenses	13	(3,304,438,822)	(2,940,242,957)
Depreciation and amortisation expenses	14	(532,734,636)	(488,515,195)
Other expenses	15	(2,216,703,954)	(1,936,941,897)
Operating profit before Value Added Tax (VAT) on financial services		1,480,079,956	481,259,324
Less: Value Added Tax (VAT) on financial services		(634,125,294)	(366,401,606)
Less: Social Security Contribution Levy		(74,028,512)	(17,900,589)
Operating profit/(loss) after VAT on financial services		771,926,150	96,957,129
Profit before tax		771,926,150	96,957,129
Less: Tax expenses	16	(305,103,937)	(35,790,792)
Profit for the year		466,822,213	61,166,337
Other Comprehensive Income			
Other Comprehensive Income/(Expenses) not to be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit plans	33.1.2	92,684,997	(39,667,970)
Deferred tax relating to defined benefit plans	16.2.1	(27,805,499)	11,644,579
Revaluation Surplus on Property, Plant and Equipment	25	74,939,000	259,036,868
Other Comprehensive Income for the year net of tax		139,818,498	231,013,477
Total Comprehensive Income for the year		606,640,711	292,179,814
Earnings per share on profit			
Basic/diluted earnings per share - (LKR).	17	2.90	0.38
Dividend per share: Gross (LKR)		-	-

The Accounting Policies and Notes on pages 161 through 235 from an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023		2023	2022
	Note	LKR	LKR
Assets			
Cash and cash equivalents	18	2,916,328,571	3,072,845,490
Placements with banks	19	15,387,769,653	18,205,195,883
Financial assets fair value through profit or loss	20	2,815,221,176	1,905,738,326
Financial assets at amortised cost			
- Loans and receivables to other customers	21	98,868,895,650	110,525,450,192
- Debt and other instruments	22	32,436,341,319	19,819,735,716
Financial assets measured at fair value through other comprehensive income	23	56,939,525	56,938,514
Investment in subsidiary	24	6,163,100	6,163,100
Property, plant and equipment	25	845,329,269	1,093,190,533
Right of use assets	26	680,305,297	609,201,449
Non-current assets held for sale	27.2	-	43,566,177
Intangible assets	28	753,566,178	538,831,109
Deferred tax assets	16.2	533,810,343	600,628,286
Other assets	29	1,656,730,024	3,043,547,103
Total assets		156,957,400,105	159,521,031,878
Liabilities			
Due to other customers	30	108,118,121,881	107,533,001,772
Other borrowings	31	26,593,632,236	30,704,547,675
Subordinated term debts	32	4,460,248,007	5,055,590,136
Retirement benefit obligation	33	766,114,529	714,077,498
Current tax liabilities		375,861,793	182,244,769
Other liabilities	34	2,377,566,033	1,672,355,113
Total liabilities		142,691,544,479	145,861,816,963
Equity			
Stated capital	35	11,287,765,221	11,287,765,221
Statutory reserve fund	36	340,572,453	317,231,342
Retained earnings	37	2,275,936,735	1,767,576,135
Other reserves	38	361,581,217	286,642,217
Total equity		14,265,855,626	13,659,214,915
Total equity and liabilities		156,957,400,105	159,521,031,878
Contingent liabilities and commitments	39	814,261,712	728,284,912

Certification

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



Shanka Abeywardene
DGM-Finance & Planning / CFO

The Board of Directors is responsible for these Financial Statements.

Signed for and on behalf of the Board by:



Dinithi Ratnayake
Chairperson



Chaaminda Kumarasiri
Director



Niranjan Thangarajah
Acting Chief Executive Officer



Tamarika Rodrigo
Company Secretary

The Accounting Policies and Notes on pages 161 through 235 from an integral part of the Financial Statements.

30th April 2024
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated capital			Reserves			
	Ordinary voting shares	Statutory reserve fund	Retained earnings	Available for sale reserve/ Fair value through OCI	Revaluation reserve	General reserves	Total equity
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Opening balance as at 1 January 2022	11,287,765,221	314,173,025	2,500,152,936	(19,051,624)	-	46,656,973	14,129,696,531
Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022			(521,613,182)				(521,613,182)
Adjusted balance as at 1 January 2022	11,287,765,221	314,173,025	1,978,539,754	(19,051,624)	-	46,656,973	13,608,083,349
Profit for the year	-	-	61,166,337	-		-	61,166,337
Other comprehensive income (net of tax)	-	-	(28,023,391)	-	259,036,868	-	231,013,477
Total comprehensive income for the year	-	-	33,142,946	-	259,036,868		292,179,814
Transactions with equity holders, recognised directly in equity							
Dividends to equity holders	-						
Cash dividend-2021	-	-	(241,048,248)	-		-	(241,048,248)
Transfer to statutory reserve fund	-	3,058,317	(3,058,317)	-		-	-
Total transaction with equity holders	-	3,058,317	(244,106,565)	-	-	-	(241,048,248)
Closing balance as at 31 December 2022	11,287,765,221	317,231,342	1,767,576,135	(19,051,624)	259,036,868	46,656,973	13,659,214,915
Opening balance as at 1 January 2023	11,287,765,221	317,231,342	1,767,576,135	(19,051,624)	259,036,868	46,656,973	13,659,214,915
Profit for the year	-	-	466,822,213	-	-	-	466,822,213
Other comprehensive income (net of tax)	-	-	64,879,498	-	74,939,000	-	139,818,498
Total comprehensive income for the year	-	-	531,701,711	-	74,939,000	-	606,640,711
Transactions with equity holders, recognised directly in equity							
Transfer to statutory reserve fund	-	23,341,111	(23,341,111)	-		-	-
Total transaction with equity holders	-	23,341,111	(23,341,111)	-	-	-	-
Closing balance as at 31 December 2023	11,287,765,221	340,572,453	2,275,936,735	(19,051,624)	333,975,868	46,656,973	14,265,855,626

Statutory reserve fund

Every licensed specialised bank has to make a provision not less than 5% out of profit after tax to the statutory reserve fund. Such provision should be made annually as stipulated by the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995 until the said Reserve Fund is equal to 50% of the Equity Capital of the Bank. Thereafter, the Bank has to make a provision not less than 2% out of profit after tax to the Statutory Reserve Fund until the said Fund is equal to the Equity Capital of the Bank.

General reserve

The general reserve is created after provisioning for a statutory reserve fund and interim dividend payments for the respective share holders, this reserve will be used by the Bank for the future capitalisation purposes of the Bank.

Available for sale/Fair value through OCI reserve

The available for sale/Fair value through OCI reserve is consist of fair value adjustment made to unquoted equity investment.

The Accounting Policies and Notes on pages 161 through 235 from an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

	Note	2023 LKR	2022 LKR
Cash flows from /(used in) operating activities			
Interest received		25,826,399,990	20,479,390,995
Fee and commission received		427,167,557	550,849,469
Receipts from other operating activities		173,691,435	78,098,388
Interest payment		(22,106,903,889)	(12,674,240,643)
Cash payment to employees		(2,669,947,316)	(2,706,852,334)
Payments to suppliers and other operating activities		(1,474,003,662)	(2,011,564,019)
Fee and commission expenses		(36,170,237)	(26,705,960)
Operating profit before changes in operating assets		140,233,878	3,688,975,894
(Increase)/decrease in operating assets			
Funds advanced to customers		13,713,878,025	1,840,314,281
Net (increase)/ decrease in other short term securities		(504,780,274)	(1,381,528)
Net (increase)/ decrease in other assets		981,718,908	(465,741,090)
Increase/(decrease) in operating liabilities			
Deposits from customers		1,297,608,748	10,207,858,228
Net increase/ (decrease) in other liabilities		(738,504,867)	229,897,594
Net cash from operating activities before taxes		14,890,154,417	15,499,923,380
VAT on financial services paid		(529,353,686)	(420,603,385)
Income tax paid		(63,625,526)	(819,454,906)
Net cash from operating activities		14,297,175,205	14,259,865,088
Cash flows from /(used in) investing activities			
Dividend received	11	7,770,016	586,129
(Increase)/decrease in non dealing securities		(1,010)	-
(Increase)/decrease in dealing securities		(432,167,303)	(1,012,521,004)
(Increase)/decrease in treasury bonds and other investments		(9,320,167,647)	(16,358,572,150)
Proceeds from sale of property, plant and equipment		107,695,750	2,736,631
Purchase of property, plant and equipment	25	(92,141,023)	(137,227,904)
Purchase of intangible assets	28	(124,979,901)	(307,823,709)
Net cash from/(used in) investing activities		(9,853,991,117)	(17,812,822,006)
Cash flows from/(used in) financing activities			
Dividend paid	37	-	(241,048,248)
Repayment of long term borrowing		(20,696,428,601)	(33,299,847,778)
Interest paid on subordinated debt		(901,042,055)	(566,005,168)
Increase/(decrease) in borrowing		16,972,269,562	32,140,526,095
Net cash flow from/(used in) financing activities		(4,625,201,093)	(1,966,375,099)
Net increase/(decrease) in cash and cash equivalents		(182,017,005)	(5,519,332,016)
Cash and cash equivalents at the beginning of the year	18.3	3,348,345,576	8,867,677,592
Cash and cash equivalents at the end of the year	18.3	3,166,328,571	3,348,345,576

The Accounting Policies and Notes on pages 161 through 235 from an integral part of the Financial Statements.

ACCOUNTING POLICIES

1. CORPORATE INFORMATION / REPORTING ENTITY

1.1 GENERAL

SANASA Development Bank PLC ("the Bank") is a Licensed Specialised Bank established under the Banking Act No. 30 of 1988 and its amendment there to. It is a limited liability company, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 12, Edmonton Road, Colombo 6. The Bank has a primary listing on the Colombo Stock Exchange.

1.2 PRINCIPAL ACTIVITIES

SANASA Development Bank PLC provides a comprehensive range of financial services encompassing Development Banking, Corporate Banking, Personal Banking, Corporate and Trade Finance, Leasing and other Associated Activities.

1.3 SUBSIDIARY

Payment Services (Private) Limited is a fully-owned subsidiary of the Bank, that was acquired on 26 May 2020. It was engaged in the business of providing online payment solutions on the web and mobile platforms under the brand name "UPay". The subsidiary's assets, liabilities, equity, income, expenses and cash flows does not have a material effect on the Consolidated Financial Statements of the Group. Therefore, the subsidiary has been deemed immaterial and has not been consolidated when preparing and presenting the Financial Statements of the Group.

1.4 PARENT ENTITY AND ULTIMATE PARENT ENTITY

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

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Bank which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and

presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and provide appropriate disclosures as required by the Listing Rules of the CSE.

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

2.2 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The Board of Directors acknowledges their responsibility for financial statements as set out in the "Annual Report of the Board of Directors on the Affairs of the Company", "Statement of Directors' Responsibility for Financial Reporting" and the certification on the Statement of Financial Position.

2.3 DATE OF AUTHORIZATION OF ISSUE

The financial statements for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Directors on 28 March 2024.

2.4 BASIS OF MEASUREMENT

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

- Financial assets held at fair value through other comprehensive income (FVOCI) are measured at fair value (Note 23)

- Financial assets recognised through profit or loss (FVPL) are measured at fair value (Note 20)
- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets (Note 33)

2.5 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements of the Bank are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank operates. Financial information presented in Sri Lankan Rupees unless otherwise indicated. There was no change in the Bank's presentation and functional currency during the year under review.

2.6 PRESENTATION OF FINANCIAL STATEMENTS

The assets and liabilities of the Bank presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements.

An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 46 to the Financial Statements.

2.7 MATERIALITY AND AGGREGATION

In compliance with Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by an Accounting Standard.

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2.8 COMPARATIVE INFORMATION

The comparative information is re-classified wherever necessary to conform to the current year's classification in order to provide a better presentation. The details of such reclassifications are presented in Note 48 to the Financial Statements

2.9 STATEMENT OF CASH FLOWS

The Statement of Cash Flows has been prepared by using the direct method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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

2.10 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

2.11 GOING CONCERN

The Directors have made an assessment of the Bank's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The Directors have considered the impact of the current adverse macro-economic conditions on the business operations of the Bank. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Bank. Therefore, the Financial Statements continue to be prepared on the going concern basis. The management has also conducted stress tests to evaluate the robustness of the financial resources of the Bank. This has been reviewed and approved by the Board.

2.12 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

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

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so impairment for financial assets should be measured on a lifetime ECL basis

- Development of ECL models, including various formulas and the choice of inputs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model

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

In response to the adverse macro-economic conditions the Bank's expectations of economic impacts, key assumptions used in the Bank's calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 3.2.6.6, while the impact on changing the weightages of different macro-economic scenarios during the year are given in Note 47.2.1. (f).

The additional provisions booked as an allowance for overlay for moratorium loans as at 31st December 2023 were further increased during the year covering both individually significant and other loans and advances. This is over and above the impairment provisions derived from the Bank's impairment model after classifying these loans into stages as per the Bank's classification criteria for moratorium loans.

A breakdown of the loans and advances of the Bank classified under stage 2 is given in Note 47.2.1.(g). Sensitivity of the individually significant loan impairment to recovery cash flows is given in Note 47.2.1.(c) while sensitivity of collective impairment provision to the staging of the loans and advances is disclosed in Note 47.2.1. (d).

2.13 IMPAIRMENT OF OTHER FINANCIAL ASSETS

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

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Management judgement has been involved in determining whether there is significant increase in credit risk of these instruments or these instruments are impaired as at the reporting date.

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

2.14 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Bank measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 44.

2.15 FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION

The Bank's accounting policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 44, 'Analysis of Financial Instruments by Measurement Basis'.

2.16 TAXATION

The Bank is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The details of deferred tax computation is given in Note 16.2 to the Financial Statements.

2.17 DEFINED BENEFIT PLANS

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

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rate and expected future salary increase rates of the Bank.

2.18 PROPERTY, PLANT AND EQUIPMENT

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

The details of freehold land and buildings, including valuation are given in Note 25.1 to the Financial Statements. The Bank revalued its freehold lands and buildings as at 31st December 2023 and necessary adjustments were included in the Financial Statements

2.19 USEFUL LIFETIME OF THE PROPERTY, PLANT AND EQUIPMENT

The Bank reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.20 COMMITMENTS AND CONTINGENCIES

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 39.

2.21 CLASSIFICATION OF INVESTMENT PROPERTIES

Management requires using its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Bank assesses on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties.

2.22 SLFRS 16 – LEASES

The Bank uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. It also uses judgement in the determination of the discount rate in the calculation of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. As the Bank cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the rate of interest that the Bank would have to pay,

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to borrow an amount similar to the value of the lease asset, over a similar term and with similar security in similar economic environment. Further, the Bank applies judgement in evaluating whether it is reasonably certain to renew or terminate the lease at the end of the lease term. That is, it considers all relevant factors that create an economic benefit for it to exercise, either the renewal or termination option.

3. GENERAL ACCOUNTING POLICIES

3.1 FOREIGN CURRENCY TRANSACTIONS AND BALANCES

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

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

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

Foreign exchange differences arising on the settlement or reporting of monetary items at rates different from those which were initially recorded are dealt with in the Statement of Profit or Loss. However, foreign currency differences arising on

equity instruments classified as fair value through other comprehensive income, financial liabilities designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges are recognised in other comprehensive income.

3.2 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

3.2.1 DATE OF RECOGNITION

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to depositors when funds are transferred to the Bank.

3.2.2 INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

3.2.2.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank recognises the difference between the transaction price and fair value ('Day 1' profit or loss) in the Statement of Profit or Loss over the tenor of the financial instrument using the effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Profit or Loss when the inputs become observable, or when the instrument is derecognised.

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

3.2.3 MEASUREMENT CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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3.2.3.1 Loans and advances to customers, debt and other securities, reverse repurchase agreements

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

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

The details of these conditions are outlined below.

3.2.3.1 (a) Business model assessment

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

The Bank's business model is not assessed on an instrument-by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

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

3.2.3.1 (b) The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.2.3.2 Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all two of the following characteristics:

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that, in the case of a

non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying').

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

3.2.3.2 (a) Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way, similar to a stand-alone derivative.

An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a nonfinancial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the income statement. Derivatives embedded in financial assets are no longer separated. Instead, they are classified based on the business model and SPPI assessments as outlined in Notes 3.2.3.1(a) and 3.2.3.1(b)

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

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3.2.3.3 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest income from financial assets held for trading is recorded under net interest income while dividend income is recorded in net trading income when the right to payment has been established. Included in this classification are debt securities and equity investments that have been acquired principally for the purpose of selling or repurchasing in the near term. The Bank does not have any financial liabilities classified as held for trading as at 31st December 2023.

3.2.3.4 Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, Or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, Or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the "Own credit reserve" through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being integral parts of the instrument.

3.2.3.5 Debt instruments at FVOCI

The Bank applies this category for debt instruments when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise government securities.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The ECL calculation for debt instruments at FVOCI is explained in Note 3.2.6.5. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

3.2.3.6 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments at FVOCI when they meet the definition of equity under Sri Lanka Accounting Standard - LKAS 32 (Financial Instruments: Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.2.3.7 Securities sold under repurchase agreements, due to banks, due to depositors, other borrowers and debt securities holders

After initial measurement, securities sold under repurchase agreements, due to banks, due to depositors, due to other borrowers and due to debt securities holders are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds and costs that are an integral part of the EIR. The Bank does not have compound financial instruments which contains both liability and equity components and require separation as at the date of the issue.

3.2.4 RECLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank may acquire, dispose of, or terminates a business line (change in business model). When the Bank reclassifies its financial

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assets it applies the reclassification prospectively from the reclassification date without restating any previously recognised gains, losses (including impairment gains or losses) or interest. Financial liabilities are never reclassified.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

The Bank did not reclassify any of its financial assets in 2023.

3.2.5 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

3.2.5.1 Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at the date of inception.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

3.2.5.2 Derecognition other than for substantial modification

3.2.5.2 (a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

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A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

3.2.5.2 (b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.2.6 IMPAIRMENT ALLOWANCE FOR FINANCIAL ASSETS

3.2.6.1 Overview of the ECL principles

The Bank has been recording impairment (expected credit losses) for all loans, debt & other financial instruments not held at FVPL. Equity instruments are not subject to impairment under SLFRS 9.

The ECL impairment is based on the credit losses expected to arise over the life of the asset [the lifetime expected credit loss or (LTECL)], when there is a significant increase in credit risk since origination. In all other instances, the impairment is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 3.2.6.1(b).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The policy for grouping financial assets measured on a collective basis is explained in Note 3.2.6.4. The details of individual assessment of ECLs are given in Note 3.2.6.3.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 3.2.6.1(b). Based on the above process, the Bank categorises its loans into 'stage 1', 'stage 2', 'stage 3' and 'originated credit impaired', as described below:

- Stage 1: When loans are first recognised, the Bank recognises an impairment based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an impairment for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 3.
- Stage 3: Loans considered credit-impaired [as outlined in Note 3.2.6.1 (a)]. The Bank records an impairment for the LTECLs.
- Originated credit impaired: Originated credit impaired assets are financial assets that are credit impaired on initial recognition. They are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. The Bank did not have originated credit impaired loans as at 31st December 2023 and 2022.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

3.2.6.1 (a) Definition of default and cure

The Bank considers a financial instrument as defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether an individually significant customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as stage 3 for ECL calculations or whether stage 2 is appropriate. Such events include:

- Reasonable and supportable forecasts of future economic conditions show a direct negative impact on the performance of a customer/group of customers

ACCOUNTING POLICIES

- A significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/ group of customers
- The value of collateral is significantly reduced and/or reliability of collateral is doubtful
- The borrower is subject to litigation that significantly affects the performance of the credit facility

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of stage 3 when none of the material default criteria have been presented and the borrower is no longer considered as non-performing in accordance with the Directives of the Central Bank.

Once cured, the decision whether to classify an asset as stage 2 or stage 1 largely depends on the days past due, at the time of the cure. The corresponding reduction in ECL is recognised under "Impairment charge/reversal" in Note 12 to the financial statements.

The Bank's criterion for 'cure' for rescheduled/restructured loans is more stringent than ordinary loans and is explained in Note 3.2.6.10.

3.2.6.1 (b) Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have a significantly increased credit risk when it is past due for more than 30 days.

The Bank also applies secondary qualitative methods for triggering a significant increase in credit risk, such as restructuring of an asset while the asset is less than 30 days past due. Further, rescheduled loans will remain in stage 2 for at least one year from the date of Rechedulment even if such loans become less than 30 days past due. In certain cases, the Bank may also consider that events explained in Note 3.2.6.1(a) are significant

increase in credit risk as opposed to a default, for customers who are considered as individually significant.

The Bank is focused on a case-by-case analysis has been conducted on the most significant exposures and have been classified as stage 2 or stage 3 when the circumstances demand so. The exposures which are not individually significant have been moved to stage 2 or next bucket based on the industry risk of the underlying borrowers. The Bank has identified industries such as tourism, imports businesses, construction (including condominiums), agriculture including agri-chemicals, transport and storing, personal other consumption needs, etc. as industries carrying an increased credit risk. Accordingly, exposures outstanding from the borrowers operating in these industries have been classified as stage 2. An analysis of the loans classified under stage 2 is given in Note 47.2.1(a).

3.2.6.2 The calculation of ECL

The Bank calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and the worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Key elements of the ECL calculations are outlined below:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PD is further explained in Note 3.2.6.4 (a).
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed

facilities, and accrued interest from missed payments. The EAD is further explained in Note 3.2.6.4 (b).

- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 3.2.6.4 (c).

3.2.6.3 Calculation of ECLs for individually significant loans

The Bank first assesses ECLs individually for financial assets that are individually significant to the Bank. In the event the Bank determines that such assets are not impaired, moves in to a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The criteria used to determine whether individually significant customer is in default is discussed in Note 3.2.6.1(a).

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. In determining the expected future cash flows, the Bank takes in to account the base case, the best case and the worst case scenarios considering various modes of settlement of the impaired credit facilities. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognised through the unwinding of the discount.

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When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;

3.2.6.4 Grouping financial assets measured on a collective basis

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- All customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is determined to be not impaired such customers are moved back to collective ECL calculation.
- The treasury, trading and interbank relationships (such as Due from banks, debt and other instruments at amortised cost/FVOCI)

For all other asset classes, the Bank calculates ECL on a collective basis. The Bank categorises these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral

3.2.6.4 (a) PD estimation process

PD estimation for loans and advances under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most banks in the country at present.

Accordingly, exposures are categorised among 5 groups based on the DPD as follows.

- Zero days past due
- 1 – 30 days past due
- 31 – 60 days past due
- 61 – 90 days past due
- Above 90 days past due

The movement of the customers into adverse DPD categories are tracked at each account level over the periods and it is used to estimate the amount of loans that will eventually be written off.

However, for loans granted to banks, debt and other financial instruments classified as amortised cost/FVOCI, the Bank relies on external credit ratings in determining their respective PDs. Due to limited stage movements in loan portfolios under moratorium schemes, the Bank has used additional assessments of SICR as explained in Note 3.2.6.1(b) to build an allowance for overlay to better reflect the portfolio position.

3.2.6.4 (b) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a stage 1 loan, the Bank assesses the possible default events within 12 months. However, if a stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are considered. For stage 2 and stage 3 financial assets and credit impaired financial assets at origination, events over the lifetime of the instruments are considered. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

3.2.6.4 (c) Loss given default

Loss given default is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed the "Above 90 days" at-least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan. Virtually closed contracts are also be added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

For financial investments other than loans and advances, the Bank uses the LGD rates specified by the regulator in the Basel III guidelines when calculating the ECL as per SLFRS 9.

3.2.6.5 Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the impairment that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

ACCOUNTING POLICIES

3.2.6.6 Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs. The inputs and models used for calculating ECLs may not always capture all characteristics of the market as at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. In 2023, the Bank assessed the values of the key macro-economic variables in the impairment calculation model including the GDP growth rate, unemployment rate, interest rate, exchange rate etc. These values have been determined based on the most recent forecasts available as at the date of the calculation.

To reflect these uncertainties in the calculation of expected credit losses, weightages are assigned for multiple economic scenarios during the year. Weightages assigned for each scenario is given below along with the weightages used in 2023.

	Base case	Best case	Worst case
2023	20%	5%	75%
2022	10%	5%	85%

To ensure completeness and accuracy, the Bank obtains the above data primarily from the Central Bank of Sri Lanka (CBSL). Other third party sources such as World Bank and International Monetary Fund etc is also used when CBSL data is not available.

3.2.6.7 Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible.

The collateral comes in various forms, such as cash, securities, guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and to fall in line with the CBSL directives.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists.

3.2.6.8 Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to the relevant asset category at the lower of the repossessed value or the carrying value of the original secured asset. The Bank did not transfer any repossessed assets to its property, plant and equipment during the years ended 31st December 2023 and 2022.

3.2.6.9 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. For individual customers, the Bank has a policy of writing off the gross carrying amount when the financial asset is past due for many years, based on historical experience of recoveries of similar assets.

If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the statement of profit or loss.

3.2.6.10 Rescheduled and restructured loans

The Bank sometimes makes concessions or modifications to the original terms of loans in response to the borrower's financial difficulties, rather than taking possession of the collateral. The Bank considers a loan as rescheduled/restructured, when such concessions or modifications are provided as a result of the borrower's present or

expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit and Risk Departments. Reschedule/restructure may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor rescheduled/ restructured loans to ensure that future payments are likely to occur.

When the Bank reschedule/restructure a loan facility of a customer, the entire portfolio of the customer is classified as minimum stage 2 at the modification date. The Bank also considers whether such assets should be classified as stage 3. Rescheduled customers will remain in stage 3/stage 2 for at least one year even the rescheduled loan facility becomes a performing loan in terms of CBSL Directives. Restructured loans are upgraded to stage 1 by the Bank's Risk Department based on their independent evaluation of the customers. If the upgraded rescheduled/restructured loans become past due (for more than 30 days) on a later date, loss allowance reverts to being measured at an amount equal to life time expected credit losses. Details of restructured/rescheduled loans are disclosed in Note 47.2.1(i). If modifications are substantial, the loan is derecognised, as explained in Note 3.2.5.1.

3.2.7 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position only when the Bank has a legal right to set-off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under LKASs/SLFRSs or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Accounting Policies

3.2.8 HEDGE ACCOUNTING

The Bank designates certain derivatives as either:

- Hedges of fair value of recognised assets, liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); or
- Hedges of net investments in foreign operations (net investment hedges)

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Bank did not designate any derivative as a hedging instrument during the years ended 31st December 2023 and 2022.

3.2.9 AMORTISED COST MEASUREMENT

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2.10 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market

for that instrument (Level 01 valuation). A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability (Level 01 valuation) nor based on a valuation technique that uses only data from observable markets (Level 02 valuation), then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

A fair value measurement of a nonfinancial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.3 LEASES

At inception of a contract, the Bank assesses whether the contract is, or contains a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank considers whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Bank has right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Bank has right to direct the use of the asset. The Bank has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either;
- The Bank has the right to operate the asset; or
- The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

3.3.1 BANK AS THE LESSEE

The Bank recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received.

ACCOUNTING POLICIES

The right of use asset is subsequently depreciated using straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined based on the tenor of rent agreements.

In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments such as Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

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

3.3.2 SHORT TERM LEASES AND LEASES OF LOW VALUE ASSETS

The Bank has elected not to recognise right-of-use assets and lease liabilities for short term leases (that have a lease term of 12 months or less) and leases of low value assets. The Bank recognises lease payments associated with these leases as an expense on a straight line basis over the lease term.

3.3.3 BANK AS THE LESSOR

When the Bank acts as a lessor, it determines at least inception whether each lease is a finance lease or an operating

lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease. If not it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the assets.

When the Bank is the lessor under a finance lease contract, the amounts due under the leases, after deduction of unearned interest income, are included in Note 21, 'Loans and advances'. Interest income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

The Bank recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of other income.

3.4 FIDUCIARY ASSETS

The Bank provides fiduciary services that result in the holding of assets on behalf of its customers. Assets held in fiduciary capacity are not reported in the Financial Statements, as they are not assets of the Bank.

3.5 PROVISIONS

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

3.6 OPERATIONAL RISK EVENTS

Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to the amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

3.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3.8 OTHER TAXES**3.8.1 VALUE ADDED TAX (VAT)**

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial

Accounting Policies

services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits & provisions relating to terminal benefits.

3.8.2 SOCIAL SECURITY CONTRIBUTION LEVY

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

3.9 REGULATORY PROVISIONS

3.9.1 DEPOSIT INSURANCE AND LIQUIDITY SUPPORT SCHEME

All Licensed Commercial Banks were required to insure their deposit liabilities in the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" in terms of the Banking Act Direction No. 5 of 2010, issued on 27th September 2010. This was subsequently replaced by the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 2 of 2021, dated 06th August 2021. The Bank's total capital ratio as at 31st December 2023 exceed 14% and accordingly the Bank paid a premium of 0.1% of the eligible deposits as deposit insurance premium, during the year ended 31st December 2023.

3.9.2 CROP INSURANCE LEVY

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No. 30 of 1988, Finance Business Act No. 42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 1st April 2013.

4. NEW ACCOUNTING STANDARDS/AMENDMENTS TO EXISTING ACCOUNTING STANDARDS THAT BECAME EFFECTIVE DURING THE YEAR

4.1 AMENDMENTS TO LKAS 8 - ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS.

4.2 AMENDMENTS TO LKAS 1 - PRESENTATION OF FINANCIAL STATEMENTS

4.3 AMENDMENTS TO LKAS 12 - INCOME TAXES

However, there is no material impact on the financial statements of the bank by applying the above amendment to accounting standards.

5. ACCOUNTING STANDARDS/CBSL DIRECTIVES ISSUED BUT NOT YET EFFECTIVE AS AT 31ST DECEMBER 2023

As of 31st December 2023, there were no new accounting standards issued by the Institute of Chartered Accountants of Sri Lanka that were not yet effective and had a material impact on the Group's Financial Statements.

The Bank has applied all relevant accounting standards which have been issued up to 31st December 2023 in the preparation of the Financial Statements for the year ended 31st December 2023.

NOTES TO THE FINANCIAL STATEMENTS

6. GROSS INCOME

Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Specific recognition criteria that must be met before recognising revenue is discussed under Note 7 - Net Interest Income, Note 8 - Fee and Commission Income, Note 9 - Net Gain/(Loss) from Trading, Note 10 -Net Fair Value Gain/(Loss) from Financial Assets at Fair Value through Profit or Loss and Note 11 -Net Other Operating Income.

	Note	2023 LKR	2022 LKR
Interest income	7.	29,904,604,368	23,101,048,459
Fee and commission income	8.	353,932,735	504,650,370
Net Gain/(Loss) from Trading	9.	1,257,500	(1,077,912)
Net Fair Value Gain/(Loss) from Financial Assets at Fair Value through Profit or Loss	10.	476,058,048	166,508,518
Net Other Operating Income	11.	56,878,394	263,006,686
		30,792,731,044	24,034,136,121

7. NET INTEREST INCOME

Accounting Policy

Recognition of Interest Income

The Bank recognises interest income for all financial instruments measured at amortised cost, interest-bearing financial assets measured at FVOCI and FVPL using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

	2023	2022
	LKR	LKR
Interest income		
Cash and cash equivalents	211,901,559	279,312,110
Placements with banks	1,345,125,378	1,612,656,134
Financial assets at amortised cost:		
-Loans and receivables to other customers	22,257,612,378	18,427,842,602
-Debt and other instruments	5,838,919,791	2,780,624,363
Financial assets - fair value through profit or loss	251,045,262	613,250
Total interest income	29,904,604,368	23,101,048,459
Interest expenses		
Financial liabilities at amortised cost:		
-Due to other customers	17,077,267,492	11,109,235,368
-Due to debt securities holders	-	-
-Other borrowers	3,338,340,764	4,496,118,385
-Subordinated term debt	874,097,563	659,020,921
-Finance cost of lease liability	113,002,463	(2,379,998)
Total interest expenses	21,402,708,282	16,261,994,676
Net interest income	8,501,896,086	6,839,053,783

7.1 NET INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES

	2023	2022
	LKR	LKR
Net interest income from Sri Lanka Government securities	6,030,869,770	2,743,612,889
	6,030,869,770	2,743,612,889

8. NET FEE AND COMMISSION INCOME

Accounting Policy**Fee Income Earned from Services that are Provided over a Certain Period of Time**

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, commission income and asset management fees etc. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate of the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

Other Fee and Commission Expense

Other fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

NOTES TO THE FINANCIAL
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	2023	2022
	LKR	LKR
Fee and commission income	353,932,735	504,650,370
Fee and commission expenses	(36,170,237)	(26,705,960)
Net fee and commission income	317,762,498	477,944,410

8.1 NET FEE AND COMMISSION EARNED FROM

	2023	2022
	LKR	LKR
Loans	90,424,487	292,702,148
Deposits	2,648,123	1,996,351
Guarantees	1,157,457	1,204,313
Commission earned from insurance	14,234,806	26,409,342
Commission earned from ATM	79,431,072	87,909,148
Others	129,866,554	67,723,108
Net fee and commission income	317,762,498	477,944,410

9. NET GAIN/(LOSS) FROM TRADING

Accounting Policy

Net gain/(loss) from trading includes all the capital gain/(loss) from financial assets measured at fair value through profit or loss.

	2023	2022
	LKR	LKR
Equity securities	-	(3,395,662)
Sri Lanka Government securities - Treasury bills and treasury bonds	1,257,500	2,317,750
	1,257,500	(1,077,912)

10. NET FAIR VALUE GAIN/(LOSS) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH
PROFIT OR LOSS*Accounting Policy*

Net fair value gain/(loss) from financial assets measured at fair value through profit or loss includes all the gains and losses from changes in fair value from financial assets measured at fair value through profit or loss.

	2023	2022
	LKR	LKR
Sri Lanka Government securities - Treasury bills and treasury bonds	(296,735)	245,000
Unit trust	476,354,783	165,381,942
Quoted Equities	-	881,576
Total	476,058,048	166,508,518

NOTES TO THE FINANCIAL STATEMENTS

11. NET OTHER OPERATING INCOME

Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Bank are recognised as other operating income, such as gains on disposal of property, plant and equipment, dividend income and foreign exchange gains/(losses).

Gains/(losses) arising from disposal of property, plant and equipment are recorded after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Dividend income from investments in quoted and non quoted shares are recognised when the Bank's right to receive the payment is established.

Foreign exchange gain/(loss) includes gain/(loss) arising from revaluation of foreign currency assets/ liabilities.

	2023	2022
	LKR	LKR
Gain on sale of property, plant and equipment	52,544,280	209,716
Dividend income	7,770,016	586,129
Other income	(3,435,902)	262,210,841
Other operating income	56,878,394	263,006,686

12. IMPAIRMENT FOR LOANS AND OTHER LOSSES

Accounting Policy

The accounting policies adopted in determining the impairment allowance for financial assets including loans and advances are given in Note 3.2.6 to the Financial Statements.

12.1 BALANCES WITH BANKS

	2023	2022
	LKR	LKR
Stage 1	422,477	(1,348,188)
Total	422,477	(1,348,188)

NOTES TO THE FINANCIAL
STATEMENTS

12.2 PLACEMENTS WITH BANKS

	2023	2022
	LKR	LKR
Stage 1	2,597,319	152,089
Total	2,597,319	152,089

12.3 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO CUSTOMERS

	2023	2022
	LKR	LKR
Stage 1	(249,867,319)	152,992,400
Stage 2	(162,543,555)	500,324,761
Stage 3	2,229,017,687	1,246,352,833
Total	1,816,606,813	1,899,669,994

12.4 DEBT AND OTHER INSTRUMENTS

	2023	2022
	LKR	LKR
Stage 1	268,549	2,217
Total	268,549	2,217
Total	1,819,895,158	1,898,476,112

NOTES TO THE FINANCIAL STATEMENTS

13. PERSONNEL EXPENSES

Accounting Policy

Short Term Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable by the employer to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability under 'Other liabilities' in Note 34.

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund and 14% on the salary of each employee to the Employees' Provident Fund. The above expenses are identified as contributions to "Defined Contribution Plans" as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits)."

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, staff gratuity and Employees' Provident Fund of the Bank was considered as the defined benefit plan as per Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

Gratuity

In compliance with the Gratuity Act No. 12 of 1983, provision is made in the accounts from the first year of service, for gratuity payable to employees.

An actuarial valuation is carried out at every year end to ascertain the full liability under gratuity.

The gratuity liability is not externally funded.

The Bank determines the interest expense on this defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations.

The increase in gratuity liabilities attributable to the services provided by employees during the year ended 31st December 2023 (current service cost) has been recognised in the Statement of Profit or Loss under 'Personnel expenses' together with the net interest expense. The Bank recognises the total actuarial gain/loss that arise in calculating the Bank's obligation in respect of gratuity in other comprehensive income during the period in which it occurs.

The demographic assumptions underlying the valuation are retirement age (60 years), early withdrawals from service and retirement on medical grounds etc.

Employees' Provident Fund

Employees' Provident Fund is an approved private provident fund which has been set up to meet the provident fund liabilities of the Bank to which the Bank and employees contribute 14% and 8% respectively on the salary of each employee.

NOTES TO THE FINANCIAL STATEMENTS

	2023	2022
	LKR	LKR
Salary and bonus	2,142,003,420	1,985,638,734
Contributions to defined contribution plans - EPF	299,845,417	277,588,829
- ETF	64,253,589	59,484,820
Contributions to defined benefit plans	196,063,740	121,200,723
Overtime	7,241,077	5,723,222
Staff welfare	41,398,886	38,351,405
Staff allowances	160,921,914	184,305,882
Others	392,710,779	267,949,342
Total	3,304,438,822	2,940,242,957

14. DEPRECIATION AND AMORTISATION EXPENSES

Accounting Policy

Depreciation of Property, Plant and Equipment

The Bank provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates, on a straight-line basis, over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank.

Improvements to leasehold properties are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Freehold lands are not depreciated.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Asset category	Useful life (years)	Depreciation Rate per Annum (%)	
		2023	2022
Buildings	20	20	5
Computer hardware	3 - 5	3 - 5	20 - 33.33
Machinery and equipment	5	5	20
Motor vehicles	4	4	25
Furniture and fittings	5	5	20
Digital Equipment	5	5	20

NOTES TO THE FINANCIAL STATEMENTS

AMORTISATION OF INTANGIBLE ASSETS

Intangible assets, except for goodwill, are amortised on a straight-line basis in the Statement of Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life, based on a pattern in which the asset's economic benefits are consumed by the Bank. The Bank assumes that there is no residual value for its intangible assets.

Asset category	Useful life (years)	Amortisation Rate per Annum (%)		
	2023	2022	2023	2022
Computer software	3 - 7	3 - 7	14 - 33.33	14 - 33.33
Core Banking System	10	7	10	14

INVESTMENT PROPERTIES

Properties held to earn rental income have been classified as investment properties. Investment properties are initially recognised at cost. Up to December 2021, After initial recognition the Bank uses the cost method to measure all of its investment property in accordance with requirements in LKAS 40 "Investment Property". However Bank has changed the Measurement subsequent to initial recognition from cost model to fair value model. Standard permitted to only if this results in a more appropriate presentation

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Depreciation for the up to year 2023 is calculated using the straight-line method to write down the cost of investment property to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Asset category	Useful life (years)	Depreciation Rate per Annum (%)		
	2023	2022	2023	2022
Building	20	20	5	5

AMORTISATION OF RIGHT-OF-USE ASSETS

The right of use assets are depreciated using a straight-line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as renewal of rent agreements.

CHANGES IN ESTIMATES

Depreciation/amortisation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. During the year ended 31st December 2023, the Bank conducted an operational efficiency review and estimates were not changed accordingly.

	2023	2022
	LKR	LKR
Depreciation of property, plant and equipment	184,769,065	228,292,031
Amortisation of Right of use assets	207,950,389	151,241,287
Depreciation of investment property	-	1,056,030
Amortisation of intangible assets	140,015,182	107,925,847
Total	532,734,636	488,515,195

NOTES TO THE FINANCIAL
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15. OTHER EXPENSES

Accounting Policy

Other expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. Provisions in respect of other expenses are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

	2023	2022
	LKR	LKR
Directors' emoluments	52,053,551	40,371,137
Auditors' remunerations	9,445,651	8,959,946
Professional and legal expenses	13,944,241	16,898,461
Office administration and establishment expenses	2,141,260,511	1,870,712,352
Total	2,216,703,954	1,936,941,897

15.1 Directors' emoluments include fees paid to Non-executive Directors.

15.2 AUDITORS' REMUNERATIONS

	2023	2022
	LKR	LKR
Audit fees	3,921,500	2,530,000
Audit related fees & expenses	4,292,013	5,197,777
Non-audit expenses	1,232,138	1,232,169
	9,445,651	8,959,946

NOTES TO THE FINANCIAL STATEMENTS

16. TAX EXPENSE

Accounting Policy

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Statement of Profit or Loss, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 16.3.

Deferred Taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of deferred tax liabilities/(assets) is given in Note 16.2 to the Financial Statements respectively.

	2023	2022
	LKR	LKR
Current tax expense		
Income tax for the year	236,125,413	305,978,108
Adjustment in respect of current income tax of prior periods	29,966,079	19,348,276
Deferred taxation charge /(reversal)	39,012,445	(289,535,592)
Total	305,103,937	35,790,792

NOTES TO THE FINANCIAL
STATEMENTS

16.1 RECONCILIATION OF TAX EXPENSES

	2023	2022
	LKR	LKR
Profit before tax	771,926,150	96,957,128
Income tax for the period (Accounting profit at 30%)	231,577,845	26,178,425
Income exempt from tax /or not taxable	(211,971,502)	82,058
Add: Tax effect of expenses that are not deductible for tax purposes	1,115,044,507	1,025,802,248
Less: Tax effect of expenses that are deductible for tax purposes	(898,525,437)	(497,588,235)
Add: Tax impact on leasing loss	-	(248,496,387)
Tax expense for the year	236,125,413	305,978,108
Adjustment in respect of current income tax of prior period	29,966,079	19,348,276
Deferred taxation charge	-	(250,453,331)
Amount of Deferred Tax Expense /(Income)	39,012,445	(39,082,260)
At the effective income tax rate of 39.53% (2022 : 36.92%)	305,103,937	35,790,792

16.2 DEFERRED TAX ASSETS, LIABILITIES AND INCOME TAX RELATES TO THE FOLLOWINGS:

Asset category	Statement of financial position		Statement of comprehensive income	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
Deferred tax liability				
Capital allowances for property, plant and equipment	36,703,921	106,187,111	(69,483,190)	50,498,169
Capital allowances for leased assets	-	21,328,813	(21,328,813)	(33,256,982)
	36,703,921	127,515,924	(90,812,003)	17,241,187
Deferred tax assets				
Defined benefit plans	229,834,359	219,296,645	(10,537,714)	(88,855,892)
Impairment allowance	333,050,478	499,279,264	166,228,786	(239,912,190)
Right to use assets	7,629,427	9,568,302	1,938,875	10,346,724
	570,514,264	728,144,211	157,629,947	(318,421,358)
Deferred taxation charge/(reversal)			66,817,944	(301,180,171)
Net deferred tax liability /(asset)	(533,810,343)	(600,628,286)		

16.2.1 COMPOSITION OF DEFERRED TAX CHARGE

	2023	2022
	LKR	LKR
Impact on income tax expense	39,012,445	(289,535,592)
Impact on other comprehensive income	27,805,499	(11,644,579)
Impact on comprehensive income	66,817,944	(301,180,171)

NOTES TO THE FINANCIAL STATEMENTS

16.3 INCOME TAX RATE

The Bank applied the rate of 30% in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the income tax and deferred tax assets/liabilities as at 31st December 2023.

17. EARNINGS PER SHARE

Accounting Policy

The Bank presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit attributable to the ordinary equity shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, if any.

	2023	2022
	LKR	LKR
Net profit for the year	466,822,213	61,166,336
Profit attributable to ordinary shareholders	466,822,213	61,166,336

	2023	2022
	Number	Number
Weighted average number of ordinary shares in issue	160,698,832	160,698,832
	160,698,832	160,698,832
Basic/diluted earnings per ordinary share	2.90	0.38

The subordinated term debts detailed in Note 32 are resulted for anti-diluted earnings per share.

18. CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position. All cash and cash equivalent balances held by the Bank were available for use.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short term deposits as defined above and placements with banks (less than 3 months).

	2023	2022
	LKR	LKR
Cash in hand	642,769,843	559,905,360
Balances with banks	2,274,097,848	2,513,056,774
Less : Impairment	(539,120)	(116,644)
Carrying value after impairment	2,916,328,571	3,072,845,490

NOTES TO THE FINANCIAL
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18.1 ANALYSIS OF CASH AND CASH EQUIVALENTS BASED ON EXPOSURE TO CREDIT RISK

	Stage 1	
	2023	2022
	LKR	LKR
Cash and cash equivalents	2,916,867,692	3,072,962,134
Less : Impairment	(539,120)	(116,644)
Carrying value after impairment	2,916,328,572	3,072,845,490

18.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF CASH AND CASH EQUIVALENTS

	Stage 1	
	2023	2022
	LKR	LKR
Opening balance as at 1 January	116,643	1,464,831
Charges/(write back) to income statement	422,477	(1,348,188)
Closing balance as at 31 December	539,120	116,643

18.3 CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENT

	2023	2022
	LKR	LKR
Cash and cash equivalents	2,916,328,571	3,072,845,490
Fixed deposits less than 3 months	250,000,000	275,500,000
	3,166,328,571	3,348,345,490

19. PLACEMENTS WITH BANKS

Accounting Policy

Placements with Banks net of impairment allowance includes money at call and short term investments that are subject to an insignificant risk of changes in the fair value, and are used by the Bank in the management of its short term commitments.

	2023	2022
	LKR	LKR
Placements with banks	15,391,073,454	18,205,902,365
Less: Impairment	(3,303,801)	(706,482)
Carrying value after impairment	15,387,769,653	18,205,195,883

NOTES TO THE FINANCIAL STATEMENTS

19.1 ANALYSIS OF PLACEMENTS WITH BANKS BASED ON EXPOSURE TO CREDIT RISK

	Stage 1	
	2023	2022
	LKR	LKR
Placements with banks	15,391,073,454	18,205,902,365
Less : Impairment allowance for placement	(3,303,801)	(706,482)
Carrying value after impairment	15,387,769,653	18,205,195,883

19.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF PLACEMENTS WITH BANKS

	Stage 1	
	2023	2022
	LKR	LKR
Opening balance as at 1 January	706,482	554,393
Charges/(write back) to income statement	2,597,319	152,089
Closing balance as at 31 December	3,303,801	706,482

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Accounting Policy

The accounting policies pertaining to "Financial Assets Recognised through Profit or Loss - Measured at Fair Value" are given in Note 3.2.3.4 to the Financial Statements.

	2023	2022
	LKR	LKR
Sri Lanka Government securities - Treasury bills and Treasury bonds	1,965,510,013	-
Unit trust	849,711,163	1,905,738,326
Quoted Equities	-	-
Total	2,815,221,176	1,905,738,326

21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS

Accounting Policy

The key accounting policies pertaining to financial instruments including "Loans and Advances" are given in Notes 3.2 to the Financial Statements.

	2023	2022
	LKR	LKR
Gross loans and receivables (Note 21.1)	106,479,816,039	116,319,763,769
Less: Individual impairment	(3,874,068,410)	(1,922,093,650)
Collective impairment	(3,736,851,979)	(3,872,219,927)
Net loans and receivables	98,868,895,650	110,525,450,192

NOTES TO THE FINANCIAL
STATEMENTS21.1 ANALYSIS OF LOANS AND RECEIVABLES TO OTHER CUSTOMERS BASED ON EXPOSURE
TO CREDIT RISK

	2023			
	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Individual impairment loans				
Term loan			6,483,454,356	6,483,454,356
Leasing			805,596,746	805,596,746
Collective impairment loans				
Pawning	6,175,553,814	548,159,452	199,447,085	6,923,160,351
Cash margin	8,325,801,247	243,872,105	10,157,881	8,579,831,232
Staff loans	1,940,404,631	1,301,826	-	1,941,706,457
Term loans				
Business	198,797,148	136,587,463	365,004,878	700,389,489
Co-operative	571,784,518	210,562,457	241,892,495	1,024,239,470
Housing	1,190,178,468	518,819,202	375,731,655	2,084,729,325
Personal	275,979,922	43,509,511	322,975,531	642,464,964
Fixed and floating	18,692,667,671	1,228,958,862	3,119,069,241	23,040,695,774
SME	4,905,017,247	2,862,984,459	2,854,380,082	10,622,381,788
Upahara	38,645,233,133	317,122,604	8,416,927	38,970,772,664
Lease rentals receivables	2,490,734,583	1,331,795,845	837,862,995	4,660,393,424
Gross loans and receivables	83,412,152,382	7,443,673,786	15,623,989,872	106,479,816,039
Less : Impairment allowance	(587,668,891)	(806,534,764)	(6,216,716,734)	(7,610,920,389)
Net loans and receivables	82,824,483,491	6,637,139,022	9,407,273,138	98,868,895,650

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

NOTES TO THE FINANCIAL STATEMENTS

21.2 GROSS LOANS AND RECEIVABLES ANALYSIS BY PRODUCT

	2023	2022
	LKR	LKR
Loans and receivables		
Pawning	6,945,957,120	5,820,217,507
Cash margin	8,593,154,720	11,770,371,489
Staff loans	1,941,706,782	2,046,485,588
Term loans		
Business	1,490,041,073	3,247,584,599
Co-operative	1,460,980,899	2,074,008,738
Housing	2,479,572,403	2,788,477,058
Personal	761,553,079	804,843,323
Fixed and floating	24,696,067,872	26,549,542,016
SME	13,077,957,313	14,400,557,200
Upahara	39,566,834,609	38,581,284,713
Lease rentals receivable (Note 21.2.1)	5,465,990,169	8,236,391,538
Gross total	106,479,816,039	116,319,763,769

21.2.1 LEASE RENTALS RECEIVABLE

	2023	2022
	LKR	LKR
Gross lease receivable within one year	1,544,196,773	1,828,647,093
Unearned income on rentals receivable	(478,408,529)	(797,262,017)
Gross lease receivable within one year	1,065,788,244	1,031,385,076
Gross lease receivable after one year	5,111,787,181	8,497,992,591
Unearned income on rentals receivable	(711,585,257)	(1,292,986,128)
Gross lease receivable after one year	4,400,201,924	7,205,006,463
Gross lease receivable total	5,465,990,168	8,236,391,539

21.3 GROSS LOANS AND RECEIVABLES ANALYSIS BY CURRENCY

	2023	2022
	LKR	LKR
Sri Lankan Rupee	106,479,816,039	116,319,763,769
Gross total	106,479,816,039	116,319,763,769

NOTES TO THE FINANCIAL
STATEMENTS

21.4 GROSS LOANS AND RECEIVABLES ANALYSIS INDUSTRY

	2023		2022	
	LKR	%	LKR	%
Agriculture, Forestry & Fishing	15,609,528,116	14.66%	14,534,431,325	12.50%
Manufacturing	2,559,981,522	2.40%	96,370,916	0.08%
Tourism	1,445,901,956	1.36%	400,133,713	0.34%
Construction and Infrastructure Development	8,321,980,677	7.82%	20,928,093,925	17.99%
Real Estate & Property Development	23,620,513	0.02%	269,580,087	0.23%
House & Land Purchasing	528,115,313	0.50%	901,311,270	0.77%
Housing Repairs & Renovations	2,498,945,558	2.35%	9,337,803,101	8.03%
Housing Constructions	1,943,445,030	1.83%	6,631,042,229	5.70%
Business Premises Purchasing	943,542,181	0.89%	444,510,442	0.38%
Business Premises Repairs & Renovations	1,382,907,836	1.30%	1,403,285,895	1.21%
Commercial Constructions	453,901,199	0.43%	213,885,022	0.18%
Others	454,690,311	0.43%	1,585,070,455	1.36%
Leasing	92,812,736	0.09%	141,605,425	0.12%
Wholesale and Retail Trade	8,892,462,225	8.35%	14,649,447,156	12.59%
Financial Services	3,829,394,911	3.60%	9,635,276,513	8.28%
Consumption	61,971,904,176	58.20%	49,973,573,832	42.96%
Transportation and Storage	1,443,625,410	1.36%	4,115,625,166	3.54%
Information Technology and Communication	113,268,616	0.11%	78,675,844	0.07%
Professional, Scientific and Technical Activities	195,446,362	0.18%	23,576,706	0.02%
Arts, Entertainment and Recreation	19,218,775	0.02%	1,323,563	0.00%
Education	172,511,114	0.16%	104,574,032	0.09%
Healthcare, Social Services and Support services	1,904,592,178	1.79%	1,778,661,079	1.53%
	106,479,816,039	100.00%	116,319,763,769	100.00%

21.4.1 As per the requirement of Central Bank of Sri Lanka (CBSL), a minimum of 10% of the loans and advances shall be granted to the agriculture sector. The Bank has complied with the said requirement as at 31st December 2023 and 31st December 2022.

21.5 MOVEMENT IN INDIVIDUAL AND COLLECTIVE IMPAIRMENT BASED ON EXPOSURE TO CREDIT RISK

	2023	2022
	LKR	LKR
Stage 1		
Opening balance as at 1 January	837,536,210	684,543,810
Charges/(write back) to income statement	(249,867,319)	152,992,400
Closing balance as at 31 December	587,668,891	837,536,210
Stage 2		
Opening balance as at 1 January	969,078,318	468,753,557
Charges/(write back) to income statement	(162,543,555)	500,324,761
Closing balance as at 31 December	806,534,764	969,078,318
Stage 3		
Opening balance as at 1 January	3,987,699,047	2,742,429,214
Charges/(write back) to income statement	2,229,017,687	1,246,352,833
Write - off during the year	-	(1,083,000)
Closing balance as at 31 December	6,216,716,734	3,987,699,047

NOTES TO THE FINANCIAL STATEMENTS

21.6 MOVEMENT IN INDIVIDUAL AND COLLECTIVE IMPAIRMENT

	Individual impairment LKR	Collective impairment LKR	Total impairment LKR
Opening balance as at 1 January 2022	1,419,421,301	2,476,305,282	3,895,726,583
Charge/(write back) to income statement	502,672,348	1,396,997,645	1,899,669,993
Recovery/(write-off) during the year	-	(1,083,000)	(1,083,000)
Closing balance as at 31 December 2022	1,922,093,649	3,872,219,927	5,794,313,576
Opening balance as at 1 January 2023	1,922,093,649	3,872,219,927	5,794,313,576
Charge/(write back) to income statement	1,951,974,761	(135,367,948)	1,816,606,813
Recovery/(write-off) during the year	-	-	-
Closing balance as at 31 December 2023	3,874,068,410	3,736,851,979	7,610,920,389

21.7 Based on the impairment model revalidation, product segmentation has been re-classified after evaluating the credit risk characteristics of loan facilities. Analysis of loans and advances, commitments, contingencies mentioned in Note 47 has disclosed the product segmentation as at 31st December 2023 and 2022, after validating the impairment model. The Bank estimated Expected Credit Loss (ECL) as at December 31, 2023, based on the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at December 31, 2023, after validating the impairment model.

22. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

Accounting Policy

The accounting policies pertaining to financial instruments including "Debt and Other Instruments" are given in Note 3.2 to the Financial Statements.

	2023 LKR	2022 LKR
Debentures	101,651,849	102,624,999
Treasury bill	28,448,673,551	19,166,885,942
Commercial papers	505,753,425	-
Treasury bonds	3,380,574,793	550,268,525
Less: Impairment	(312,299)	(43,750)
Carrying value after impairment	32,436,341,319	19,819,735,716

22.1 ANALYSIS OF DEBT AND OTHER INSTRUMENTS BASED ON EXPOSURE TO CREDIT RISK

	Stage 1 2023 LKR	2022 LKR
Debentures	101,651,849	102,624,999
Treasury bill	28,448,673,551	19,166,885,942
Commercial papers	505,753,425	-
Treasury bonds	3,380,574,793	550,268,525
Less : Impairment allowance	(312,299)	(43,750)
Carrying value after impairment	32,436,341,319	19,819,735,716

NOTES TO THE FINANCIAL
STATEMENTS

22.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF DEBT AND OTHER INSTRUMENTS

	Stage 1	
	2023	2022
	LKR	LKR
Opening balance as at 1 January	43,749	41,532
Charges/(write back) to income statement	268,549	2,217
Closing balance as at 31 December	312,298	43,749

23. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Accounting Policy

The accounting policies pertaining to "Financial Assets – Fair Value Through Other Comprehensive Income" are given in Notes 3.2.3.5 & 3.2.3.6 to the Financial Statements.

	2023	2022
	LKR	LKR
Unquoted equity securities (Note 23.1)	56,939,525	56,938,514
Financial assets measured at fair value through other comprehensive income	56,939,525	56,938,514

23.1 UNQUOTED EQUITY SECURITIES

Unquoted equity securities	2023		2022	
	Number of shares	Amount LKR	Number of shares	Amount LKR
SANASA Insurance Company Limited	7,590,494	75,830,761	7,590,494	75,829,751
Credit Information Bureau of Sri Lanka	100	10,000	100	10,000
Consorzio Etimos S.C.	2	75,194	2	75,194
Loss from share valuation as at 31 December		(18,976,430)		(18,976,430)
		56,939,525		56,938,514

NOTES TO THE FINANCIAL STATEMENTS

23.1.2 VALUATION OF UNQUOTED EQUITY SECURITIES

Type	Level	Method of valuation	Significant unobservable inputs	Sensitivity of fair value to unobservable inputs
Unquoted share investment	Level 3	Market approach - price to book value of comparable peer companies	Medium price to book value - liquidity discount Regulatory non-compliance adjustment	Positively correlated sensitivity Positively correlated sensitivity

24. INVESTMENT IN SUBSIDIARIES

Accounting Policy

The accounting policies for "Investment in Subsidiaries" are given in Notes 1.3 to the Financial Statements.

	2023	2022
	LKR	LKR
Unquoted equity investments	6,163,100	6,163,100
	6,163,100	6,163,100

24.1 Investment in Subsidiary includes the investment made by the Bank in Payment Services(Private) Limited, amounting to Rs.6,163,100/- . Payment Services(Private) Limited was the operator of UPay digital solution App prior to purchase of this App by Sanasa Development Bank PLC on 10th June 2019. With this acquisition, Payment Services(Private) Limited has become a fully owned subsidiary of Sanasa Development Bank PLC, with effect from 26th May 2020. Since this investment is immaterial, The Bank do not prepare consolidated Financial Statements.

**NOTES TO THE FINANCIAL
STATEMENTS****25. PROPERTY, PLANT AND EQUIPMENT****Accounting Policy****Recognition**

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Bank applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be reliably measured.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant and equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable for bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted as separate items (major components) of property, plant and equipment.

Cost Model

The Bank applies cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the Statement of Profit or Loss as incurred.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in the Statement of Profit or Loss when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

Capital Work in Progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant, machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard - LKAS 23 (Borrowing Costs). A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

Rates of depreciation for each category of property, plant and equipment are given in Note 14, 'Depreciation and Amortisation Expenses'.

2023	Land and buildings	Computer hardware	Machinery and equipment	Furniture and fittings	Motor vehicles	Digital Equipment	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR

Cost

Opening balance as at 1 January	484,727,082	1,189,879,194	574,735,899	434,075,858	158,856,127	328,008,505	3,170,282,665
Additions	-	10,527,834	20,999,799	59,936,460	676,930	-	92,141,023
Surplus on revaluation of property	74,939,000	-	-	-	-	-	74,939,000
Transfer to Intangible Assets		(495,742,974)	-	-	-	-	(495,742,974)
Disposals	-	(152,493,737)	(17,346,724)	(6,143,883)	(23,500,000)	-	(199,484,343)
Closing balance as at 31 December	559,666,082	552,170,317	578,388,974	487,868,435	136,033,057	328,008,505	2,642,135,371

Less: Accumulated depreciation

Opening balance as at 1 January	42,618,068	896,765,096	518,763,151	370,103,366	157,433,860	91,408,591	2,077,092,132
Charge for the year	3,212,371	53,127,286	24,598,100	36,933,318	1,296,288	65,601,701	184,769,064
Transfer to Intangible Assets	-	(265,848,856)	-	-	-	-	(265,848,856)
Disposals	(186,423)	(152,493,737)	(17,346,724)	(5,679,354)	(23,500,000)	-	(199,206,238)
Closing balance as at 31 December	45,644,016	531,549,789	526,014,527	401,357,330	135,230,148	157,010,292	1,796,806,102

2022	Land and buildings	Computer hardware	Machinery and equipment	Furniture and fittings	Motor vehicles	Digital Equipment	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR

Cost

Opening balance as at 1 January	251,979,214	1,157,452,813	571,816,787	424,821,888	158,915,227	273,553,285	2,838,539,214
Additions	-	52,328,452	11,957,545	18,486,688		54,455,220	137,227,904
Surplus on revaluation of property	259,036,868						259,036,868
Transfer to Non current asset held for sale	(26,289,000)						(26,289,000)
Disposals	-	(19,902,071)	(9,038,433)	(9,232,718)	(59,100)		(38,232,322)
Closing balance as at 31 December	484,727,082	1,189,879,194	574,735,899	434,075,858	158,856,127	328,008,505	3,170,282,664

Less: Accumulated depreciation

Opening balance as at 1 January	40,362,951	830,470,337	498,033,657	338,778,631	149,964,097	28,825,832	1,886,435,504
Charge for the year	3,088,450	86,819,694	29,689,047	38,583,218	7,528,863	62,582,759	228,292,031
Transfer to Non current asset held for sale	(833,333)						(833,333)
Disposals	-	(20,524,936)	(8,959,553)	(7,258,483)	(59,100)		(36,802,072)
Closing balance as at 31 December	42,618,068	896,765,096	518,763,151	370,103,366	157,433,860	91,408,591	2,077,092,130

	Land and buildings	Computer hardware	Machinery and equipment	Furniture and fittings	Motor vehicles	Digital Equipment	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR

Net book value as at 31 December 2023	514,022,066	20,620,528	52,374,447	86,511,105	802,909	170,998,213	845,329,269
Net book value as at 31 December 2022	442,109,013	293,114,098	55,972,748	63,972,493	1,422,267	236,599,914	1,093,190,533

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25.1 FREEHOLD LAND AND BUILDINGS

The details of the land and buildings owned by the Bank are as follows:

Location/Address	As at 31 December 2023						As at 31 December 2022		
	Extent		Cost/ Fair Value				Cost/ Fair Value		
	Land	No of Building buildings	Land Fair value	Land Cost	Building Cost		Land Fair value	Land Cost	Building Cost
	(Perches)	(Square feet)	LKR	LKR	LKR		LKR	LKR	LKR
No. 14, Edmonton Road, Kirulapone	17.85	-	-	116,000,000	38,999,000	-	70,000,000	38,999,000	-
No. 12/01, Edmonton Road, Kirulapone	18.05	-	-	88,000,000	46,799,000	-	90,000,000	46,799,000	-
A1, SANASA Housing Project, Toppass, Nuwara Eliya	13	1,252	1	13,200,000	400,000	2,100,000	20,000,000	400,000	2,100,000
No. 145, Rathnapura Road, Horana	13	7,120	1	32,500,000	20,539,000	6,500,000	32,500,000	20,539,000	6,500,000
No. 63A, Matara Road, Akuressa	14	3,728	1	49,000,000	14,423,820	8,975,180	58,000,000	14,423,820	8,975,180
No. 255, Sunny Side Gardens, Karapitiya	18.50	5,992	1	46,250,000	9,250,000	20,833,360	46,250,000	9,250,000	20,833,360
No. 342, Main Street, Kegalle	19	11,086	1	152,000,000	34,760,400	14,118,600	98,461,000	34,760,400	14,118,600
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	320	2,600	1	3,200,000	1,002,912	4,568,824	10,000,000	1,002,912	4,568,824
60/64, Sahasapura Scheme, Baseline Mw. Borella	-	650	1	-	-	2,420,118	-	-	2,420,118
				500,150,000	166,174,132	59,516,082	425,211,000	166,174,132	59,516,082

25.2 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of Rs. 92,141,023/- (2022 - Rs. 137,227,904/-). Cash payments amounting to Rs. 92,141,023/- (2022 - Rs. 137,227,904/-) were made during the year for purchase of property, plant and equipment.

25.3 Property, plant and equipment includes fully depreciated assets having a gross carrying amounts of Rs. 1,638,580,353/- (2022 - Rs. 1,734,533,086/-)

25.4 There were no restrictions on the title of the property, plant and equipment as at 31st December 2023.

25.5 There were no idle property, plant and equipment as at 31st December 2023.

NOTES TO THE FINANCIAL STATEMENTS

26. RIGHT OF USE ASSETS

Accounting Policy

Right-of-use assets are presented in the statement of financial position (refer the accounting policy in Note 3.3). Right to use assets are depreciated on a straight line basis over the lease term.

	2023	2022
	LKR	LKR
Cost		
Opening balance as at 1 January	1,381,879,073	1,186,912,871
Additions and improvements during the year	279,054,237	194,966,202
Closing balance as at 31 December	1,660,933,310	1,381,879,073
Less: Accumulated amortisation		
Opening balance as at 1 January	772,677,624	621,436,337
Amortisation expenses for the year	207,950,389	151,241,287
Closing balance as at 31 December	980,628,013	772,677,624
Net book value as at 31 December	680,305,297	609,201,449

27. INVESTMENT PROPERTIES

Accounting Policy

The accounting policies for "Investment Properties" are given in Notes 14 to the Financial Statements.

	2023	2022
	LKR	LKR
Cost		
Opening balance as at 1 January	-	35,359,000
Additions	-	-
Disposals / Transfer to Non Current asset held for sale	-	(35,359,000)
Closing balance as at 31 December	-	-
Less: Accumulated depreciation		
Opening balance as at 1 January	-	16,192,460
Charge for the year	-	1,056,030
Disposals / Transfer to Non Current asset held for sale	-	(17,248,490)
Closing balance as at 31 December	-	-
Net book value as at 31 December	-	-

27.1 Assets previously classified as investment property and Property plant and equipment have been transferred to non-current assets available for sale at the end of 2022 with the intention of selling the property in 2023. All the criteria given by SLRS 05 were satisfied in its transfer to non-current assets held for sale.

NOTES TO THE FINANCIAL
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27.2 NON-CURRENT ASSETS HELD FOR SALE

	2023	2022
	LKR	LKR
Cost	-	61,648,000
Less: Accumulated depreciation	-	(18,081,823)
Net book value as at 31 December	-	43,566,177

As per the SLRS 05 entity shall measure the Non current asset held for sale at the lower of its carrying amount and fair value less cost of sale. Market value (Level 3) of the above asset is LKR 75,000,000 /-. Valuation was carried out by E M P A G N I B Ekanayake independent professional valuer on 31st December 2022. Market comparable method is used for value the property and rate per perch is Rs. 1,200,000/-. Subsequently said asset was sold at Rs.75,000,000 in February 2023.

28. INTANGIBLE ASSETS

*Accounting Policy***Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes. An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. Expenditure incurred on an intangible item that was initially recognised as an expense by the Bank in previous annual Financial Statements or interim Financial Statements are not recognised as part of the cost of an intangible asset at a later date.

Computer Software

Cost of purchased licenses and all computer software costs incurred, licensed for use by the Bank which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category 'Intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill

Goodwill, if any that arises upon the acquisition of subsidiaries is included in intangible assets.

Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred. Goodwill is measured at cost less accumulated impairment losses.

Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

Intangible assets of the Bank as at 31st December 2023 only include computer software and cost of licenses.

NOTES TO THE FINANCIAL STATEMENTS

Rates of amortisation for computer software and licenses are given in Note 14, 'Depreciation and Amortisation Expenses'.

	2023	2022
	LKR	LKR
Cost		
Opening balance as at 1 January	1,014,179,642	706,355,933
Transfer From Computer	495,742,974	
Additions	124,979,901	307,823,709
Disposal	(54,862,259)	-
Closing balance as at 31 December	1,580,040,258	1,014,179,642
Less: Accumulated amortisation		
Opening balance as at 1 January	475,348,533	367,422,686
Transfer From Computer	265,972,624	
Charge for the year	140,015,182	107,925,847
Disposal	(54,862,259)	
Closing balance as at 31 December	826,474,080	475,348,533
Net book value as at 31 December	753,566,178	538,831,109

28.1 As of 2023, computer software, formerly categorised under Property, Plant, and Equipment (PPE), has been reclassified as an Intangible Asset for enhanced presentation clarity. This reclassification does not affect depreciation, as the software continues to be treated accordingly.

28.2 There were no idle intangible assets as at 31st December 2023.

28.3 There were no restrictions on the title of the intangible assets as at 31st December 2023.

29. OTHER ASSETS

	2023	2022
	LKR	LKR
Postage legal and other charges receivable	53,869,164	115,373,011
Unamortised staff cost	1,114,957,475	1,100,189,821
Deposits, prepayments and other receivables	444,148,270	1,764,930,023
Inventory	43,755,115	63,054,248
Total	1,656,730,024	3,043,547,103

NOTES TO THE FINANCIAL
STATEMENTS

30. DUE TO OTHER CUSTOMERS

Accounting Policy

The accounting policies pertaining to "Due to Depositors" are given in Note 3.2.3.7 to the Financial Statements.

	2023	2022
	LKR	LKR
Total amount due to other customers	108,118,121,881	107,533,001,772
Total	108,118,121,881	107,533,001,772

30.1 ANALYSIS OF DUE TO OTHER CUSTOMERS

	2023	2022
	LKR	LKR

By product

Savings deposits	16,904,313,938	14,542,774,099
Fixed deposits	91,213,807,943	92,990,227,673
Total	108,118,121,881	107,533,001,772

	2023	2022
	LKR	LKR

By currency

Sri Lanka Rupee	108,118,121,881	107,533,001,772
Total	108,118,121,881	107,533,001,772

31. OTHER BORROWINGS

Accounting Policy

The accounting policies pertaining to "Other Borrowings" are given in Note 3.2.3.7 to the Financial Statements.

	2023	2022
	LKR	LKR
Term loans (Note 31.1)	24,850,940,296	28,539,196,589
Securitized borrowings (Note 31.2)	-	225,592,400
Refinance borrowing (Note 31.3)	1,742,691,940	1,939,758,686
Total	26,593,632,236	30,704,547,675

NOTES TO THE FINANCIAL STATEMENTS

31.1 DETAILS OF TERM LOANS

Institution	Fixed/Floating	Tenure (Months)	2023 LKR	2022 LKR
Sampath Bank PLC	Floating	60	267,315,434	670,109,954
Sampath Bank PLC	Floating	36	710,143,950	1,214,921,895
Seylan Bank PLC	Floating	48		31,403,369
Seylan Bank PLC	Floating	47		42,834,154
Seylan Bank PLC	Floating	60	198,960,466	400,707,684
Seylan Bank PLC	Floating	60	99,961,589	200,715,564
Seylan Bank PLC	Floating	36		83,702,667
Seylan Bank PLC	Fixed	1	504,191,781	-
Seylan Bank PLC	Fixed	1	2,011,876,712	-
HNB Bank PLC	Floating	36	167,037,878	835,527,003
HNB Bank PLC	Floating	60	337,886,969	488,724,894
HNB Bank PLC	Floating	48	375,667,275	627,071,152
HNB Bank PLC	Fixed	1	1,010,209,589	-
Bank of Ceylon	Floating	60	248,740,875	538,215,222
Bank of Ceylon	Floating	12-81		2,521,293,068
Bank of Ceylon	Floating	15-81		1,715,107,408
Bank of Ceylon	Floating	13-81		2,358,640,312
Bank of Ceylon	Floating	23	194,536,534	543,727,203
Bank of Ceylon	Floating	14		573,681,103
Bank of Ceylon	Floating	17		570,115,714
Bank of Ceylon	Floating	14-63	6,825,147,987	-
Nations Trust Bank PLC	Floating	48		188,620,005
The International Finance Corporation (IFC)	Fixed	60	-	268,634,822
United States International Development Finance Corporation (DFC)	Fixed	81	11,899,263,257	14,665,443,395
			24,850,940,296	28,539,196,589

31.1.1 MOVEMENT IN TERM LOANS

	Opening Balance As at 1 January 2023 LKR	Obtained during year/ Revaluation LKR	Repayment LKR	Closing Balance As at 31 December 2023 LKR
Sampath Bank PLC	1,875,000,000		(900,000,000)	975,000,000
Seylan Bank PLC	736,684,585	2,500,000,000	(438,604,585)	2,798,080,000
HNB Bank PLC	1,946,010,000	1,000,000,000	(1,066,560,000)	1,879,450,000
Bank of Ceylon	8,727,921,535	7,079,843,000	(8,585,245,090)	7,222,519,445
Nations Trust Bank	187,474,000		(187,474,000)	-
IFC	259,000,021		(259,000,021)	-
DFC	14,659,412,000		(2,780,244,335)	11,879,167,665
Interest payable	147,694,448			96,723,187
	28,539,196,589	10,579,843,000	14,217,128,031	24,850,940,296

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The Bank complied with all borrowing covenants reported under Note 32.1 as at 31st December 2023, other than the following covenant breaches.

DFC - NPL Ratio since June 2022 and Open Credit Exposure Ratio (OCER) since September 2022. However, for the breach of DFC, a waiver has been granted from the beginning of the breach until January 1, 2024.

The Bank holds dollar denominated FDs to mitigate the foreign currency risk and those are matching the dollar repayment schedule of the lender. The bank has intimated these breaches to the relevant lenders and the consent for waivers were obtained during post balance sheet period.

31.2 SECURITISED BORROWINGS

	2023	2022
	LKR	LKR
Trust	-	225,592,400
Total	-	225,592,400

31.3 REFINANCE BORROWINGS

	2023	2022
	LKR	LKR
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000
Borrowings under Refinance of Jayatha	156,683,361	63,733,349
Borrowing under Saubagya	579,142,193	892,862,783
Borrowing - Refinance Smile III	289,658,650	344,802,450
Borrowing - Refinance Sepi	-	50,000
Borrowing - Suwashakthi Loan	12,658,001	26,297,005
Borrowing - Kapruka Ayojana	8,483,370	14,798,225
Borrowing - SAPP 4P Youth Loan	21,029,467	40,363,467
Borrowing - Saubagya Covid 19	-	6,926,668
Borrowing - SAPP RF Income Loan	83,333	991,685
Borrowing - SAPP 4P Agri Loan	316,667	4,606,304
Borrowing - SAPP RF Youth Loan	111,018,034	145,955,717
Borrowing-SAPP Refinance	17,768,618	34,987,236
Borrowing-ADB Tea Refinance	68,098,810	30,778,910
Borrowing-ADB SME LOC Refinance	376,089,100	229,533,777
Borrowing-CBSL DAD Refinance	39,958,259	38,366,225
Borrowing - SAPP Agri Loan Refinance	3,352,335	9,846,011
Interest payable	4,151,743	658,873
	1,742,691,941	1,939,758,686

NOTES TO THE FINANCIAL STATEMENTS

Movement in refinance loans	Opening Balance As at 1 January 2023	Obtained during year/ Revaluation	Repayment	Closing Balance As at 31 December 2023
	LKR	LKR	LKR	LKR
SANASA Federation (Refinance of Athwela Loans)	54,200,000	-	-	54,200,000
Borrowings under Refinance of Jayatha	63,733,349	149,100,000	(56,149,989)	156,683,361
Borrowing under Saubagya	892,862,783	45,905,000	(359,625,590)	579,142,193
Borrowing - Refinance Smile III	344,802,450	23,350,000	(78,493,800)	289,658,650
Borrowing - Refinance Sepi	50,000	-	(50,000)	-
Borrowing - Suwashakthi Loan	26,297,005	-	(13,639,004)	12,658,001
Borrowing - Kapruka Ayojana	14,798,225	1,325,000	(7,639,855)	8,483,370
Borrowing - SAPP 4P Youth Loan	40,363,467	-	(19,334,000)	21,029,467
Borrowing - Saubagya Covid 19	6,926,668	-	(6,926,668)	-
Borrowing - SAPP RF Income Loan	991,685	-	(908,352)	83,333
Borrowing - SAPP 4P Agri Loan	4,606,304	-	(4,289,638)	316,667
Borrowing - SAPP RF Youth Loan	145,955,717	10,550,000	(45,487,683)	111,018,034
Borrowing-SAPP Refinance	34,987,236	-	(17,218,618)	17,768,618
Borrowing-ADB Tea Refinance	30,778,910	37,319,900	-	68,098,810
Borrowing-ADB SME LOC Refinance	229,533,777	146,555,323	-	376,089,100
Borrowing-CBSL DAD Refinance	38,366,225	13,780,000	(12,187,966)	39,958,259
Borrowing - SAPP Agri Loan Refinance	9,846,011	-	(6,493,677)	3,352,335
Interest payable	658,873	-	-	4,151,743
	1,939,758,686	427,885,223	(628,444,839)	1,742,691,940

31.3.1 MATURITY ANALYSIS OF REFINANCE BORROWINGS

	2023	2022
	LKR	LKR
Due within one year	844,133,409	720,203,399
1-5 years	453,309,873	915,785,477
After 5 years	445,248,658	303,769,810
	1,742,691,940	1,939,758,686

31.4 SECURITIES AND TERMS OF BORROWINGS

Interest rate ranging for above borrowings 0.5% to 21.29% per annum.

Bank has pledged from the loan portfolios a sum of LKR 3,467,154,547.72 /-(2022 - LKR 3,573,204,504.04/-) for other borrowings.

NOTES TO THE FINANCIAL
STATEMENTS

32. SUBORDINATED TERM DEBTS

	2023	2022
	LKR	LKR
Subordinated term debts	4,460,248,007	5,055,590,136
Total	4,460,248,007	5,055,590,136

32.1 DETAILS OF SUBORDINATED TERM DEBTS

Investor	Tenor/Repayment	Interest Rate	2023	2022
			LKR	LKR
SBI	Repayment or conversion after 66 months	6-month T-bill rate + 450 basis points Payable per annum	-	265,439,443
DGGF	Repayment or conversion after 60 months	6-month T-bill rate+700 basis points Payable per annum	1,774,422,219	1,787,245,431
BIO	Repayment or conversion after 60 months	6-month LIBOR + 550 basis points Payable per annum	2,692,221,091	3,019,400,923
Less: Initial transaction cost			(6,395,303)	(16,495,661)
			4,460,248,007	5,055,590,136

The Bank complied with all borrowing covenants reported under Note 32.1 as at 31st December 2023, other than the following covenant breaches.

BIO – Open Credit Exposure Ratio (OCER) in September 2023. DGGF-PAR90+RS and Open credit exposure is breached since December 2023. For BIO, requesting of waiver is in process, where for Q4 2023, ratios are within the extended limits. For DGGF, waiver is received until December 31, 2023 for PAR90+RS and waiver for OCER is still in process.

The Bank holds dollar denominated FDs to mitigate the foreign currency risk and those are matching the dollar repayment schedule of the lender. The bank has intimated these breaches to the relevant lenders and the consent for waivers were obtained during post balance sheet period. Further, BIO loan is a Tier II capital instrument and continue to qualify as such.

33. RETIREMENT BENEFIT OBLIGATION

33.1 DEFINED BENEFIT LIABILITY

	2023	2022
	LKR	LKR
Defined benefit liability (Note 33.1.1)	766,114,529	714,077,497
Total	766,114,529	714,077,497

NOTES TO THE FINANCIAL STATEMENTS

33.1.1 MOVEMENT IN DEFINED BENEFIT OBLIGATION

	2023	2022
	LKR	LKR
Opening balance as at 1 January	714,077,497	571,664,849
Net benefit expense (Note 34.1.2)	103,378,743	160,868,693
Benefit paid	(51,341,711)	(18,456,045)
Closing balance as at 31 December	766,114,529	714,077,497

33.1.2 NET BENEFIT EXPENSE

	2023	2022
	LKR	LKR
Amounts recognised in profit and loss		
Interest cost	128,533,949	66,884,787
Current service cost	67,529,791	54,315,936
Amendments	-	-
	196,063,740	121,200,723
Amounts recognised in the other comprehensive income		
Experience (gain)/loss	(27,733,983)	26,192,136
(Gain) loss due to changes in assumptions	(64,951,014)	13,475,834
	(92,684,997)	39,667,970
Total expense for the year	103,378,743	160,868,693

33.1.3 THE PRINCIPAL FINANCIAL ASSUMPTIONS USED ARE AS FOLLOWS:

Messrs Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31st December 2023. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2023	2022
Long term interest rate (%)	13.40	18.00
Future salary increase rate (%)	10.00	15.50
Retirement age (years)	60	60

Mortality - GA 1983 Mortality table issued by the Institute of Actuaries London

The weighted average duration of the defined benefit plan obligation at the end of the reporting period is 08 years (2022: 11.1 years)

The discount rate was revised to 13.4% (vs 18% last year) to reflect the yield rates of the treasury bond.

NOTES TO THE FINANCIAL
STATEMENTS33.2 SENSITIVITY ANALYSIS ON DISCOUNTING RATE AND SALARY INCREMENT RATE TO
STATEMENT OF FINANCIAL POSITION AND COMPREHENSIVE INCOME

Assumption	Rate change	2023		2022	
		Impact to financial position - Increment/ (reduction) of liability	Impact to comprehensive income - charged/ (reversal)	Impact to financial position - Increment/ (reduction) of liability	Impact to comprehensive income - charged/ (reversal)
Discount rate	1+	(49,248,593)	(49,248,593)	(60,997,572)	(60,997,572)
Discount rate	1-	55,987,184	55,987,184	70,810,539	70,810,539
Salary increment rate	1+	58,411,559	58,411,559	70,156,432	70,156,432
Salary increment rate	1-	(51,954,870)	(51,954,870)	(61,430,776)	(61,430,776)

33.3 THE EXPECTED BENEFIT PAYOUT IN THE FUTURE YEARS OF RETIREMENT GRATUITY

	2023	2022
	LKR	LKR
Within next 12 months	56,281,192	48,899,372
Between 2 and 5 years	351,799,496	351,297,287
Beyond 5 years	797,510,020	1,001,163,292

34. OTHER LIABILITY

	2023	2022
	LKR	LKR
Special purpose project funds	397,252,924	397,510,238
Lease liability (Note 34.1)	602,933,888	504,815,967
Accruals and other payables	1,377,379,221	770,028,908
Total	2,377,566,033	1,672,355,113

34.1 MOVEMENT IN LEASE LIABILITIES

	2023	2022
	LKR	LKR
Opening balance as at 1 January/Effect of adoption of SLFRS 16 as at 1 January	504,815,967	576,200,703
Additions	228,411,727	159,709,202
Accretion of interest	113,002,463	(2,379,998)
Payments during the year	(243,296,269)	(228,713,940)
Closing balance as at 31 December	602,933,888	504,815,967

NOTES TO THE FINANCIAL STATEMENTS

34.2 MATURITY ANALYSIS OF LEASE LIABILITIES

	2023	2022
	LKR	LKR
Less than 1 year	105,762,197	27,112,769
Between 1 and 5 years	313,475,094	182,682,564
More than 5 years	183,696,597	295,020,634
Total lease liabilities as at 31 December	602,933,888	504,815,967

35. STATED CAPITAL

	2023	2022
	LKR	LKR
Ordinary shares - Issued and fully paid	11,287,765,221	11,287,765,221
Total	11,287,765,221	11,287,765,221

35.1 DETAILS OF ORDINARY SHARES ISSUED AND FULLY PAID

	Value		Number of shares	
	2023 LKR	2022 LKR	2023	2022
Opening balance as at 1 January	11,287,765,221	11,287,765,221	160,698,832	160,698,832
	11,287,765,221	11,287,765,221	160,698,832	160,698,832

36. STATUTORY RESERVE FUND

	2023	2022
	LKR	LKR
Opening balance as at 1 January	317,231,342	314,173,025
Transfer during the period	23,341,111	3,058,317
Closing balance as at 31 December	340,572,453	317,231,342

37. RETAINED EARNINGS

	2023	2022
	LKR	LKR
Opening balance as at 1 January	1,767,576,135	2,500,152,936
Surcharge Tax	-	(521,613,182)
Adjusted Opening Balance as at 1 January	1,767,576,135	1,978,539,754
Profit for the year	466,822,213	61,166,337
Other comprehensive income, net of tax	64,879,498	(28,023,391)
Transfers to other reserves	(23,341,111)	(3,058,317)
Cash dividend	-	(241,048,248)
Closing balance as at 31 December	2,275,936,735	1,767,576,135
Dividend per share	-	-

NOTES TO THE FINANCIAL
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38. OTHER RESERVES

2023	Opening balance as at 1 January 2023	Movement/ transfers	Closing balance as at 31 December 2023
	LKR	LKR	LKR
General reserve	46,656,973	-	46,656,973
Revaluation reserve	259,036,868	74,939,000	333,975,868
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
Total	286,642,217	74,939,000	361,581,217

2022	Opening balance as at 1 January 2022	Movement/ transfers	Closing balance as at 31 December 2022
	LKR	LKR	LKR
General reserve	46,656,973	-	46,656,973
Revaluation reserve	-	259,036,868	259,036,868
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
Total	27,605,349	259,036,868	286,642,217

39. CONTINGENT LIABILITIES AND COMMITMENTS

Accounting Policy

The accounting policies pertaining to "Commitments and Contingencies" are given in Note 2.20 to the Financial Statements.

39.1 BANK GUARANTEES AND COMMITMENTS

	2023	2022
	LKR	LKR
Bank guarantees	264,741,850	249,174,889
Undrawn Credit Lines	549,519,862	479,110,023
Total	814,261,712	728,284,912

NOTES TO THE FINANCIAL STATEMENTS

39.2 MATURITY ANALYSIS OF BANK GUARANTEES AND COMMITMENTS

As at December 2022 (LKR)	On Demand	Below 03 Month	03- 06 Month	06 - 09 Month	09 - 12 Month	Above One Year	Total
Financial Guarantee	19,303,792	45,585,487	60,127,510	44,895,000	74,879,800	4,383,300	249,174,889
Undrawn Credit Lines	479,110,023						479,110,023
Total Commitment and Guarantees	498,413,815	45,585,487	60,127,510	44,895,000	74,879,800	4,383,300	728,284,912

As at December 2023 (LKR)	On Demand	Below 03 Month	03- 06 Month	06 - 09 Month	09 - 12 Month	Above One Year	Total
Financial Guarantee	16,406,485	57,286,705	59,446,530	34,089,190	94,261,700	3,251,240	264,741,850
Undrawn Credit Lines	549,519,862						549,519,862
Total Commitment and Guarantees	565,926,347	57,286,705	59,446,530	34,089,190	94,261,700	3,251,240	814,261,712

39.3 LITIGATION AGAINST THE BANK

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year end, the Bank had several unresolved legal claims.

Following cases are filed against the Bank

Legal status	Case numbers
1. Cases filed against the Bank with respect to mortgaged property and title of property.	
- District courts	L/17/11, DMR/496/15, L/528, L/577, MB/1935, DLM/48/22, 6940/P, 218/L , 7628/T, T/72
2. Cases filed against the Bank to restraining the payment of Bank Guarantee Bonds	
- District Court	2440/M
3. Appeals filed by the customers against the court orders delivered favor to Bank	
- High Court Civil Appeal	HCCA/FA/138/2020, HCCA/82/2017(F), SP/HCCA/LA/13/2023, WP/HCCA/COL/01/2019(F) WP/HCCA/LA/58/2022 & CP/HCCA/REV/29/2022 WP/HCCA/COL/188/23(LA), SP/HCCA/GA/LA/38/2023,
- District Court	DMB /005/16
4. Appeals filed by the Bank against the court orders delivered favor to customers	
- Supreme Court	SC/HC/LA/83/2019, SC/HC/LA/99/2023,
- High Court Civil Appeal	WP/HCCA/COL/21/2021(RA)

NOTES TO THE FINANCIAL STATEMENTS

Legal status	Case numbers
5. Cases filed by customers to obtain injunction orders to restraining the auction of property mortgaged	
- Commercial High Court	CHC/955/18
	CHC/99/21/MR,
- District Court	DSP/275/20,
	DSP/51/2021,
	DSP/144/22, SP/3964/22, DSP/334/2023
	DSP/379/2023, DSP/442/2023, DSP/450/2023,
	DSP/593/2023, DSP/09/23, DSP/10/23, DSP/11/23,
	DSP/15/23, L/341/23
6. Cases filed against the Bank over the repossession of vehicles	
- District Court	SPL/2321, SPL/358
	MR/2299
7. Cases filed against the Bank over the loan facilities to claiming right for the ceased assets by the guarantors	
- District Court	17615/M/17, 17613/M/17,
	0013/CL/22, 13/17/CL
	551/CL, 552/CL, 553/CL
8. Cases filed against the Bank by the employees and former directors	
- District Court	6495/SPL, DMR/4015/17, DSP/430/2021
- Labour Tribunal	LT/BT/344/2017, LT/JF/163/2020,
	LT/13/61/2020, LT/PN/25/19/2021,
	LT/32/RM/05/ 2022, LT/8/51/2022,
	LT/6R/7958/22, LT/13/46/2023
9. Cases filed against the Bank by other parties	
- District Court	M/10933/20, M/10972/20
	T/27, L/191/22,
	L/192/22, L/193/22, L/194/22, L/195/22,
	SPL/251/2023,

40. EVENTS OCCURRING AFTER THE REPORTING DATE

Accounting Policy

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

41. RELATED PARTY DISCLOSURE

The Bank carries out transaction in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standard - LKAS 24 on "Related Party Disclosures", the details of which are reported below: The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties who are defined as LKAS 24 "Related Party Disclosures".

NOTES TO THE FINANCIAL STATEMENTS

41.1 TRANSACTIONS WITH OTHER RELATED PARTIES

According to the LKAS 24, FMO consider as a related party (Significant Investor) and all transaction with FMO are given below:

	2023	2022
	LKR	LKR
Interest and capital repayment	-	394,961,458
Reimbursement of expenses	-	-

41.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMP)

Key management personnel include: the Chairman, the Board of Directors, and Chief Executive Officer, Deputy Chief Executive Officer of the Bank. Transactions with close family members of key management personnel are also taken into account in the transactions with key management personnel. The Same term, including interest/commission rates and security, as for comparable transaction with person of a similar standing or, where applicable, with the employees. The transaction did not involve more than the normal risk of repayment or present other unfavorable features.

41.2.1 KEY MANAGEMENT PERSONNEL COMPENSATION

	2023	2022
	LKR	LKR
Short term employee benefits	92,837,842	55,418,577
Post employment benefits	-	-

41.2.2 OTHER TRANSACTIONS (LOANS AND RECEIVABLES) WITH KEY MANAGEMENT PERSONNEL - BALANCE OUTSTANDING

	2023	2022
	LKR	LKR
Granting	3,000,000	-
Repayments	2,153,725	974,995
Closing balance as at 31 December	13,105,755	974,995
Interest income	801,294	703,635

41.2.3 DEPOSITS AND INVESTMENT FROM KEY MANAGEMENT PERSONNEL - BALANCE OUTSTANDING

	2023	2022
	LKR	LKR
Deposits accepted and renewed during the period	1,025,000	50,240
Balance as at 31 December	41,289	76,363
Interest Expenses	9,045	1,026

41.2.4 OTHER PAYMENT TO KEY MANAGEMENT PERSONNEL

	2023	2022
	LKR	LKR
Cash dividend	-	348,005

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41.2.5 SHAREHOLDINGS BY KEY MANAGEMENT PERSONNEL

	2023	2022
	LKR	LKR
Number of shares held by KMP	117,150	229,965

41.2.6 TERM AND CONDITIONS OF TRANSACTION WITH RELATED PARTIES

All related party transaction are carried out in the normal course of business and transacted at normal business terms. Transaction from related parties are made on terms equivalent to those that prevail in arm's length transaction and comparable with those that would have been charged from unrelated companies. All related party outstanding balances at the year - end are secured and are to be settled in cash.

41.2.7 RECURRENT AND NON-RECURRENT RELATED PARTY TRANSACTIONS

The Bank does not have any transactions where the aggregate value of the non-recurrent Related Party Transactions exceeds 10% of the Equity or 5% of the Total Assets, whichever is lower.

The Bank did not have any transactions where the aggregate value of the recurrent Related Party Transactions exceeds 10% of the gross income of the Bank.

42. ASSETS PLEDGED

Bank has pledged from the loan portfolios a sum of Rs. 3,467,154,547.72 (2022 - Rs. 3,573,204,504.04) for other borrowings.

43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2023	Amortised cost	FVTPL	FVTOCI	Total
	LKR	LKR	LKR	LKR
Financial assets				
Cash and cash equivalents	2,916,328,571	-	-	2,916,328,571
Placements with banks	15,387,769,653	-	-	15,387,769,653
Financial assets at fair value through profit or loss	-	2,815,221,176	-	2,815,221,176
Financial assets at amortised cost				
- Loans and receivables to other customers	98,868,895,650	-	-	98,868,895,650
- Debt and other instruments	32,436,341,319	-	-	32,436,341,319
Financial assets measured at fair value through other comprehensive income	-	-	56,939,525	56,939,525
Total financial assets	149,609,335,193	2,815,221,176	56,939,525	152,481,495,894
Financial liabilities				
Due to other customers	108,118,121,881	-	-	108,118,121,881
Other borrowings	26,593,632,236	-	-	26,593,632,236
Debt securities issued	-	-	-	-
Subordinated term debts	4,460,248,007	-	-	4,460,248,007
Total financial liabilities	139,172,002,124	-	-	139,172,002,124

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022	Amortised cost	FVTPL	FVTOCI	Total
	LKR	LKR	LKR	LKR
Financial assets				
Cash and cash equivalents	3,072,845,490	-	-	3,072,845,490
Placements with banks	18,205,195,883	-	-	18,205,195,883
Financial assets at fair value through profit or loss	-	1,905,738,326	-	1,905,738,326
Financial assets at amortised cost				
- Loans and receivables to other customers	110,525,450,192	-	-	110,525,450,192
- Debt and other instruments	19,819,735,716	-	-	19,819,735,716
Financial assets measured at fair value through other comprehensive income	-	-	56,938,514	56,938,514
Total financial assets	151,623,227,281	1,905,738,326	56,938,514	153,585,904,120
Financial liabilities				
Due to other customers	107,533,001,772	-	-	107,533,001,772
Other borrowings	30,704,547,675	-	-	30,704,547,675
Debt securities issued	-	-	-	-
Subordinated term debts	5,055,590,136	-	-	5,055,590,136
Total financial liabilities	143,293,139,583	-	-	143,293,139,583

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

44.1 FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following is a description of how fair values are determined for financial instrument that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumption that a market participant would make when valuing the instrument.

Fair value through other comprehensive income (OCI)

Fair value through OCI instruments valued using valuation techniques or pricing models primary consist of unquoted shares.

Fair value through profit and loss (FVTPL)

Quoted equities, Sri Lanka Government securities (Treasury bills and bonds) and unit trust are included in financial assets fair value through profit or loss. Government securities are measured using average yield published by Central Bank of Sri Lanka. Quoted equities are valued using market price in active markets as at the reporting date. Unit trusts are measured using market price in markets that are not active.

44.2 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

NOTES TO THE FINANCIAL
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44.2.1 ANALYSIS OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE BY LEVEL OF FAIR VALUE HIERARCHY

	As at 31 December 2023			
	Level 1	Level 2	Level 3	Total
	LKR	LKR	LKR	LKR
Financial assets fair value through profit or loss				
Sri Lanka Government securities- Treasury bonds	-	1,965,510,013	-	1,965,510,013
Unit trusts	-	849,711,163	-	849,711,163
Quoted Equities	-	-	-	-
Fair Value through other comprehensive income				
Unquoted equity securities	-	-	56,939,525	56,939,525
	-	2,815,221,176	56,939,525	2,872,160,701

	As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
	LKR	LKR	LKR	LKR
Financial assets fair value through profit or loss				
Sri Lanka Government securities- Treasury bonds	-	-	-	-
Unit trusts	-	1,905,738,326	-	1,905,738,326
Quoted Equities	-	-	-	-
Fair Value through other comprehensive income				
Unquoted equity securities	-	-	56,938,514	56,938,514
	-	1,905,738,326	56,938,514	1,962,676,840

The following table shows the total gain/(loss) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	2023	2022
	LKR	LKR
Net gain/(loss) from trading	1,257,500	(1,077,912)
Net fair value gain/(loss) of financial assets at fair value through profit or loss		
Sri Lanka Government securities- Treasury bonds	(296,735)	245,000
Unit trusts	476,354,783	165,381,942
Quoted equities	-	881,576
Total gain/(loss)	477,315,548	165,430,606

NOTES TO THE FINANCIAL STATEMENTS

44.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Level	As at 31 December 2023	
		Carrying value	Fair value
		LKR	LKR
Financial assets			
Cash and cash equivalents	Note*	2,916,328,571	2,916,328,571
Placements with banks	Note*	15,387,769,653	15,387,769,653
Financial assets at amortised cost			
- Loans and receivables to other customers	2	98,868,895,650	98,248,869,774
- Debt and other instruments	Note*	32,436,341,319	32,436,341,319
Total financial assets		149,609,335,193	148,989,309,317
Financial liabilities			
Due to other customers	2	108,118,121,881	112,900,381,210
Other borrowings	2	26,593,632,236	26,593,632,236
Subordinated term debts	Note*	4,460,248,007	4,460,248,007
Total financial liabilities		139,172,002,124	143,954,261,453

	Level	As at 31 December 2022	
		Carrying value	Fair value
		LKR	LKR
Financial assets			
Cash and cash equivalents	Note*	3,072,845,490	3,072,845,490
Placements with banks	Note*	18,205,195,883	18,205,195,883
Financial assets at amortised cost			
- Loans and receivables to other customers	2	110,525,450,192	110,233,997,286
- Debt and other instruments	Note*	19,819,735,716	19,819,735,716
Total financial assets		151,623,227,281	151,331,774,375
Financial liabilities			
Due to other customers	2	107,533,001,772	107,172,793,936
Other borrowings	2	30,704,547,675	30,774,489,068
Subordinated term debts	Note*	5,055,590,136	5,055,590,136
Total financial liabilities		143,293,139,582	143,002,873,140

Note*

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity. Loans and advances to customers with a variable rate are also considered to be carried at fair value.

NOTES TO THE FINANCIAL
STATEMENTS**Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing interest rates of the Bank.

45. SEGMENT REPORTING**Accounting Policy**

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses, which in certain respects, are measured differently from operating profits or losses in the Financial Statements. Taxes are managed at an entity level and are not allocated to operating segments. Including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses.

Interest income is reported net as management primarily relies on net interest income as a performance measure, not the gross income and expense.

Revenue from transactions with a single external customer or counterparty did not exceed 10% or more of the Bank's total revenue in 2023 or 2022.

The following table presents income, profit, total assets, total liabilities & cash flows of the Bank's operating segments.

	As at 31 December 2023				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	19,665,660,964	1,026,837,702	7,646,991,989	1,565,113,713	29,904,604,368
Add: Inter-segment interest income	4,481,928,461	-	4,025,954,165	-	8,507,882,626
Total interest income	24,147,589,425	1,026,837,702	11,672,946,154	1,565,113,713	38,412,486,994
Interest expenses	(15,139,688,611)	(825,830,416)	(4,239,893,616)	(1,197,295,639)	(21,402,708,282)
Add: Inter-segment interest expense	(4,025,954,165)	-	(4,481,928,461)	-	(8,507,882,626)
Total interest expense	(19,165,642,776)	(825,830,416)	(8,721,822,076)	(1,197,295,639)	(29,910,590,908)
Net interest income	4,981,946,649	201,007,286	2,951,124,078	367,818,074	8,501,896,086
Fee and commission income	343,471,457	10,461,278	-	-	353,932,735
Fee and commission expenses	(34,299,300)	(1,870,937)	-	-	(36,170,237)
Net fee and commission income	309,172,157	8,590,341	-	-	317,762,498
Net gain/(loss) from trading	-	-	1,257,500	-	1,257,500
Net fair value gain/(loss) of financial assets at fair value through profit or loss	-	-	476,058,048	-	476,058,048
Net other operating income	49,108,378	-	7,770,016	-	56,878,394
Total operating income	5,340,227,183	209,597,626	3,436,209,640	367,818,074	9,353,852,526
Impairment for loans and other losses	(1,878,020,481)	71,424,755	(3,288,344)	(10,011,087)	(1,819,895,158)
Net operating income	3,462,206,701	281,022,380	3,432,921,296	357,806,986	7,533,957,368
Depreciation and amortisation expenses	(469,698,981)	(25,620,851)	(269,487)	(37,145,317)	(532,734,636)
Segment result	2,992,507,720	255,401,529	3,432,651,809	320,661,669	7,001,222,732
Un-allocated expenses					(5,521,142,776)
Value Added Tax (VAT) on financial services					(634,125,294)
Social Security Contribution Levy					(74,028,512)
Profit before tax					771,926,150
Tax expenses					(305,103,937)
Profit for the year					466,822,213

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	As at 31 December 2023				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Other comprehensive income					
Other comprehensive income for the year net of tax					139,818,498
Total comprehensive income for the year					606,640,712
Segment assets	87,214,383,104	4,757,316,492	53,612,600,244	6,897,196,054	152,481,495,894
Un-allocated assets					4,475,904,211
Total assets	87,214,383,104	4,757,316,492	53,612,600,244	6,897,196,054	156,957,400,105
Segment liabilities	97,794,809,409	5,334,451,075	31,828,353,541	7,733,930,455	142,691,544,479
Total equity	-	-	-	-	14,265,855,626
Total liabilities	97,794,809,409	5,334,451,075	31,828,353,541	7,733,930,455	156,957,400,105
Addition to non-current assets	192,695,123	9,970,496	-	14,455,305	217,120,924
	As at 31 December 2022				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	16,257,210,870	1,515,873,307	4,673,205,857	654,758,425	23,101,048,459
Add: Inter-segment interest income	1,895,803,814		4,891,261,733	-	6,787,065,547
Total interest income	18,153,014,684	1,515,873,307	9,564,467,590	654,758,425	29,888,114,005
Interest expenses	(9,564,467,279)	(728,554,596)	(5,398,578,186)	(570,394,614)	(16,261,994,676)
Add: Inter-segment interest expense	(4,891,261,733)		(1,895,803,814)	-	(6,787,065,547)
Total interest expense	(14,455,729,012)	(728,554,596)	(7,294,382,001)	(570,394,614)	(23,049,060,222)
Net interest income	3,697,285,673	787,318,711	2,270,085,589	84,363,811	6,839,053,783
Fee and commission income	488,624,555	16,025,816	-	-	504,650,371
Fee and commission expenses	(24,815,675)	(1,890,286)	-	-	(26,705,960)
Net fee and commission income	463,808,880	14,135,530	-	-	477,944,410
Net gain/(loss) from trading	-	-	(1,077,912)	-	(1,077,912)
Net fair value gain/(loss) of financial assets at fair value through profit or loss	-	-	166,508,518	-	166,508,518
Net other operating income	262,420,557	-	586,129	-	263,006,686
Total operating income	4,423,515,109	801,454,240	2,436,102,323	84,363,811	7,745,435,485
Impairment for loans and other losses	(1,802,361,127)	(89,678,223)	1,193,881	(7,630,643)	(1,898,476,112)
Net operating income	2,621,153,981	711,776,017	2,437,296,204	76,733,166	5,846,959,372
Depreciation and amortisation expenses	(429,878,499)	(32,745,154)	(254,946)	(25,636,596)	(488,515,196)
Segment result	2,191,275,482	679,030,863	2,437,041,258	51,096,571	5,358,444,177
Un-allocated expenses					(4,877,184,852)
Value Added Tax (VAT) on financial services					(366,401,606)
Social Security Contribution Levy					(17,900,589)
Profit before tax					96,957,128
Tax expenses					(35,790,792)
Profit for the year					61,166,336

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	As at 31 December 2022				
	Banking	Leasing	Treasury	Pawning	Total
	LKR	LKR	LKR	LKR	LKR
Other comprehensive income					
Other comprehensive income for the year net of tax					231,013,477
Total comprehensive income for the year					292,179,811
Segment assets	97,309,815,279	7,412,384,936	43,060,453,930	5,803,249,977	153,585,904,121
Un-allocated assets					5,935,127,757
Total assets	97,309,815,279	7,412,384,936	43,060,453,930	5,803,249,977	159,521,031,879
Segment liabilities	96,254,846,176	7,332,024,727	36,534,611,110	5,740,334,952	145,861,816,965
Total equity	-	-	-	-	13,659,214,912
Total liabilities	96,254,846,176	7,332,024,727	36,534,611,110	5,740,334,952	159,521,031,879
Addition to non-current assets	391,836,362	29,847,369	-	23,367,883	445,051,613

* Inter segment interest income and interest expense have been adjusted to net interest income in Treasury and Banking segments and comparative figure in this Financial Statements is amended.

46. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	As at 31 December 2023			As at 31 December 2022		
	Within	After	Total	Within	After	Total
	12 months	12 months		12 months	12 months	
	LKR	LKR	LKR	LKR	LKR	LKR
Assets						
Cash and cash equivalents	2,916,328,571	-	2,916,328,571	3,072,845,490	-	3,072,845,490
Placements with banks	15,387,769,653	-	15,387,769,653	14,887,031,559	3,318,164,324	18,205,195,883
Financial assets fair value through profit or loss	2,815,221,176	-	2,815,221,176	1,905,738,326	-	1,905,738,326
Financial assets at amortised cost						
- Loans and receivables to other customers	26,190,674,960	72,678,220,690	98,868,895,650	27,534,306,361	82,991,143,832	110,525,450,193
- Debt and other instruments	29,905,436,306	2,530,905,013	32,436,341,319	19,191,830,010	627,905,707	19,819,735,717
Financial assets measured at fair value through other comprehensive income	-	56,939,525	56,939,525	-	56,938,514	56,938,514
Investment in subsidiary	-	6,163,100	6,163,100	-	6,163,100	6,163,100
Property, plant and equipment	-	845,329,269	845,329,269	-	1,093,190,533	1,093,190,533
Right of use assets	100,702,927	579,602,370	680,305,297	27,112,769	582,088,679	609,201,448
Investment properties	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	43,566,177	-	43,566,177
Intangible assets	-	753,566,178	753,566,178	-	538,831,108	538,831,108
Deferred tax assets	-	533,810,343	533,810,343	-	600,628,286	600,628,286
Other assets	541,772,550	1,114,957,474	1,656,730,024	2,014,942,153	1,028,604,950	3,043,547,103
Total assets	77,857,906,143	79,099,493,962	156,957,400,105	68,677,372,845	90,843,659,034	159,521,031,878

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	As at 31 December 2023			As at 31 December 2022		
	Within	After	Total	Within	After	Total
	12 months	12 months		12 months	12 months	
	LKR	LKR	LKR	LKR	LKR	LKR

Liabilities

Due to other customers	80,834,963,148	27,283,158,733	108,118,121,881	77,422,166,853	30,110,834,919	107,533,001,773
Other borrowings	21,478,246,371	5,115,385,865	26,593,632,236	22,286,601,253	8,417,946,422	30,704,547,675
Subordinated term debts	4,460,248,007	-	4,460,248,007	387,026,197	4,668,563,939	5,055,590,136
Retirement benefit obligation	-	766,114,529	766,114,529	-	714,077,498	714,077,498
Current tax liabilities	375,861,793	-	375,861,793	182,244,769	-	182,244,769
Other liabilities	1,880,394,342	497,171,691	2,377,566,033	1,167,539,149	504,815,967	1,672,355,116
Total liabilities	109,029,713,661	33,661,830,818	142,691,544,479	101,445,578,220	44,416,238,745	145,861,816,965
Net asset/(liability)	(31,171,807,518)	45,437,663,144	14,265,855,627	(32,768,205,375)	46,427,420,289	13,659,214,913

47. RISK MANAGEMENT

47.1 INTRODUCTION

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuous profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is mainly exposed to Credit Risk, Liquidity Risk, Market Risk and Operational Risk which has been disclosed in this note as summarised below:

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**NOTES TO THE FINANCIAL
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The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises of Non - Executive Directors. Meetings of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

INTEGRATED RISK MANAGEMENT UNIT

The business units (i.e. Credit Departments, Branches, Regional Offices, Treasury etc.) have primary responsibility for Risk Management. The Integrated Risk Management Unit, which has no responsibility for profit or volume targets, acts as the 2nd line of defence and reports to the Chief Risk Officer (CRO) who in turn directly reports to the BIRMC.

ASSET/LIABILITY MANAGEMENT COMMITTEE (ALCO)

EIRMC consists of executive members of the management team, including the CEO, the CRO and business lines heads, with the main role of coordinating management efforts to implement the RMF. The EIRMC shall include representatives of both the 1st and 2nd line units responsible for material risks, including management of the lending divisions/lines, Treasury, Finance, Operations, as well as Risk Management representatives.

RISK MEASUREMENT AND REPORTING

The Bank's risks are measured using appropriate techniques based on the type of risk and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major types of risks and the results are reported to Board Integrated Risk Management Committee (BIRMC) on a periodic basis. Monitoring and controlling risks are primarily performed based on policies, limits and thresholds established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (Risk Appetite).

The Bank's risk measurement and reporting functions were further strengthened during the year amidst the unprecedented economic crisis during the year under review. The credit risk of the Bank's loan book increased as the borrowers required remedial actions through restructuring/ rescheduling which impacted the loan repayments. The regulatory restrictions on initiating legal actions for recovery of loans and advances further elevated the credit risk. Similarly, market risk too increased due to significant volatility in financial markets locally as well as globally. The operational risks too increased owing to potentially higher external frauds due to economic crisis.

In this back drop, the Bank took additional measures to ensure that the elevated risks caused by the macroeconomic environment are adequately managed. Continuous reviews of the limits, policies and performance were carried out during the period. Some of these include;

- Reviewed risk elevated industries in the context of Macro Economic conditions
- Assessed the impact of the COVID-19 lockdowns and moratoriums (payment holidays) on the portfolio staging.
- Set up a special Remediation and Rehabilitation Unit to closely work with the Branches in providing reasonable remediation for distressed accounts and borrowers.
- Used of a range of additional stress tests to assess the impact on Bank's performance and capital.
- Strengthened the remedial activities by allocating specific staff from the Branches, Central Credit Dept. to work with borrowers in providing solutions.
- Ensured adequate liquidity resources were held to meet Bank's obligations, given the uncertainties caused by the economic crisis.

RISK MITIGATION

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc. are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

NOTES TO THE FINANCIAL STATEMENTS

47.2 CREDIT RISK

Credit risk is the risk of financial loss to the Bank, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances and investments in debt securities. In addition to the credit risk from direct funding exposures, the Bank would also be exposed to indirect liabilities such as guarantees, which would carry credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

47.2.1 ASSESSMENT OF EXPECTED CREDIT LOSSES

47.2.1 (a) Analysis of the total amortised cost for expected credit losses

As at 31st December	2023					2022
	Note	Stage 1	Stage 2	Stage 3	Total	
		LKR	LKR	LKR	LKR	LKR
Cash and cash equivalents	18	2,916,867,692	-	-	2,916,867,692	3,072,962,134
Placements with banks	19	15,391,073,454	-	-	15,391,073,454	18,205,902,365
Financial assets at amortised cost						
- Loans and receivables to other customers	21	82,824,483,491	6,637,139,023	9,407,273,138	98,868,895,651	110,525,450,193
- Debt and other instruments	22	32,436,341,319	-	-	32,436,341,319	19,819,735,716
Credit related commitments & contingencies	39	814,261,712	-	-	814,261,712	728,284,912
Total allowance for expected credit losses		134,383,027,668	6,637,139,023	9,407,273,138	150,427,439,828	152,352,335,319

47.2.1 (b) Movement of the total allowance for expected credit losses during the period

	Note	2023	2022
		LKR	LKR
Balance as at 1st January		5,794,313,575	3,895,726,582
Net charge for the year		1,816,606,813	1,899,669,993
Write-off during the year	21.6	-	(1,083,000)
Balance as at 31st December		7,610,920,388	5,794,313,575

The methodology used in the determination of expected credit losses is explained in Note 3.2.6 to financial statements. As explained in the said Note, the Bank has made allowances for overlays where required to address the uncertainties and potential implications of adverse macro economic conditions.

47.2.1 (c) Sensitivity Analysis: Impact of extending the recovery cash flows by further one year for individually significant impaired loans

Had the Bank further extended the recovery cash flows by one year, only for instances where cash flow is forecasted based on collateral realisation, the cumulative impairment provision for individually significant impaired loans would have increased by Rs 504.31 Mn (2022: Rs 166.7 Mn).

NOTES TO THE FINANCIAL
STATEMENTS**47.2.1 (d) Sensitivity Analysis: Impact of staging of loans and advances on collective impairment**

If all loans and advances currently in stage 2, were moved to stage 1, the ECL provision of the Bank as at 31st December 2023 would have reduced by approximately 35% (2022 - 89%). The total loans and advances in stage 2 as at 31st December 2023 amounts to Rs. 7.44 Bn of the Bank.

If all loans and advances currently in stage 1, were moved to stage 2, the ECL provision of the Bank as at 31st December 2023 would have further increased by approximately 281% (2022 - 663%). The total loans and advances in stage 1 as at 31st December 2023 amounts to Rs. 83 Bn of the Bank. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

47.2.1 (e) Sensitivity Analysis: Impact on collective impairment (loans & advances, credit related commitment & contingencies) due to changes in Probability Default (PDs) and Loss Given Default (LGDs)

	2023				Sensitivity effect on Income Statement
	Sensitivity effect on Statement on Financial Position Increase/(Decrease) in impairment provision				
	Stage 1	Stage 2	Stage 3	Total	
	LKR	LKR	LKR	LKR	
PD 1% increase across all age buckets	152,567,191	17,886,779	-	170,453,970	170,453,970
PD 1% decrease across all age buckets	(152,567,191)	(17,886,779)	-	(170,453,970)	(170,453,970)
LGD 5% increase	104,619,491	163,575,789	394,762,048	662,957,329	662,957,329
LGD 5% decrease	(104,619,491)	(163,575,789)	(394,762,048)	(662,957,329)	(662,957,329)

47.2.1 (f) Sensitivity Analysis: Impact on collective impairment (loans & advances, credit related commitment & contingencies) due to changes in forward looking information

The Bank calculates expected credit losses based on three probability-weighted scenarios. The weightages used by the Bank as at 31st December 2023 are disclosed in Note 3.2.6.6 along with the weightages used in 2022. During the year, due to the uncertainties arise current adverse macro-economic conditions on the business operations, the Bank increased the weightage assigned to the worst case scenario by 5%, decreasing the weightage of the base case scenario by the same amount. The Bank's impairment provision would have increased by approximately Rs 5.87 Mn during the year.

Further worst case scenario increase up to 100% with a weightage on other scenario, would have increased the collective impairment provision of the Bank by approximately Rs. 30.52 Mn as at 31st December 2023.

NOTES TO THE FINANCIAL STATEMENTS

Following table also summarises the key economic indicators (GDP, Unemployment) used in estimating economic factor adjustment and impact on their changes.

Key drivers	ECL scenario	As at 31 December 2023						
		Assigned Weightings	2024	2025	2026	2027	2028	Long term rate
		%	%	%	%	%	%	%
GDP growth	Base case	20	1.30	1.70	1.75	1.76	1.74	1.74
	Best case	5	1.89	2.00	2.11	2.21	2.29	2.29
	Worst case	75	0.95	0.97	0.99	0.94	0.85	0.85
Unemployment rate	Base case	20	4.99	4.98	4.97	4.97	4.98	4.98
	Best case	5	5.26	5.24	5.21	5.18	5.16	5.16
	Worst case	75	5.35	5.37	5.39	5.41	5.44	5.44
Inflation	Base case	20	3.06	3.27	3.55	3.74	3.96	3.96
	Best case	5	3.00	3.00	3.00	3.00	3.00	3.00
	Worst case	75	5.02	6.28	7.39	9.24	11.56	11.56
Interest Rate	Base case	20	11.51	10.43	10.09	9.45	8.91	8.91
	Best case	5	10.16	7.73	5.54	4.13	3.08	3.08
	Worst case	75	16.46	17.31	18.03	19.36	20.79	20.79

Since the beginning of the year, the Bank has reassessed the key economic indicators used in its ECL models. This has led to a slightly upward revision of the expected GDP growth rate for the next few years. Unemployment is also expected to follow a similar trend. Additionally, the Bank has revised Central Bank base rates downwards for the short term.

47.2.1 (g) Breakdown of loans classified under stage 2

Loans classified under the stage 2 includes contractually past due loans and loans which have been shifted to stage 2 based on the criteria specified in the Note 3.2.6.1(a).

As at 31st December	2023				2022
	Not Contractually Past Due 0 - 30 Days	Contractually Past Due 31 - 60 Days	61- 90 Days	Total	Total
	LKR	LKR	LKR	LKR	LKR
Term Loans	2,045,446,324	1,582,289,464	1,690,808,770	5,318,544,558	4,674,771,577
Pawning	375,386,357	75,177,941	97,595,154	548,159,452	44,482,452
Cash margin	103,000,601	77,498,399	63,373,105	243,872,105	232,905,771
Staff loans	-	1,301,826	-	1,301,826	4,820,712
Lease rentals receivable	54,120,857	654,542,578	623,132,410	1,331,795,845	2,063,476,877
	2,577,954,139	2,390,810,208	2,474,909,439	7,443,673,786	7,020,457,389

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47.2.1 (h) Overview of rescheduled/restructured loans & advances

	Amortised Cost			Impairment for ECL		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR	LKR	LKR
2022	1,311,657,524	3,592,028,064	4,903,685,588	227,624,359	1,178,144,858	1,405,769,217
2023	968,158,253	4,455,524,348	5,423,682,601	131,777,355	1,535,931,523	1,667,708,878

47.2.1 (i) Overview of rescheduled/restructured loans & advances upgraded during the year

The Bank upgrades rescheduled/restructured loans from stage 3/stage 2 to stage 1 as per the upgrading policy described in Note 3.2.6.10 of the Financial Statements. During the year the Bank upgraded Rs 79 Mn worth of rescheduled/restructured loans to stage 1. Due to this upgrade, the impairment provision against these loans decreased from Rs 18 Mn to Rs 13 Mn as at 31st December 2023.

47.2.1 (j) Management overlays on ECL allowance

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. Bank expects that post-model and other judgmental adjustments will be applied for the foreseeable future. Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December are set out in the following tables:

	As at 31 December 2023					
	LKR					
	Modelled ECL	Modelled ECL		Total judgements adjustments	Total ECL	Judgmental adjustments as a % of total ECL
		Post-model adjustments	Management overlays			
Pawning	19,519,139	-	-	-	19,519,139	0%
Cash margin	4,952,283	-	-	-	4,952,283	0%
Term loans	-	-	-	-	-	-
Business	753,714,024	4,672,032	28,800,672	33,472,704	787,186,728	4%
Co-operative	358,294,776	(4,859,671)	27,534,090	22,674,419	380,969,195	6%
Housing	333,574,556	5,030,965	3,742,585	8,773,550	342,348,106	3%
Personal	491,321,061	(226,483,086)	53,119,337	(173,363,749)	317,957,312	(55%)
Fixed and floating	2,746,373,791	(20,548,246)	32,590,038	12,041,792	2,758,415,583	0%
SME	1,867,337,370	(20,359,173)	122,877,320	102,518,147	1,969,855,517	5%
Upahara	299,433,014	945,724	61,459,139	62,404,863	361,837,877	17%
Staff Loans	6,380	-	-	-	6,380	0%
Lease rentals receivable	666,890,220	(29,250,275)	30,232,323	982,049	667,872,269	0%
	7,541,416,614	(290,851,730)	360,355,504	69,503,775	7,610,920,389	

The Bank is in the process of implementing internal scorecard system for analysing credit risk of financial assets starting from next financial year.

The Bank does not have significant amount of financial assets that are written off but are still subject to enforcement activity.

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47.2.2 RISKS ON CREDIT-RELATED COMMITMENTS

The Bank makes available to its customers, guarantees that may require the Bank to make payments on behalf of customers and enters into commitments to extend credit lines to secure their liquidity needs.

47.2.3 COLLATERAL AND OTHER CREDIT ENHANCEMENTS

47.2.3 (a) Net exposure to credit risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

For commercial lending: charges over real estate properties, cash, inventory and trade receivables, shares etc.

For retail lending: mortgages over residential properties, motor vehicles, gold etc.

Management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. It is the Bank's policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

There was no change in the Bank's collateral policy during the year. Further, the Bank did not observe any significant deterioration in the quality of the collaterals and other credit enhancements during the reporting period.

The Bank does not provide for any allowances for ECL against financial assets secured by cash/deposits held within the Bank. Further, no allowance for ECL has been recognised for government securities denominated in Sri Lankan rupees, other financial assets secured by government guarantees, treasury bills and treasury bonds. Except for the above, Bank has recognised ECL for all other financial assets classified at amortised cost and debt instruments at FVOCI.

The following table shows the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset, before netting off impairment for expected credit losses.

As at 31st December	Note	2023		2022	
		Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
		LKR	LKR	LKR	LKR
Cash and cash equivalents	18	2,916,328,571	2,916,328,571	3,072,845,490	3,072,845,490
Placements with banks	19	15,387,769,653	15,387,769,653	18,205,195,883	18,205,195,883
Financial assets fair value through profit or loss	20	2,815,221,176	2,815,221,176	1,905,738,326	1,905,738,326
Financial assets at amortised cost					
- Loans and receivables to other customers*	21	98,868,895,650	58,460,995,034	110,525,450,192	92,401,167,253
- Debt and other instruments	22	32,436,341,319	32,436,341,319	19,819,735,716	19,819,735,716
Financial assets measured at fair value through other comprehensive income	23	56,939,525	56,939,525	56,938,514	56,938,514
Other assets		4,475,904,209	4,475,904,209	5,935,127,757	5,935,127,758
		156,957,400,105	116,549,499,487	159,521,031,878	141,396,748,940

The loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank approximately 9% each. (2022: 10% each). Further 12% (2022: 12%) of the loans & advances are secured against other securities including movable property, gold, lease receivables, etc. Approximately 29% (2022: 31%) of stage 3 loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank.

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Approximately 71% of the loan book consists of Uphara and Uthathamachara, SME and Personal loans, out of its total lending portfolio. 62% of this portfolio is salary/pensioned based. 9% of loan accounts are covered through collateral like properties. And also Uphara and Uththamachara loan portfolio is 100% backed by insurance coverage.

47.2.3 (b) Offsetting financial assets & liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

47.2.3 (c) Financial assets & liabilities not subject to offsetting

Amounts that do not qualify for offsetting include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of other predetermined events. Such netting arrangements include repurchase arrangements and other similar secured lending and borrowing arrangements.

47.2.4 STAGE-WISE MOVEMENT OF LOANS & ADVANCES AND COMMITMENTS & CONTINGENCIES

47.2.4. (a) Stage-wise movement of gross carrying values of loans and advances

Changes in the gross carrying amount of loans and advances during the period that contributed to the changes in impairment provision is given below:

	Stage 1 Subject to 12-month ECL LKR	Stage 2 Subject to Lifetime ECL but not Credit Impaired LKR	Stage 3 Subject to Lifetime ECL Credit Impaired LKR	Total LKR
Balance as at 1st January 2022	102,909,030,320	5,461,290,885	7,416,660,997	115,786,982,201
Current stage of new financial assets originated	26,734,201,990	1,059,217,131	982,412,189	28,775,831,310
Changes in the gross carrying amount				-
- Transfer to stage 1	(5,878,267,086)	(1,359,498,444)	(313,693,492)	(7,551,459,021)
- Transfer to stage 2	(5,558,402,110)	4,436,607,000	(275,041,284)	(1,396,836,394)
- Transfer to stage 3	(4,762,644,955)	(1,533,482,000)	5,338,290,601	(957,836,354)
Financial assets that have been derecognised	(16,637,483,039)	(1,043,677,184)	(654,674,748)	(18,335,834,971)
Write-off during the year	-	-	(1,083,000)	(1,083,000)
Balance as at 31st December 2022	96,806,435,119	7,020,457,388	12,492,871,262	116,319,763,770
Balance as at 1st January 2023	96,806,435,119	7,020,457,388	12,492,871,262	116,319,763,770
Current stage of new financial assets originated	14,490,731,697	751,806,203	254,760,790	15,497,298,690
Changes in the gross carrying amount				
- Transfer to stage 1	(2,586,302,641)	2,895,415,505	2,888,024,594	3,197,137,458
- Transfer to stage 2	(3,731,268,236)	(483,822,447)	1,378,623,721	(2,836,466,962)
- Transfer to stage 3	(3,155,833,663)	(1,681,017,901)	(236,199,582)	(5,073,051,146)
Financial assets that have been derecognised	(18,411,609,896)	(1,059,164,964)	(1,154,090,912)	(20,624,865,772)
Write-off during the year	-	-	-	-
Balance as at 31st December 2023	83,412,152,381	7,443,673,785	15,623,989,873	106,479,816,039

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47.2.4. (b) Stage-wise movement of impairment for loans and advances

More information about the significant changes in the impairment for loans and advances during the period is provided in the tables below

	Stage 1	Stage 2	Stage 3	Total
	Subject to 12-month ECL	Subject to Lifetime ECL but not Credit Impaired	Subject to Lifetime ECL Credit Impaired	
	LKR	LKR	LKR	LKR
Balance as at 1st January 2022	684,543,810	468,753,557	2,742,429,215	3,895,726,582
Net impairment charge for the year due to:				
New financial assets originated	189,585,685	120,983,207	203,573,487	514,142,379
Changes in the impairment amount				
- Transfer to stage 1	212,413,751	(133,238,247)	(53,937,448)	25,238,056
- Transfer to stage 2	(98,349,735)	711,468,504	(42,661,132)	570,457,637
- Transfer to stage 3	(79,235,122)	(164,603,293)	1,299,326,175	1,055,487,761
Financial assets that have been derecognised	(62,422,179)	(34,285,410)	(168,948,249)	(265,655,839)
Write-off during the year	-	-	(1,083,000)	(1,083,000)
Balance as at 31st December 2022	846,536,210	969,078,318	3,978,699,048	5,794,313,576
Balance as at 1st January 2023	846,536,210	969,078,318	3,978,699,048	5,794,313,576
Net impairment charge for the year due to:				
New financial assets originated	25,663,545	20,952,625	31,716,784	78,332,954
Changes in the impairment amount				
- Transfer to stage 1	8,347,414	353,880,146	1,673,793,051	2,036,020,610
- Transfer to stage 2	(125,880,600)	(124,529,163)	394,752,598	144,342,835
- Transfer to stage 3	(77,182,966)	(322,779,696)	385,891,540	(14,071,122)
Financial assets that have been derecognised	(89,814,711)	(90,067,466)	(248,136,287)	(428,018,464)
Write-off during the year				
Balance as at 31st December 2023	587,668,891	806,534,763	6,216,716,734	7,610,920,389

47.2.4. (c) Stage-wise movement of gross carrying values of other financial assets

The Bank did not observe any significant stage movements in other financial assets, which includes cash and cash equivalents, placements with banks, debt and other instruments at amortised cost and debt instruments at fair value through other comprehensive income.

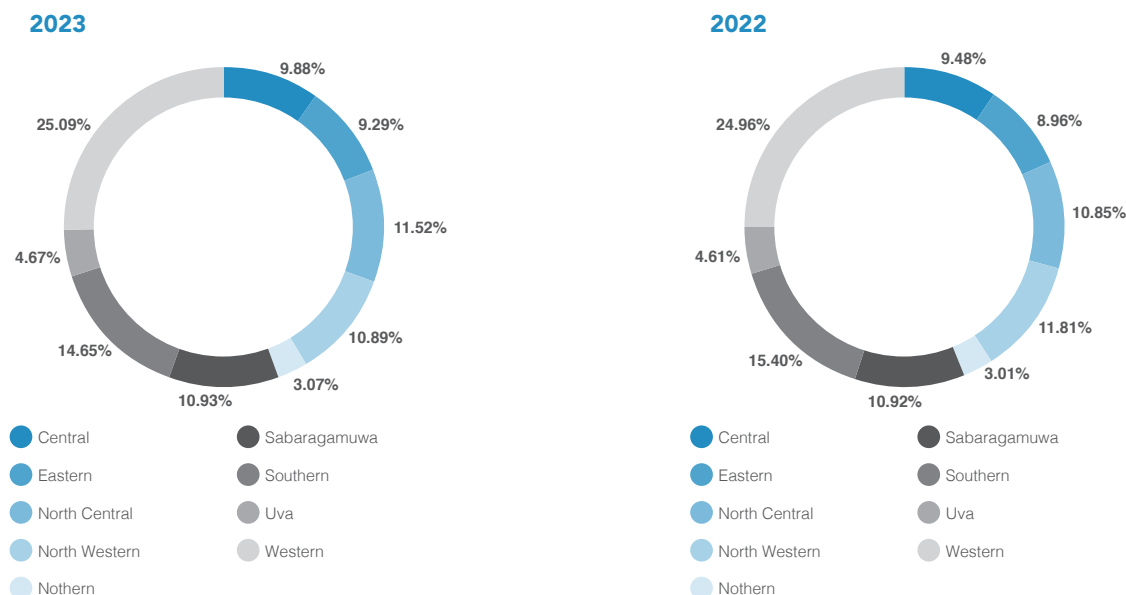
47.2.5 ANALYSIS OF RISK CONCENTRATION

The following tables show the exposure to credit risk for the Financial Assets, including geography of counterparty and industry.

NOTES TO THE FINANCIAL STATEMENTS

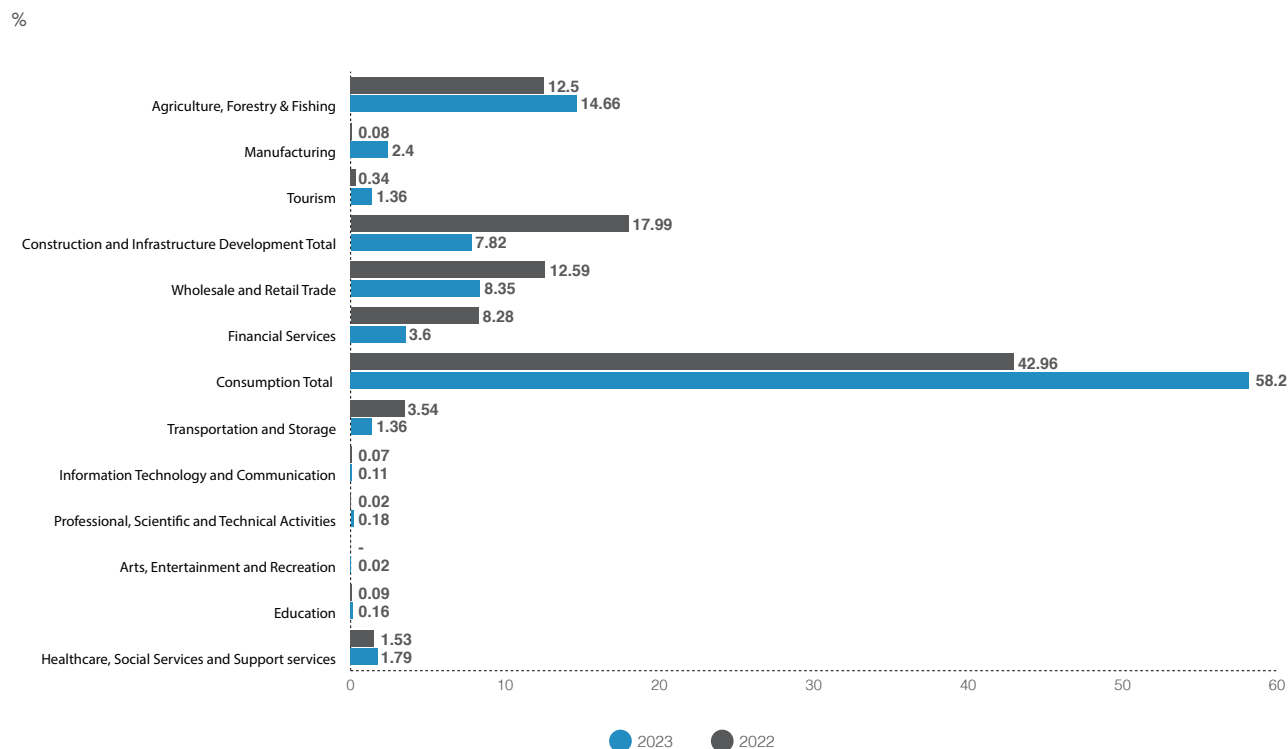
47.2.5.1 Geographical Distribution

Gross advance portfolio - Geographical wise is as follows



47.2.5.2 Industry Analysis

Gross advance portfolio - Industry wise is as follows



NOTES TO THE FINANCIAL STATEMENTS

47.2.6 COMMITMENTS AND CONTINGENCIES

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised in the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank should have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the Statement of Financial Position. The Bank's maximum credit risk exposure for commitments and contingencies are disclosed in the Note No. 39.

Bank does not recognise a loss allowance for financial guarantee contracts as these contracts are fully backed by a Bank deposit (Savings or fixed deposit)

47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flow. The Bank also has committed lines of credit that could be utilised to meet liquidity needs. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specific to the Bank. The most important of this is to maintain the required ratio of liquid assets to liabilities, to meet the regulatory requirement (20%). Liquid assets consist of cash, short-term bank deposits and liquid debt securities including government securities. Further the Statutory Liquid Assets Ratio of the Bank for the month of December 2023 is as follows.

47.3.1 STATUTORY LIQUID ASSETS RATIO (SLAR)

	2023	2022
	%	%
Statutory Liquid Assets Ratio (SLAR)	38.25	23.51

47.3.2 LOANS & ADVANCES TO DEPOSITS (DUE TO BANKS AND DUE TO DEPOSITORS) RATIO

The Bank is aware of the importance of deposits as a source of funds for its lending operations. This is monitored using the following ratio, which compares loans & advances to deposits.

Loans & advances to deposits ratio as at 31st December 2023: 98.66% (2022: 112%)

47.3.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The tables below summarise the maturity profile of the expected undiscounted cash flows of the Bank's financial assets and financial liabilities as at 31st December 2023. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the tables do not reflect the expected cash flows indicated by its deposit retention history based on the behavioural pattern.

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Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Financial Liabilities

As at 31 December 2023								
	Less than 7 days	7-30 days	1-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Financial assets								
Cash and cash equivalents	2,916,328,571	-	-	-	-	-	-	2,916,328,571
Investments	3,885,792,572	6,815,068,971	14,352,093,814	16,320,594,816	7,445,549,115	4,473,481,132	-	53,292,580,420
Loans and receivables to other customers	2,828,024,765	5,696,551,772	4,522,329,482	17,956,787,969	11,115,033,570	5,460,251,814	60,852,949,718	108,431,929,089
Total financial assets	9,630,145,908	12,511,620,742	18,874,423,296	34,277,382,785	18,560,582,685	9,933,732,946	60,852,949,718	164,640,838,080
Financial liabilities								
Due to other customers	3,245,067,497	8,122,829,470	24,398,647,200	50,566,985,882	15,329,212,914	8,146,695,907	4,186,773,670	113,996,212,540
Other borrowings	505,414,384	2,615,443,266	3,006,925,381	7,014,870,555	9,632,763,415	5,369,459,728	1,560,401,574	29,705,278,803
Debt securities issued	-	-	-	-	-	-	-	-
Subordinated term debts	-	-	149,560,661	4,680,147,512	-	-	-	4,829,708,173
Total financial liabilities	3,750,481,881	10,738,272,736	27,555,133,242	62,262,003,949	24,961,976,329	13,516,155,635	5,747,175,244	148,531,199,016
Net financial assets/(liabilities)	5,879,664,027	1,773,348,006	(8,680,709,946)	(27,984,621,164)	(6,401,393,644)	(3,582,422,689)	55,105,774,474	16,109,639,064

As at 31 December 2022								
	Less than 7 days	7-30 days	1-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Financial assets								
Cash and cash equivalents	3,072,845,490	-	-	-	-	-	-	3,072,845,490
Investments	2,057,492,243	4,308,405,542	7,293,004,926	13,083,065,170	9,566,478,649	7,335,248,910	506,996,539	44,150,691,978
Loans and receivables to other customers	2,424,254,345	3,933,917,651	3,665,695,179	21,882,547,043	15,534,016,083	9,465,392,844	63,405,598,322	120,311,421,467
Total financial assets	7,554,592,078	8,242,323,193	10,958,700,105	34,965,612,212	25,100,494,732	16,800,641,754	63,912,594,861	167,534,958,935
Financial liabilities								
Due to other customers	2,791,264,156	4,705,099,291	14,150,963,082	58,764,378,004	19,940,652,527	6,460,392,739	3,465,633,803	110,278,383,602
Other borrowings	-	5,289,599,022	3,592,854,813	8,163,146,247	11,773,889,720	4,907,011,731	2,370,250,672	36,096,752,204
Debt securities issued	-	-	-	-	-	-	-	-
Subordinated term debts	-	-	45,148,334	712,025,446	3,934,667,241	-	-	4,691,841,021
Total financial liabilities	2,791,264,156	9,994,698,313	17,788,966,229	67,639,549,697	35,649,209,488	11,367,404,470	5,835,884,475	151,066,976,827
Net financial assets/(liabilities)	4,763,327,922	(1,752,375,119)	(6,830,266,124)	(32,673,937,483)	(10,548,714,755)	5,433,237,284	58,076,710,386	16,467,982,108

NOTES TO THE FINANCIAL STATEMENTS

47.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

Market risk limits are set and continuously reviewed by the risk department and treasury department of the Bank. As a part of its established market risk management process, the risk department and treasury department also monitor early signs of possible changes in market conditions such as : anticipated and actual changes to interest rates; socio economic factors driving mortgage prepayment behaviour and economic and geopolitical factors driving currency and equity price movement. Those two departments are take adequate actions to manage market risk when necessary.

47.4.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank's policy is to continuously monitor positions on a daily basis and use periodic interest re-pricing strategies to ensure positions are maintained within prudential levels.

The following tables demonstrate the sensitivity of the Bank's Statement of Profit or Loss for the year ended 31st December 2023 and 31st December 2022 to a reasonable possible change in interest rates, with all other variables held constant.

The below computation is based on the rate sensitive assets and liabilities which are to be matured or re-priced within one year.

Rate Sensitive Assets (RSA) & Rate Sensitive Liabilities (RSL)

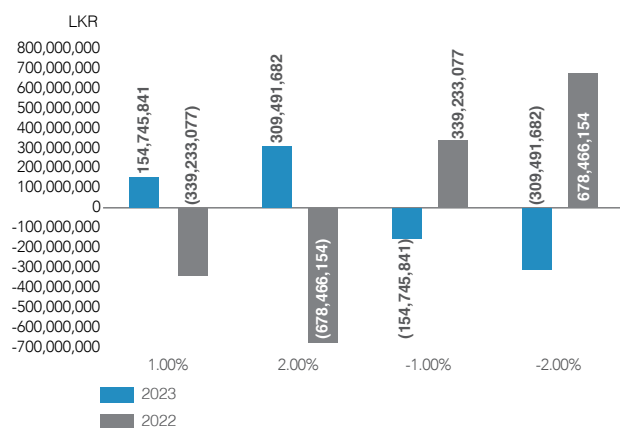
	2023	2022
	LKR	LKR
Rate Sensitive Assets (RSA)	73,410,165,255	80,767,473,465
Rate Sensitive Liabilities (RSL)	107,896,228,143	114,690,781,153
GAP (RSA - RSL)	(34,486,062,888)	(33,923,307,688)

Impact on Statement of Profit or Loss due to Interest Rate Shocks

	2023	2022
	LKR	LKR
Interest Rate Shock		
1.00%	(344,860,629)	(339,233,077)
2.00%	(689,721,258)	(678,466,154)
(1.00%)	344,860,629	339,233,077
(2.00%)	689,721,258	678,466,154

NOTES TO THE FINANCIAL STATEMENTS

Impact on Statement of Profit or Loss due to interest rate shocks



Interest Rate Sensitivity Analysis

The tables below analyse the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

Interest rate sensitivity assets and liabilities as at 31 December 2023							
Asset or liability	Carrying amount	On demand	1-3 months	3-12 months	Over 1 year	Non interest sensitive	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cash and cash equivalents	2,916,328,571	2,913,364,178	-	-	-	2,964,393	2,916,328,571
Placements with banks	15,387,769,653	-	3,059,069,687	4,866,422,823	7,462,277,143	-	15,387,769,653
Financial assets fair value through profit or loss	2,815,221,176	207,642,771	622,928,312	1,984,650,093	-	-	2,815,221,176
Loans and receivables to other customers	98,868,895,650	7,201,219,743	3,820,282,241	15,169,172,977	72,678,220,689	-	98,868,895,650
Debt and other instruments	32,436,341,319	5,057,060,472	12,134,110,484	12,714,265,349	2,530,905,014	-	32,436,341,319
Interest bearing assets	152,424,556,369	15,379,287,164	19,636,390,724	34,734,511,242	82,671,402,846	2,964,393	152,424,556,369
Due to other customers	108,118,121,881	10,641,382,868	22,871,148,886	47,313,066,373	27,292,523,754	-	108,118,121,881
Other borrowings	26,593,632,236	3,010,455,729	2,859,712,999	15,608,077,643	5,115,385,865	-	26,593,632,236
Debt securities issued	-	-	-	-	-	-	-
Subordinated term debts	4,460,248,007	-	-	4,460,248,007	-	-	4,460,248,007
Interest bearing liabilities	139,172,002,124	13,651,838,597	25,730,861,885	67,381,392,023	32,407,909,619	-	139,172,002,124
Interest rate sensitivity gap	13,252,554,245	1,727,448,567	(6,094,471,161)	(32,646,880,781)	50,263,493,227	2,964,393	13,252,554,245

NOTES TO THE FINANCIAL STATEMENTS

Asset or liability	Interest rate sensitivity assets and liabilities as at 31 December 2022						
	Carrying amount	On demand	1-3 months	3-12 months	Over 1 year	Non interest sensitive	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cash and cash equivalents	3,072,845,490	1,545,567,378	-	-	-	1,527,278,112	3,072,845,490
Placements with banks	18,205,195,883	785,512,417	1,335,574,868	2,285,627,733	13,798,480,865	-	18,205,195,883
Financial assets fair value through profit or loss	1,905,738,326	296,448,184	296,448,184	1,312,841,958	-	-	1,905,738,326
Loans and receivables to other customers	110,525,450,192	5,486,917,284	3,163,388,195	18,884,000,882	82,991,143,832	-	110,525,450,192
Debt and other instruments	19,819,735,716	4,021,065,706	4,850,572,850	10,320,191,454	627,905,707	-	19,819,735,716
Interest bearing assets	153,528,965,606	12,135,510,969	9,645,984,097	32,802,662,027	97,417,530,404	1,527,278,112	153,528,965,609
Due to other customers	107,533,001,772	7,204,797,132	13,585,939,041	56,631,430,681	30,110,834,919	-	107,533,001,772
Other borrowings	30,704,547,675	1,183,076,116	2,799,093,353	7,289,428,088	19,432,950,117	-	30,704,547,675
Debt securities issued	-	-	-	-	-	-	-
Subordinated term debts	5,055,590,136	88,479,814	187,894,232	110,652,151	4,668,563,939	-	5,055,590,136
Interest bearing liabilities	143,293,139,583	8,476,353,062	16,572,926,626	64,031,510,920	54,212,348,975	-	143,293,139,583
Interest rate sensitivity gap	10,235,826,023	3,659,157,907	(6,926,942,529)	(31,228,848,892)	43,205,181,429	1,527,278,112	10,235,826,025

47.4.2 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Bank doesn't have material currency risk.

The Bank has two dollar denominated borrowings, granted by Belgian Investment Company for Developing Countries (BIO), USD 8Mn and The United States International Development Finance Corporation (DFC), USD 36.67 Mn as at 31st December 2023. These two borrowings are placed as dollar denominated deposits with the Bank of Ceylon matching the capital repayment schedules of the loans.

Loan granted by BIO will mature in December 2024. Therefore, the dollar fixed deposit was taken for the same maturity to match the capital repayments i.e USD 8Mn to be made at the maturity.

DFC loan will be matured in June 2029 and the dollar fixed deposits hedged against this loan will mature at each installment repayment date.

47.5 OPERATIONAL RISK

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Strategic and Reputational Risks are not covered in Operational Risk.

Operational Risks of the Bank are mitigated and managed through a Board approved Operational Risk Management Policy control framework which consists of monitoring and responding to potential risks such as segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, Business Continuity Planning etc. Operational Risk Management Unit reports to Chief Risk Officer and the Board Integrated Risk Management Committee which maintains a high level overall supervision of managing Operational Risks of the Bank.

47.6 CAPITAL MANAGEMENT

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Sri Lanka.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and that the Bank to enhance credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

NOTES TO THE FINANCIAL
STATEMENTS

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or monitor the credit growth carefully.

Regulatory capital	Actual 2023	Required 2023	Actual 2022	Required 2022
	LKR	LKR	LKR	LKR
Common Equity Tier 1 Capital	12,978,479,105	5,681,451,935	12,519,754,852	6,255,065,837
Total Tier 1 Capital	12,978,479,105	7,429,590,992	12,519,754,852	8,179,701,479
Tier 2 Capital Instruments	1,403,250,806	1,066,073,516	2,375,860,495	850,924,526
Total Capital	14,381,729,911	8,495,664,508	14,895,615,347	9,030,626,005
Total Risk Weighted Assets	87,421,371,741		96,232,247,440	
Common Equity Tier 1 Capital Ratio %	14.85%	6.50%	12.92%	6.50%
Total Tier 1 Capital Ratio %	14.85%	8.50%	12.92%	8.50%
Total Capital Ratio %	16.45%	12.50%	15.37%	12.50%

48. COMPARATIVE INFORMATION

The comparative information has been reclassified wherever necessary to conform to the current year's presentation and details are given below.

48.1 STATEMENT OF PROFIT OR LOSS

There were no reclassifications during the year.

48.2 STATEMENT OF FINANCIAL POSITION

Computer and equipment items with intangible attributes have been reclassified from Property, Plant, and Equipment to Intangible Assets during the current year.

48.3 STATEMENT OF CASH FLOW

There were no reclassifications during the year.



SUPPLEMENTARY INFORMATION



TEN YEARS AT A GLANCE

STATEMENT OF COMPREHENSIVE INCOME

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
Interest income	29,904,604	23,101,048	14,792,068	15,442,003	15,079,324	13,146,787	10,829,333	8,177,187	6,609,248	4,850,170
Interest expenses	(21,402,708)	(16,261,995)	(8,018,419)	(9,314,576)	(9,382,529)	(8,423,758)	(6,941,841)	(4,846,840)	(3,240,875)	(2,400,763)
Net interest income	8,501,896	6,839,054	6,773,649	6,127,426	5,696,795	4,723,029	3,887,493	3,330,347	3,368,374	2,449,406
Fee and commission income	353,933	504,650	413,675	390,619	237,656	196,762	278,770	212,540	217,475	164,626
Fee and commission expenses	(36,170)	(26,706)	(23,327)	(14,334)	(6,507)	(4,397)	(3,511)	(9,596)	(2,966)	(2,283)
Net fee and commission income	317,763	477,944	390,347	376,285	231,150	192,365	275,258	202,944	214,510	162,343
Net gains/(losses) from trading	1,258	(1,078)	4,144	5,228	1,265	-	-	-	-	-
Net gains/(losses) from financial instruments at fair value through profit or loss	476,058	166,509	234,934	268,710	114,889	280,172	211,759	17,351	5,095	53,942
Other operating income	56,878	263,007	32,775	55,227	90,969	20,811	50,845	40,046	52,027	168,428
Total operating income	9,353,853	7,745,435	7,435,849	6,832,877	6,135,068	5,216,378	4,425,356	3,590,687	3,640,005	2,834,119
Impairment for loans and other losses	(1,819,895)	(1,898,476)	(643,708)	(417,039)	(917,434)	(525,844)	(293,537)	(125,044)	(49,594)	(204,390)
Net operating income	7,533,958	5,846,959	6,792,141	6,415,838	5,217,634	4,690,534	4,131,819	3,465,643	3,590,410	2,629,730
Personnel expenses	(3,304,439)	(2,940,243)	(2,542,695)	(2,576,773)	(2,116,348)	(1,827,073)	(1,474,146)	(1,266,115)	(1,114,754)	(767,848)
Depreciation and amortisation expenses	(532,735)	(488,515)	(528,447)	(454,569)	(431,193)	(224,260)	(191,577)	(176,032)	(148,829)	(147,918)
Other expenses	(2,216,704)	(1,936,942)	(1,848,265)	(1,400,539)	(1,420,073)	(1,526,132)	(1,364,051)	(1,113,816)	(942,628)	(772,510)
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services	1,480,080	481,259	1,872,734	1,983,957	1,250,021	1,113,068	1,102,045	909,680	1,384,199	941,454
Value added tax (VAT) on financial services*	(634,125)	(384,302)	(542,926)	(571,027)	(386,522)	(362,941)	(300,962)	(292,254)	(273,641)	(190,275)
Nation Building Tax (NBT) on financial services	(74,029)	-	-	-	(51,106)	(52,703)	(48,482)	-	-	-
Debt repayment levy (DRL) on financial services	-	-	-	-	(226,565)	(53,282)	-	-	-	-
Operating profit after VAT, NBT and DRL on financial services	771,926	96,957	1,329,808	1,412,930	585,827	644,142	752,601	617,425	1,110,559	751,179
Profit before tax	771,926	96,957	1,329,808	1,412,930	585,827	644,142	752,601	617,425	1,110,559	751,179
Tax expenses	(305,104)	(35,791)	(446,530)	(576,643)	(332,422)	(287,192)	(244,778)	(213,704)	(389,984)	(246,732)
Profit for the year	466,822	61,166	883,278	836,287	253,405	356,950	507,824	403,722	720,575	504,447
Other comprehensive income										
Actuarial gains/(losses) on defined benefit plans	92,685	(39,668)	34,301	(1,855)	(41,588)	(45,995)	2,885	(49,639)	(2,688)	(27,091)
Deferred tax relating to defined benefit plans	(27,805)	11,645	(8,232)	519	11,645	12,879	(808)	13,899	753	7,586
Gains/(losses) on re-measuring financial assets measured at fair value through other comprehensive income	-	-	-	-	(3,210)	(3,388)	-	(12,454)	-	-
Revaluation Surplus on Property, Plant and Equipment	74,939	259,037								
Other comprehensive income for the year net of tax	139,819	231,013	26,069	(1,336)	(33,153)	(36,505)	2,077	(48,194)	(1,935)	(19,506)
Total comprehensive income for the year	606,641	292,180	909,347	834,952	220,252	320,445	509,901	355,528	718,639	484,941
Basic earnings per share on profit (LKR)	2.90	0.38	7.63	11.05	4.50	6.34	9.87	9.60	17.90	13.36

* NBT on financial service expense is included in VAT on financial services expense up to the year 2016 and it is separately recorded after the year 2017 onwards.

TEN YEARS AT A GLANCE

STATEMENT OF FINANCIAL POSITION

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
Assets										
Cash and cash equivalents	2,916,329	3,072,845	3,117,485	9,640,916	2,429,791	4,171,939	1,190,390	1,044,725	5,057,791	661,651
Placements with banks	15,387,770	18,205,196	15,108,410	2,823,628	5,628,095	9,528,426	6,014,704	6,919,027	4,757,401	2,223,162
Financial assets fair value through profit or loss	2,815,221	1,905,738	727,787	4,600,458	3,527,310	146,103	4,473,806	244,911	-	-
Other financial asset classified under loans and receivable				-	-	-	1,479,950	1,503,539	1,926,055	4,164,273
Financial assets at amortised cost - loans and receivables to other customers	98,868,896	110,525,450	111,891,256	102,662,269	85,823,335	77,507,021	66,687,416	53,632,539	45,830,499	32,060,498
Financial assets at amortised cost - debt and other instruments	32,436,341	19,819,736	12,031,302	5,244,005	6,998,925	3,405,600	-	-	-	-
Financial assets measured at fair value through other comprehensive income	56,940	56,939	56,939	56,939	56,939	60,148	-	-	-	-
Financial investments - available-for-sale				-	-	-	63,536	566,935	79,679	29,734
Financial investments - held-to-maturity				-	-	-	599,551	492,268	1,192,440	298,545
Investments in subsidiaries	6,163	6,163	6,163	6,163	-	-	-	-	-	-
Asset classified as held for sale	-	43,566		-	-	-	37,175	37,175	37,175	-
Property, plant and equipment	845,329	1,093,191	565,477	661,695	645,231	704,738	726,473	637,263	549,172	513,592
Right of use assets	680,305	609,201	952,104	689,646	651,271	-	-	-	-	-
Investment properties	-	-	19,167	20,223	21,279	22,335	23,391	24,447	25,503	26,559
Intangible assets	753,566	538,831	338,933	395,123	308,445	3,728	8,148	16,938	47,141	77,344
Deferred tax assets	533,810	600,628	299,448	231,673	232,482	69,415	-	-	-	-
Other assets	1,656,730	3,043,547	2,704,446	2,026,987	1,460,524	1,198,314	1,070,175	913,030	787,138	517,187
Total assets	156,957,400	159,521,032	147,818,916	129,059,724	107,783,624	96,817,767	82,374,713	66,032,799	60,289,994	40,572,547
Liabilities										
Due to other customers	108,118,122	107,533,002	93,902,939	93,271,727	72,431,923	67,474,822	59,904,734	45,691,758	43,023,393	30,249,434
Other borrowings	26,593,632	30,704,548	33,569,838	18,090,500	20,299,718	15,420,968	8,827,610	9,482,950	6,600,339	4,602,233
Debt securities issued	-	-	-	1,013,899	1,014,034	4,198,548	4,189,812	4,182,653	3,979,111	-
Subordinated term debts	4,460,248	5,055,590	3,752,578	4,052,630	4,210,566	1,008,028	1,004,355	-	-	-
Retirement benefit obligation	766,115	714,077	571,665	571,382	479,575	354,854	257,476	212,494	127,307	108,056
Current tax liabilities	375,862	182,245	293,250	274,215	187,070	143,988	32,153	23,110	260,733	113,192
Deferred tax liabilities	-	-	-	-	-	-	58,000	46,629	66,411	53,513
Other liabilities	2,377,566	1,672,355	1,598,949	1,869,195	1,491,759	767,833	769,413	873,924	935,350	750,144
Total liabilities	142,691,545	145,861,817	133,689,220	119,143,548	100,114,645	89,369,040	75,043,553	60,513,519	54,992,643	35,876,573
Equity										
Stated capital	11,287,765	11,287,765	11,287,765	7,727,941	5,921,538	5,921,538	5,758,689	4,062,962	3,794,095	3,533,545
Statutory reserve fund	340,572	317,231	314,173	270,009	228,282	215,611	197,764	172,373	154,596	118,664
Retained earnings	2,275,937	1,767,576	2,500,153	1,890,621	1,491,554	1,280,762	1,340,504	1,249,742	1,302,003	997,107
Other reserves	361,581	286,642	27,605	27,605	27,605	30,815	34,203	34,203	46,657	46,657
Total equity	14,265,855	13,659,215	14,129,697	9,916,176	7,668,979	7,448,727	7,331,160	5,519,280	5,297,351	4,695,974
Total equity and liabilities	156,957,400	159,521,032	147,818,916	129,059,724	107,783,624	96,817,767	82,374,713	66,032,799	60,289,994	40,572,547
Contingent liabilities and commitments	814,262	728,285	910,137	194,554	177,752	182,986	166,260	148,030	136,574	129,507
Other information										
Number of accounts (CIF numbers)	1,604,568	1,574,030	1,527,665	1,442,788	1,384,175	1,310,198	1,230,406	1,131,355	1,068,345	992,782
Number of customer centres	94	94	94	94	94	94	91	88	87	82
Number of employees	1295	1381	1433	1490	1,475	1,504	1,363	1,248	1,198	1,004

DISCLOSURES AS PER PILLAR III OF BANKING ACT NO. 1 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

TEMPLATE 1

KEY REGULATORY RATIOS - CAPITAL AND LIQUIDITY

Item	As at 31 December 2023 LKR' 000	As at 31 December 2022 LKR' 000
Regulatory capital (LKR'000)		
Common Equity Tier 1 (CET I) capital	12,978,479	12,519,755
Tier 1 capital	12,978,479	12,519,755
Total capital	14,381,730	14,895,615
Regulatory capital ratio (%)		
Common Equity Tier 1 capital ratio (Minimum requirement - 2023: 7.00% 2022: 6.50%)	14.85%	12.92%
Tier 1 Capital Ratio (Minimum requirement - 2023: 8.50% 2022: 8.00%)	14.85%	12.92%
Total capital ratio (Minimum requirement - 2023: 12.50%, 2022: 12.00%)	16.45%	15.37%
Leverage ratio (%) (Minimum requirement - 3%)	8.29%	7.87%
Regulatory liquidity		
Statutory liquid assets (LKR' 000)	39,467,410	23,309,484
Statutory liquid assets ratio (Minimum requirement - 20%)		
Domestic banking unit (%)	38.25	23.51
Off-shore banking unit (%)	-	-
Total stock of high-quality liquid assets (LKR' 000)	35,487,865	20,100,093
Liquidity coverage ratio (%) (Minimum requirement - 2023: 100%, 2022 - 90%)		
Rupee (%)	285.43	191.22
All currency (%)	287.06	191.31
Net stable funding ratio (%) (Minimum requirement - 100%)	192.78	241.61

DISCLOSURES AS PER PILLAR III OF
BANKING ACT NO. 1 OF 2016, CAPITAL
REQUIREMENTS UNDER BASEL III

TEMPLATE 2

BASEL III COMPUTATION OF CAPITAL RATIOS

Item	As at 31 December 2023	As at 31 December 2022
	LKR' 000	LKR' 000
Common Equity Tier 1 (CET1) capital after adjustments	12,978,479	12,519,755
Common Equity Tier 1 (CET1) capital	14,265,856	13,659,214
Equity capital (stated capital)/assigned capital	11,287,765	11,287,765
Reserve fund	340,572	317,231
Published retained earnings/(accumulated retained losses)	2,275,937	1,767,576
Published accumulated other comprehensive income (OCI)		
General and other disclosed reserves	361,581	286,642
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to CET1 capital	1,287,377	1,139,459
Goodwill (net)	-	-
Intangible assets (net)	753,566	538,831
Deferred tax assets (net)	533,810	600,628
Investments in the capital of banking and financial institutions	-	-
Additional Tier 1 (AT1) capital after adjustments	-	-
Additional Tier 1 (AT1) capital	-	-
Qualifying additional Tier 1 capital Instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to AT1 capital	-	-
Investment in own shares	-	-
Others	-	-
Tier 2 capital after adjustments	1,403,251	2,375,860
Tier 2 capital	1,403,251	2,375,860
Qualifying Tier 2 capital instruments	412,315	1,053,785
Revaluation gains	-	-
Loan loss provisions	990,936	1,322,075
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2	-	-
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	-	-
CET 1 capital	12,978,479	12,519,755
Total Tier 1 capital	12,978,479	12,519,755
Total capital	14,381,730	14,895,615

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

Item	As at 31 December 2023 LKR' 000	As at 31 December 2022 LKR' 000
Total risk weighted assets (RWA)	87,421,372	96,919,305
RWAs for credit risk (Template 7 and 8)	77,122,195	87,382,372
RWAs for market risk (Template 9)	572,290	702,570
RWAs for operational risk (Template 10)	9,783,257	8,834,363
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	14.85	12.92
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier 1 capital ratio (%)	14.85	12.92
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	16.45	15.37
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-

TEMPLATE 3

COMPUTATION OF LEVERAGE RATIO

Item	As at 31 December 2023 LKR' 000	As at 31 December 2022 LKR' 000
Tier 1 capital	12,978,479	12,519,755
Total exposures	156,484,285	159,109,857
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	155,670,024	158,381,572
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	814,262	728,285
Basel III leverage ratio (%) (Tier 1/total exposure)	8.29	7.87

DISCLOSURES AS PER PILLAR III OF
BANKING ACT NO. 1 OF 2016, CAPITAL
REQUIREMENTS UNDER BASEL III

TEMPLATE 4

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO

Item	As at 31 December 2023		As at 31 December 2022	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
	LKR' 000	LKR' 000	LKR' 000	LKR' 000
Total stock of high-quality liquid assets (HQLA)	35,577,512	35,487,865	20,100,093	20,100,093
Total adjusted level 1 assets	34,979,864	34,979,864	20,100,093	20,100,093
Level 1 assets	34,979,864	34,979,864	20,100,093	20,100,093
Total adjusted level 2A assets	597,648	508,001	-	-
Level 2A assets	597,648	508,001	-	-
Total adjusted level 2B assets	-	-	-	-
Level 2B assets	-	-	-	-
Total cash outflows	109,687,627	17,084,700	99,635,040	16,144,959
Deposits	75,637,598	7,563,760	70,931,957	7,093,196
Unsecured wholesale funding	32,546,160	8,799,222	26,888,013	7,933,118
Secured funding transactions	-	-	32,592	32,592
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,503,869	721,718	1,782,478	1,086,053
Additional requirements	-	-	-	-
Total cash inflows	9,656,146	4,651,523	16,182,267	5,633,257
Maturing secured lending transactions backed by collateral	-	-	-	-
Committed facilities	2,850,000	-	7,600,000	-
Other inflows by counterparty which are maturing within 30 days	6,680,115	4,525,491	6,707,807	4,696,027
Operational deposits	-	-	-	-
Other cash inflows	126,031	126,031	1,874,460	937,230
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) * 100		285.43		191.22

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

TEMPLATE 5

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Description of the capital instrument	Stated capital	Subordinated term debt (2019)	Subordinated term debt (2019)
Issuer	Sanasa Development Bank PLC	Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V	Belgian Investment Company for Developing Countries NV/SA - (BIO)
Unique identifier	LK0412N00003	N/A	N/A
Governing Law of the instrument	Companies Act, No. 07 of 2007, Colombo Stock Exchange Regulations	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions
Original date of issuance (agreement signed date for subordinated term debts)	May 2012	March 2019	September 2019
Par value of instrument (LKR)	100	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated
Original maturity date, if applicable	N/A	March 2024	September 2024
Amount recognised in regulatory capital (in LKR '000 as at 31st December 2023)	11,287,765	146,417	265,898
Accounting classification (equity/liability)	Equity	Liability	Liability
Issuer call subject to prior supervisory approval			
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A
Coupons/Dividends			
Fixed or floating dividend/coupon	Floating dividend	Floating coupon	Floating coupon
Coupon rate and any related index (%)	N/A	6 months T-bill Rate + 700bps	6 months SOFR + 593bps
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Convertible or write off	Convertible
If convertible, conversion trigger(s)	N/A	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016
If convertible, fully or partially	N/A	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital
If convertible, mandatory or optional	N/A	Mandatory upon the occurrence of a trigger event	Mandatory upon the occurrence of a trigger event
If convertible, conversion rate	N/A	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the colombo stock exchange during the three (3) months period, immediately preceding the date of the trigger event	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the colombo stock exchange during the three (3) months period, immediately preceding the date of the trigger event

N/A - not applicable

**DISCLOSURES AS PER PILLAR III OF
BANKING ACT NO. 1 OF 2016, CAPITAL
REQUIREMENTS UNDER BASEL III****TEMPLATE 6****SUMMARY DISCUSSION ON ADEQUACY/MEETING CURRENT AND FUTURE CAPITAL REQUIREMENTS**

Overview	These should include
A proper “capital management process” is vital in ensuring the long-term stability of the business, the capital adequacy ratio is a measure used to determine whether the Bank has sufficient capital to withstand unexpected losses arising from various risks during the course of the business. Therefore, it acts as a layer of cushion in absorbing potential losses arising from the course of the business and safeguarding the depositors’ funds. At present, capital adequacy position of the banks are computed based on banking Act Direction No. 01 of 2016 and subsequent amendments thereto issued by Central Bank of Sri Lanka. SANASA Development Bank has continued to maintain capital adequacy ratios at healthy levels by keeping a significant margin over and above the regulatory minimum requirements.	Provide qualitative information on capital planning to meet current and future capital requirements including: (a) Overview of capital planning and assessment process; (b) Material risk exposures in line with strategic plan; (c) Current and future capital needs, anticipated capital expenditure and desirable capital level; (d) Discussion on possible internal and external capital sources; (e) Assessment of the adequacy of bank’s capital commensurate with all material risks and other capital needs in relation to its current and future activities; General contingency plan for dealing with divergences and unexpected events such as raising additional capital, restricting business activities or using risk mitigation techniques

Capital management process

In order to comply with the new Basel III guidelines, SANASA Development Bank’s capital management process is under supervision of Board Strategic Planning Committee. The three year (2022-2025) capital management plan rolled out has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank’s Strategic Plan. Efforts have taken to comply with the Basel III regulations saw the Bank increases its capital levels by issuing Basel III compliant Tier - II debt instruments. Steps were also taken to optimise the capital ratios by rebalancing the risk weighted assets (RWA).

Moving forward

Moving forward with the capital management plan, the Bank will execute specific medium term and long term strategies to raise both Tier I and Tier II capital in line with Basel III minimum regulatory requirements. In addition, timely actions have been identified and will be executed during the coming years to optimise the risk weighted assets for the purpose of improving the capital allocation of the Bank.

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

TEMPLATE 7

CREDIT RISK UNDER STANDARDISED APPROACH - CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

Asset class	Amount (LKR' 000) as at 31st December 2023					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On- balance sheet amount	Off-balance sheet amount	On- balance sheet amount	Off-balance sheet amount	RWA	RWA density (%)
Claims on Central Government and CBSL	31,829,248	-	31,829,248	-	-	0%
Claims on foreign sovereigns and their Central Banks	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-
Claims on banks exposures	17,198,588	-	17,198,588	-	7,874,633	46%
Claims on financial institutions	200,478	-	200,478	-	100,239	-
Claims on corporates	2,606,027	-	2,606,027	-	1,673,381	64%
Retail claims	90,226,801	-	81,638,599	-	56,712,653	69%
Claims secured by residential property	2,925,382	-	2,925,382	-	1,147,885	39%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	6,686,043	-	6,686,043	-	6,095,695	91%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	3,863,214	814,262	3,863,214	327,708	3,517,709	84%
Total	155,535,781	814,262	146,947,579	327,708	77,122,195	52%

Note:

(i) NPAs – as per Banking Act Directions on classification of loans and advances, income recognition and provisioning.

(ii) RWA density – Total RWA/exposures post CCF and CRM.

**DISCLOSURES AS PER PILLAR III OF
BANKING ACT NO. 1 OF 2016, CAPITAL
REQUIREMENTS UNDER BASEL III**

TEMPLATE 8

CREDIT RISK UNDER STANDARDISED APPROACH - EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

Description	Amount (LKR' 000) as at 31st December 2023 (Post CCF & CRM)										Total credit exposures amount
	Risk weight	0%	20%	35%	50%	60%	75%	100%	150%	>150%	
Asset classes											
Claims on Central Government and CBSL	31,829,248	-	-	-	-	-	-	-	-	-	31,829,248
Claims on foreign sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	2,415,536	-	14,783,052	-	-	-	-	-	-	17,198,588
Claims on financial institutions	-	-	-	200,478	-	-	-	-	-	-	200,478
Claims on corporates	-	849,711	-	505,753	-	-	-	1,250,562	-	-	2,606,027
Retail claims	4,923,191	1,519,402	-	-	816,318	73,842,821	536,867	-	-	-	81,638,599
Claims secured by residential property	-	-	2,734,612	-	-	-	190,771	-	-	-	2,925,382
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	-	1,461,085	-	-	4,944,569	280,389	-	-	6,686,043
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-
Cash items and other assets	642,670	38,179	-	-	-	-	3,510,073	-	-	-	4,190,922
Total	37,395,109	4,822,829	2,734,612	16,950,368	816,318	73,842,821	10,376,471	280,389	-	-	147,275,287

TEMPLATE 9

MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

Item	RWA amount (LKR' 000) As at 31st December 2023
(a) RWA for interest rate risk	-
General interest rate risk	-
(i) Net long or short position	-
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
(b) RWA for equity	379
(i) General equity risk	379
(ii) Specific equity risk	-
(c) RWA for foreign exchange and gold	71,157
Capital charge for market risk {(a) + (b) + (c)} * CAR	572,290

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

TEMPLATE 10

OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH

Business lines	Capital charge factor	Gross income (LKR' 000) as at 31 December 2023			Amount (LKR' 000)
		1st Year	2nd Year	3rd Year	
The basic indicator approach	15%	9,217,863	7,781,388	7,458,891	
Capital charges for operational risk (LKR' 000)					
The basic indicator approach					1,222,907
Risk-weighted amount for operational risk (LKR' 000)					
The basic indicator approach					9,783,257

TEMPLATE 11

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

Item	Amount (LKR '000 as at 31st December 2023)				
	a	b	c	d	e
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets					
Cash and cash equivalents	2,916,329	2,916,329	2,916,329	-	-
Placements with banks	15,387,770	15,387,770	15,387,770		-
Financial assets fair value through profit or loss	2,815,221	2,815,221	2,815,221	1,421,662	
Financial assets at amortised cost					
- Loans and receivables to other customers	98,868,896	98,868,896	99,859,832	-	990,936
- Debt and other instruments	32,436,341	32,436,341	32,436,341	-	-
Financial assets measured at fair value through other comprehensive income	56,940	56,940	56,940	-	-
Investment in subsidiaries	6,163	6,163	6,163	-	-
Property, plant and equipment	845,329	845,329	845,329	-	-
Right of use assets	680,305	680,305	680,305	-	-
Investment properties	-	-	-	-	-
Intangible assets	753,566	753,566	-		753,566
Differed tax assets	533,810	533,810	-	-	533,810
Other assets	1,656,730	1,656,730	1,656,730	-	
Total assets	156,957,400	156,957,400	156,660,960	1,421,662	2,278,813

**DISCLOSURES AS PER PILLAR III OF
BANKING ACT NO. 1 OF 2016, CAPITAL
REQUIREMENTS UNDER BASEL III**

Item	Amount (LKR '000 as at 31st December 2023)				
	a	b	c	d	e
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities					
Due to banks					
Due to other customers	108,118,122	108,118,122	-	-	-
Other borrowings	26,593,632	26,593,632	-	-	-
Subordinated term debts	4,460,248	4,460,248	-	-	-
Retirement benefit obligations	766,115	766,115	-	-	-
Current tax liabilities	375,862	375,862	-	-	-
Other liabilities	2,377,566	2,377,566	-	-	-
Total liabilities	142,691,544	142,691,544	-	-	-
			-	-	-
Off-balance sheet liabilities					
Guarantees	264,742	264,742	264,742		
Undrawn loan commitments	-	549,520	549,520	-	-
	-			-	-
Shareholders' equity					
Equity capital (stated capital)/ assigned capital	11,287,765	11,287,765			
of which amount eligible for CET 1	11,287,765	11,287,765	-	-	-
of which amount eligible for AT 1	-	-	-	-	-
Retained earnings	2,275,937	2,275,937	-	-	-
Accumulated other comprehensive income	(19,052)	-	-	-	-
Other reserves	721,205	702,154	-	-	-
Total shareholders' equity	14,265,856	14,265,856	-	-	-

SOURCES AND UTILISATION OF INCOME

SOURCES OF INCOME

For the year ended 31 December	2023	2022	2021	2020	2019	2018	2017
Interest	22,257,612	18,427,843	13,601,108	14,485,392	13,839,972	11,985,315	9,757,778
Investments	7,646,992	4,673,206	1,190,961	956,610	1,239,352	1,161,472	1,071,555
Commission and other	851,956	906,382	662,200	705,450	438,273	493,349	537,863
Total	30,756,561	24,007,430	15,454,269	16,147,453	15,517,597	13,640,136	11,367,196

UTILISATION OF INCOME

LKR'000							
For the year ended 31 December	2023	2022	2021	2020	2019	2018	2017
Employees							
Salaries and other payments to staff	3,304,439	2,940,243	2,542,695	2,576,773	2,116,348	1,827,073	1,474,146
Suppliers							
Interest paid	21,402,708	16,261,995	8,018,419	9,314,576	9,382,529	8,423,758	6,941,841
Other expenses	4,569,334	4,323,933	3,020,420	2,272,146	2,768,699	2,276,236	1,849,165
	25,972,042	20,585,928	11,038,840	11,586,722	12,151,228	10,699,994	8,791,006
Net income before government taxes	1,480,080	481,259	1,872,734	1,983,957	1,250,021	1,113,069	1,102,044
Government							
Income tax, VAT on FS, NBT and debt repayment levy	1,013,258	420,093	989,455	1,147,670	996,616	756,118	594,221
Shareholders							
Dividends	-	-	241,050	206,046	114,020	-	136,947
Retained profit	466,822	61,166	642,228	630,241	139,385	356,950	370,876
	466,822	61,166	883,278	836,287	253,405	356,950	507,823
Total	30,756,561	24,007,430	15,454,269	16,147,453	15,517,597	13,640,136	11,367,196

QUARTERLY PERFORMANCE OF THE BANK

	2023				2022			
	31 December	30 September	30 June	31 March	31 December	30 September	30 June	31 March
Regulatory capital adequacy ratio								
Common equity Tier 1 capital ratio (%)	14.85	13.10	12.88	13.08	12.92	13.03	13.42	12.50
Tier 1 capital ratio (%)	14.85	13.10	12.88	13.08	12.92	13.03	13.42	12.50
Total capital ratio (%)	16.45	15.26	15.16	15.52	15.37	15.45	16.23	15.03
Leverage ratio (%)	8.29	7.77	7.78	7.69	7.87	7.74	7.76	8.72
Regulatory liquidity								
Statutory liquid asset (LKR Mn)	39,467	35,510	33,672	29,193	23,309	23,357	24,667	19,511
Statutory liquid asset ratio (%)	38.25	34.71	32.45	28.53	23.51	24.36	26.90	21.20
Total stock of high quality liquid assets (LKR Mn)	35,488	31,102	27,798	23,630	20,100	16,758	15,268	10,232
Liquidity coverage ratio (%)	287.06	258.73	222.93	309.25	191.31	169.98	178.47	116.73
Net stable funding ratio (%)	192.78	195.56	186.23	234.62	241.61	278.00	213.48	138.89
Asset quality								
Gross non-performing advances ratio (%)	11.06	10.27	8.88	8.05	7.36	6.73	5.63	4.52
Net non-performing advances ratio (%)					2.24	1.85	1.34	0.79
Impaired Loans (Stage 3) Ratio (%)	9.42	8.59	7.42	7.43	7.57	6.16	4.24	4.63
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	39.70	37.71	36.28	33.86	31.93	36.60	37.03	35.72
Profitability								
Interest margin (%)	5.37	5.13	4.90	5.34	4.90	4.64	4.86	5.64
Return on assets (%)	0.49	0.26	0.06	0.23	0.06	(0.19)	0.18	0.84
Return on equity (%)	3.34	1.77	2.19	1.27	0.44	(2.71)	1.12	5.08
Share information								
Market value per share (LKR)	31.50	36.00	29.20	25.10	21.40	27.80	20.60	29.50
Highest price per share for the period (LKR)	35.70	38.90	31.00	31.00	28.90	32.40	21.50	47.00
Lowest price per share for the period (LKR)	30.50	29.10	22.10	20.00	20.20	18.50	20.40	28.60

INVESTOR RELATIONS

The Bank's investor relations strategy is a key component of the Bank's public relations programme and comprises investor engagement through multiple mechanisms, including communications, as well as meetings and other targeted investor activities. The objective is to provide financial markets with accurate information for informed investment decision making and to build trust and brand equity. In addition, we also hope to establish strategic relationships with select, international investors, funding agencies and others by establishing direct lines of communication between the Bank and such potential partners. We have been extremely successful in this regard, as we have established mutually beneficial international partnerships that have benefited the Bank through knowledge exchange and access to international funding. SDB Bank's investor engagements include:

Communications: The Bank's regular investor relations activities primarily involve timely communication of the Bank's finances to existing and potential investors, as well as others of the financial community such as stock brokers and regulators, in line with disclosure requirements of the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka. Such communications comprise quarterly and annual financial statements, as well as any disclosures specified under the CSE listing rules. The Bank also releases an integrated annual report that provides deeper insights into the Bank's governance and risk management systems, sustainable business practices, management of its resources, financial performance for the year and plans for

the future. As and when required, SDB Bank also issues press releases to the mass media and the Bank's social media channels, to keep financial markets informed regarding the Bank's activities during the year.

These communications are aimed at updating regulators and financial markets regarding the financial fundamentals and financial status of the Bank, as well as the Bank's socio-economic role as a development Bank. By enhancing transparency through regular communications, market players can make judgements on the Bank's market value vis-à-vis the potential and sustainability of the Bank. For greater impact, the Bank facilitates two-way communications by acknowledging and responding to any feedback and/or questions from investors and other market players, while also analysing such feedback to better understand market and investor sentiments, and expectations regarding the Bank.

The Annual General Meeting (AGM): The Bank's AGM is the main platform of physical/virtual enable communication between the Bank's senior management and its existing shareholders and provides shareholders with the opportunity to raise questions and make inquiries directly from the senior management.

Investor events: SDB Bank also conducts one-on-one interactions with key investors, as and when required.

The Bank places high value on ethical, accountable and transparent engagements

with the investor community and complies with good governance principles in all dealings and communications with markets and investors. Our investor relations programme is designed to achieve the following:

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

SDB BANK SECURITIES TYPES

- Quoted Ordinary Shares

LISTING DETAILS FOR QUOTED ORDINARY SHARES:

- Listed exchange: Colombo Stock Exchange (CSE) Main Board
- Sector: Banks Finance and Insurance
- Quoted date: 31 May 2012
- Code-ISIN: LK0412N00003
- Stock symbol: SDB.N0000

CREDIT RATINGS

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

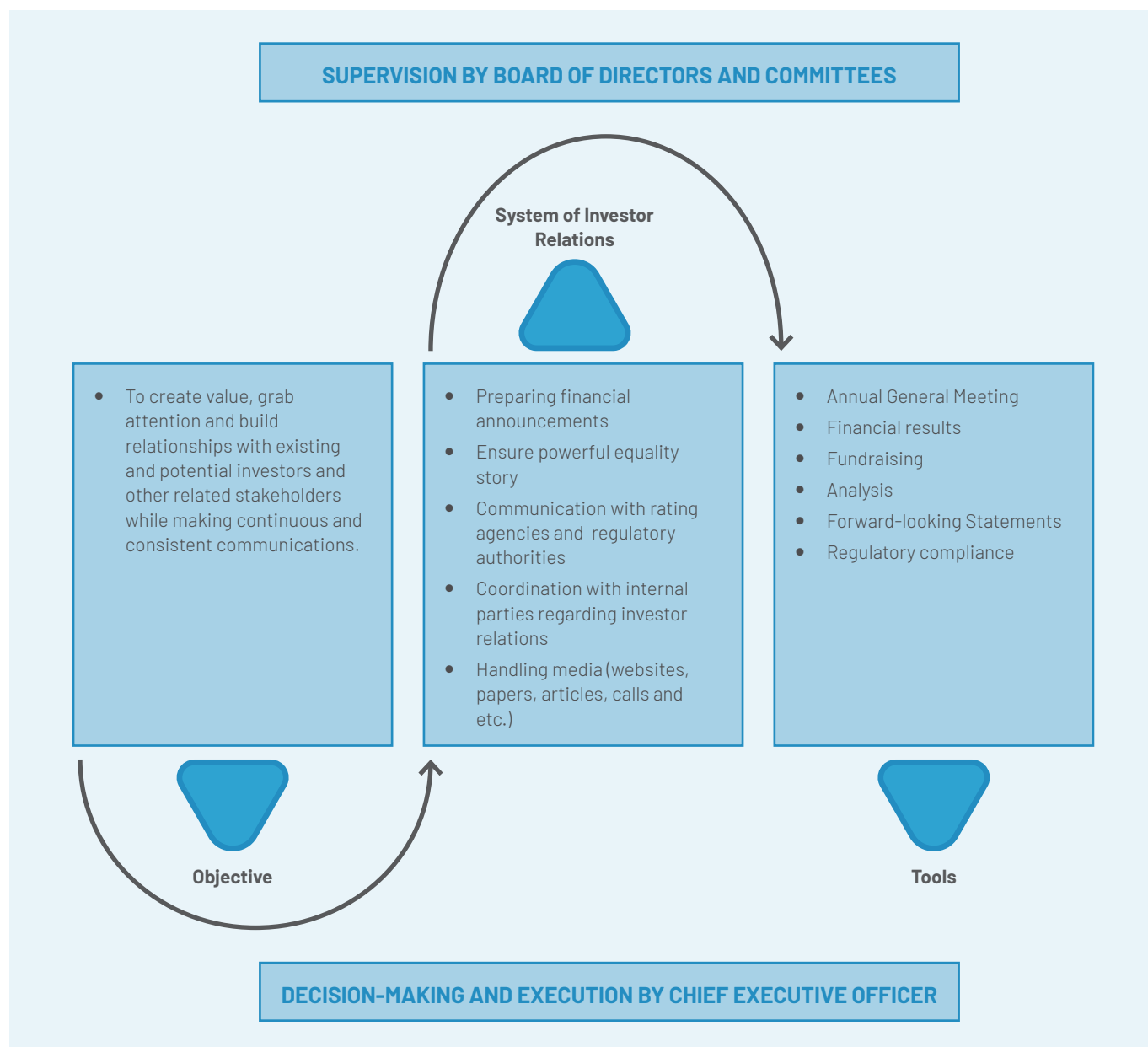
Rating entity	Rating
Fitch Ratings Lanka Ltd.	BB+ (Ika)

USEFUL LINKS FOR INVESTORS

Information	Link (website)
SDB Bank	www.sdb.lk
Colombo Stock Exchange	www.cse.lk
Central Bank of Sri Lanka	www.cbsl.gov.lk
Fitch Ratings Lanka Ltd.	www.fitchratings.com

INVESTOR RELATIONS

HOW WE CREATE VALUE TO OUR INVESTORS



SHARES AND SHAREHOLDERS' ANALYSIS

SHARE OWNERSHIP COMPOSITION

Share range	31 December 2023				31 December 2022			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 – 1,000	36,427	93.97	4,851,314	3.02	36,545	93.75	4,887,545	3.04
1,001 – 10,000	1,765	4.55	5,594,235	3.48	1,857	4.76	5,832,092	3.63
10,001 – 100,000	492	1.27	15,733,918	9.79	500	1.29	15,730,744	9.79
100,001 – 1,000,000	64	0.17	15,299,757	9.52	62	0.16	16,522,108	10.28
1,000,001 – and above	16	0.04	119,219,608	74.19	16	0.04	117,726,343	73.26
	38,764	100.00	160,698,832	100.00	38,980	100.00	160,698,832	100.00

Investor Relations

ANALYSIS OF SHAREHOLDERS

RESIDENT/NON-RESIDENT

	31 December 2023				31 December 2022			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Resident	38,739	99.94	123,053,836	76.57	38,956	99.94	122,987,365	76.53
Non-Resident	25	0.06	37,644,996	23.43	24	0.06	37,711,467	23.47
Total	38,764	100.00	160,698,832	100.00	38,980	100.00	160,698,832	100.00

INDIVIDUAL/INSTITUTIONAL

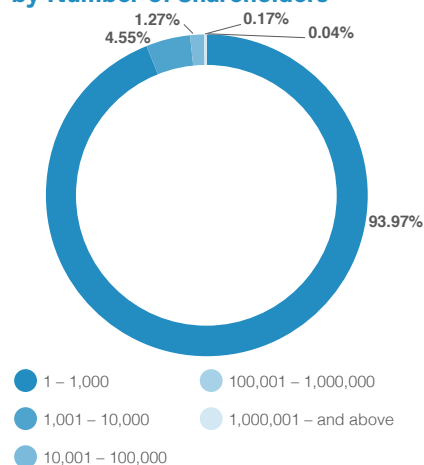
	31 December 2023				31 December 2022			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Individual	35,134	90.64	29,569,154	18.40	35,344	90.67	27,853,380	17.33
Institutional	3,630	9.36	131,129,678	81.60	3,636	9.33	132,845,452	82.67
Total	38,764	100	160,698,832	100	38,980	100.00	160,698,832	100.00

INSTITUTIONAL SUB ANALYSIS

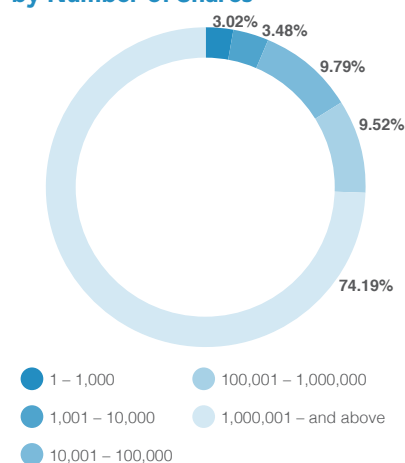
	31 December 2023				31 December 2022			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Foreign	5	0.012	36,617,211	22.78	6	0.015	36,750,921	22.87
Local and other Institutions	60	0.155	72,815,390	45.31	64	0.164	74,386,564	46.28
Sanasa Federation								
ACC 1	1	0.003	780,970	0.49	1	0.003	780,970	0.49
ACC 2			30,846	0.02			30,846	0.02
Sanasa Societies	3,400	8.771	10,040,102	6.25	3,401	8.725	10,182,488	6.34
Sanasa Union	35	0.090	3,453,115	2.15	35	0.090	3,321,619	2.07
MPCCS	24	0.062	1,242,737	0.77	24	0.062	1,242,737	0.77
Trust Companies	105	0.271	6,149,307	3.83	105	0.269	6,149,307	3.83
Total	3,630	9.364	131,129,678	81.60	3,636	9.328	132,845,452	82.67

INVESTOR RELATIONS

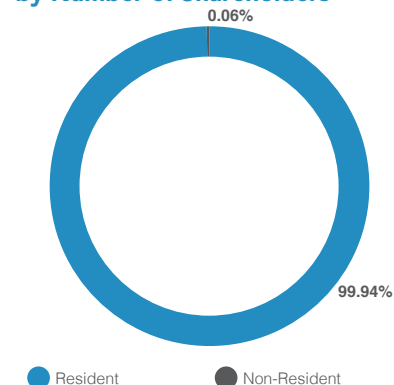
Share Ownership Composition by Number of Shareholders



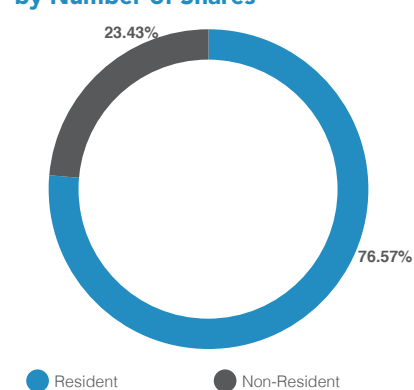
Share Ownership Composition by Number of Shares



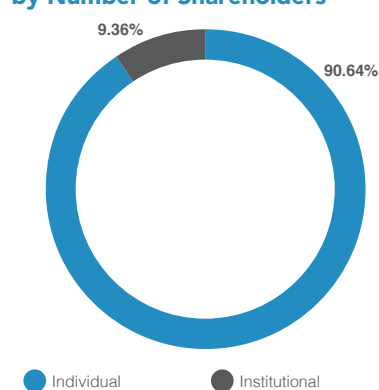
Resident/Non-resident shareholding by Number of Shareholders



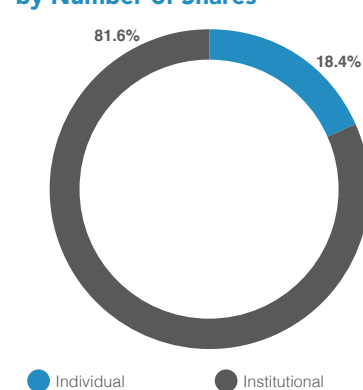
Resident/Non-resident Shareholding by Number of Shares



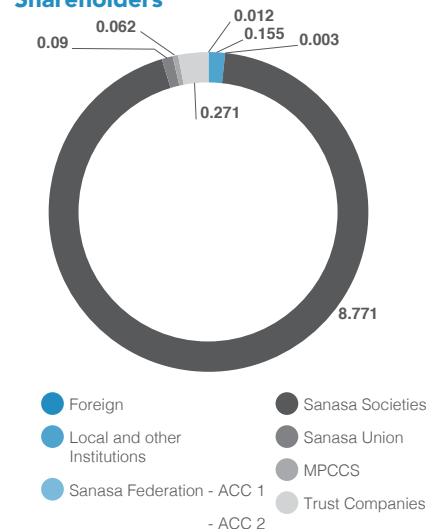
Individual/Institutional Shareholding by Number of Shareholders



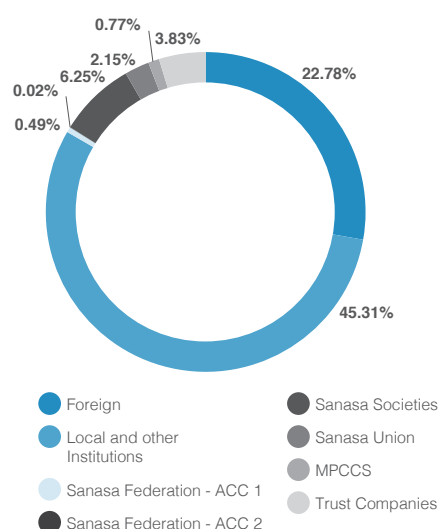
Individual/Institutional Shareholding by Number of Shares



Institutional Sub Analysis Shareholding by Number of Shareholders



Institutional Sub Analysis Shareholding by Number of Shares



Investor Relations

TOP TWENTY SHAREHOLDERS (AMALGAMATED SHAREHOLDINGS)

No.	Name of the Shareholder	31 December 2023		31 December 2022	
		No of Shares	%	No. of Shares	%
1	LOLC INVESTMENT HOLDINGS ONE (PRIVATE) LIMITED*	24,104,800	15.0000	24,104,800	15.0000
2	SENTHILVERL HOLDINGS (PVT) LTD	19,306,601	12.0142	16,458,256	10.2417
3	NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V.	17,609,503	10.9581	17,609,503	10.9581
4	BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES SA/NV	16,069,800	9.9999	16,069,800	9.9999
5	AYENKA HOLDINGS PRIVATE LIMITED	14,460,956	8.9988	17,604,953	10.9552
6	DR. T. SENTHILVERL	4,798,223	2.9859	3,484,112	2.1681
7	SANASA LIFE INSURANCE COMPANY PLC	4,715,996	2.9347	4,715,996	2.9347
8	ALLIANCE FINANCE COMPANY PLC	3,516,310	2.1881	3,516,310	2.1881
9	PEOPLES LEASING & FINANCE PLC/L.P.HAPANGAMA	3,102,528	1.9306	2,627,722	1.6352
10	SBI EMERGING ASIA FINANCIAL SECTOR FUND PTE. LTD	2,885,618	1.7957	2,885,618	1.7957
11	PEOPLES LEASING & FINANCE PLC	2,271,260	1.4134	2,271,260	1.4134
12	BANK OF CEYLON A/C CEYBANK UNIT TRUST	1,539,241	0.9578	1,539,241	0.9578
13	HATTON NATIONAL BANK PLC/SARRAVANAN NEELAKANDAN	1,440,010	0.8961	1,440,010	0.8961
14	KEGALLE SANASA SHAREHOLDERS TRUST COMPANY LIMITED	1,260,246	0.7842	1,260,246	0.7842
15	SANASA GENERAL INSURANCE COMPANY LTD	1,124,418	0.6997	1,124,418	0.6997
16	POLGAHAWELA SANASA SOCIETIES UNION LTD	1,014,098	0.6311	1,014,098	0.6311
17	NIKAWARATIYA THRIFT AND CREDIT CO-OPERATIVE SOCIETY UNION LIMITED	992,849	0.6178	992,849	0.6178
18	BINGIRIYA MULTI PURPOSE COOPERATIVE SOCIETY LTD	970,900	0.6042	970,900	0.6042
19	SANASA FEDERATION LIMITED	811,816	0.5052	811,816	0.5052
20	DFCC BANK PLC/N.G.N.MADURANGA	648,412	0.4035	-	-
Total		122,643,585	76.3190	120,501,908	74.9862

*"ICONIC PROPERTY TWENTY-THREE (PRIVATE) LIMITED" now known as "LOLC INVESTMENT HOLDINGS ONE (PRIVATE) LIMITED"

Note:

This table contains the amalgamated total shareholding of each shareholder.

	31 December 2023		31 December 2022	
	No. of Shares	%	No. of Shares	%
Total number of shares registered	152,345,220	94.80	152,337,612	94.80
Total number of Shares unregistered	8,353,612	5.20	8,361,220	5.20
Total number of shares issued	160,698,832	100.00	160,698,832	100.00
Shares held by Directors and CEO	117,150	0.07	229,965	0.14
Shares held by institutions	131,129,678	81.60	132,845,452	82.67
Balance held by public	29,452,004	18.33	27,623,415	17.19
Total number of shares issued	160,698,832	100.00	160,698,832	100.00
Shares held by public	118,499,616	73.74	95,300,436	59.30
Shares held by Directors, CEO and related parties	42,199,216	26.26	65,398,396	40.70
Total number of shares issued	160,698,832	100.00	160,698,832	100.00

INVESTOR RELATIONS

MARKET CAPITALISATION AND MINIMUM PUBLIC HOLDING

	31 December 2023
Market capitalisation (LKR)	5,062,013,208
Public holding percentage	73.74%
Float adjusted market capitalisation	3,732,737,904
Number of shareholders representing public holding	38,758
Required minimum public holding percentage under option 4 of rule 7.13.1(a) of the Listing Rules of the CSE	10%

The minimum public holding percentage of the Bank as at 31st December 2023 complied with option 4 of rule 7.13.1(a) of the Listing Rules of the CSE.

DIRECTORS' AND CEO'S SHAREHOLDING

Name	31 December 2023		31 December 2022	
	No. of Shares	%	No. of Shares	%
Mr Prasanna Premaratna (Director)	1,500	0.0009	1,500	0.0009
Mr B R A Bandara (Director)	11,000	0.0068	11,000	0.0068
Mr Romani De Silva (Director)	104,650	0.0651	104,650	0.0651
Total	117,150	0.073	117,150	0.073

SHARE TRADING DETAILS

MARKET SHARE TRADING

	2023	2022	2021	2020	2019
Number of transactions	3,618,960	6,057,233	8,131,508	3,070,021	1,197,205
Number of shares traded (Mn)	16,988	29,047	59,772	21,349	9,855
Annual turnover (LKR Mn)	410,629	686,602	1,173,157	396,882	171,408
Average daily turnover (LKR Mn)	1,696.82	2,972.00	4,888.15	3,217.17	711.23

SDB BANK SHARE TRADING

	2023	2022	2021	2020	2019
Number of transactions	7,186	7,400	18,546	18,746	3,065
Number of shares traded	11,522,669	12,814,093	32,484,591	32,129,795	9,548,518
Value of shares traded (LKR Mn)	384.07	369.96	1,700.43	1,147.86	579.51
Average daily turnover (LKR Mn)	1.60	1.61	7.08	5.35	2.51

Investor Relations

MARKET CAPITALISATION DETAILS

CSE AND BANKING INDUSTRY MARKET CAPITALISATION

	2023	2022	2021	2020	2019
CSE market capitalisation (LKR Bn)	4,248.93	3,847.15	5,489.16	2,960.65	2,851.31
S & P SL20 (31/12)	3,068.38	2,635.63	4,233.25	2,638.10	2,936.96
All share price index (31/12)	10,654.16	8,489.66	12,226.01	6,774.22	6,129.21

SDB BANK CAPITALISATION

	2023	2022	2021	2020	2019
CSE market capitalisation (LKR Bn)	4,248.93	3,847.15	5,489.16	2,960.65	2,851.31
SDB Bank market capitalisation (LKR Bn)	5.06	3.43	6.91	5.32	3.59
Increase/decrease in market capitalisation of SDB Bank (%)	48	(50)	29	48	(15)
SDB Bank market capitalisation as a % of CSE market capitalisation (%)	0.12	0.09	0.13	0.18	0.13
Market capitalisation rank of SDB Bank	127	155	115	108	117

SDB BANK SHARE PRICE MOVEMENT

	2023	2022	2021	2020	2019
Highest Price (LKR)	38.90	47.00	68.50	65.00	75.00
Lowest Price (LKR)	20.00	18.50	42.00	43.80	58.00
Price as at 31 December (LKR)	31.50	21.40	43.00	58.10	63.90

SDB Bank share price movement trend



INVESTOR RELATIONS

DIVIDENDS

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

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

Year	Profit for the year (LKR Mn)	Total Cash dividend paid (LKR Mn)	Total Dividend per share (LKR)	Dividend payout ratio (%)	Dividend yield (%)
2019	253.41	114.02	7	155.55	10.95
2020	836.29	206.05	2.25	20.36	3.87
2021	909.35	241.05	1.5	19.66	3.49
2022	292.18	-	-	-	-
2023	606.64	-	-	-	-

VALUE CREATION TO SHAREHOLDERS

CSE MARKET

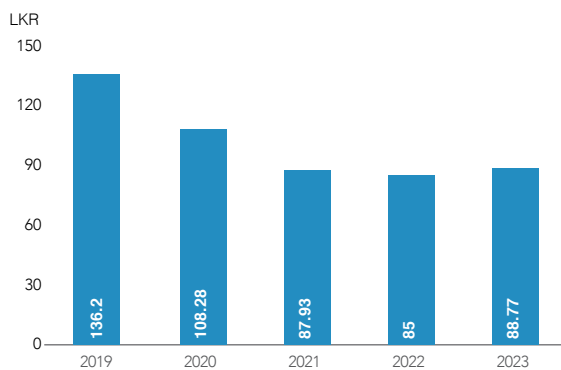
	2023	2022	2021	2020	2019
Market price-earnings ratio (PER)(Times)	11.1	5.0	13.63	11.25	10.83
Market price to book value (PBV)(Times)	0.93	0.9	1.67	1.14	1.14
Market dividend yield (DY)(%)	3.31	4.10	2.17	2.17	3.17

SDB BANK

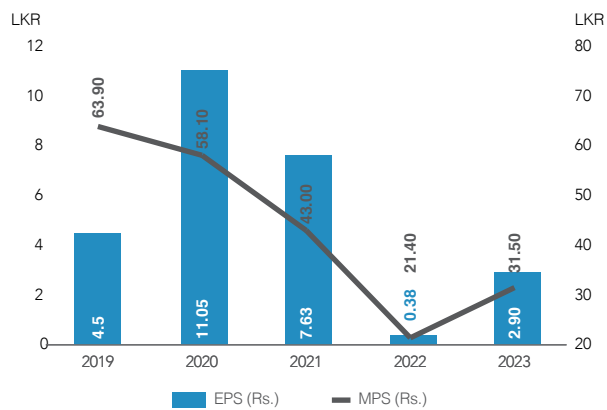
	2023	2022	2021	2020	2019
Net asset value per share (LKR)	88.77	85	87.93	108.28	136.2
Basic earnings per share (LKR)	2.90	0.38	7.63	11.05	4.5
Dividend per share (LKR)	-	-	1.5	2.25	7
Market price per share as at 31 December (LKR)	31.50	21.40	43	58.10	63.90
Price-earnings ratio (PER)(Times)	10.86	56.31	5.63	5.26	14.2
Price to book value (PBV)(Times)	0.35	0.25	0.49	0.54	0.47
Dividend yield (DY)(%)	-	-	3.49	3.87	10.95
Dividend payout (%)	-	-	19.66	20.36	155.55
Number of shares (No. Mn)	160.69	160.69	160.69	91.57	56.31
Number of shareholders	38,764	38,980	38,986	38,853	37,506
Total equity (LKR Mn)	14,265.85	13,659.21	14,129.70	9,916.17	7,668.98
Stated capital (LKR Mn)	11,287.76	11,287.76	11,287.76	7,727.94	5,921.54
Debt to equity (Times)	9.76	10.49	9.28	11.74	12.77
Interest cover (Times)	1.35	1.09	1.84	1.61	1.06
Return on equity (%)	3.34	0.44	7.35	9.51	3.35

Investor Relations

Net assets per Share



Earnings and market price per share



ABBREVIATIONS

A	
AC	Air Conditioner
ACA	Chartered Accountant
ADB	Asian Development Bank
AFS	Available for Sale
AGM	Assistant General Manager/ Annual General Meeting (as appropriate)
ALCO	Assets and Liability Management Committee
AML	Anti-Money Laundering
AT I	Additional Tier I
ATM	Automated Teller Machine
AWPLR	Average Weighted Prime Lending Rate

B	
BAC	Board Audit Committee
BCP	Business Continuity Plan
BIA	Business Impact Analysis
BIRMC	Board Integrated Risk Management Committee
BIS	Bank for International Settlements
BIO	Belgian Investment Company for Developing Countries NV/SA
Bn	Billions
BNO	Bank Notes Operation
BOD	Board of Directors
BRPTRC	Board Related Party Transaction Review Committee
BRC	Business Registration Certificate
BSS	Baseline Standard
BHRRC	Board Human Resources and Remuneration Committee
BS and NC	Board Selection and Nomination Committee
BCC	Board Credit Committee
BSP and PI	Board Strategic Plan and Implementation Committee

C	
CAR	Capital Adequacy Ratio
CASL	Chartered Accountants of Sri Lanka (ICASL)
CBSL	Central Bank of Sri Lanka
CCB	Capital Conservation Buffer

CEO	Chief Executive Officer
CET 1	Common Equity Tier I
CFO	Chief Financial Officer
CO2e	Carbon Dioxide Equivalent, is a standard unit for measuring carbon footprints
CRIB	Credit Information Bureau of Sri Lanka
CRMU	Credit Risk Management Unit
CRRF	Credit Risk Review Function
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
CA	Chartered Accountants
CAGR	Compound Annual Growth Rate

D	
DFI	Development Financial Institutions
DGM	Deputy General Manager
DMS	Document Management System/ Delinquency Monitoring System
DPS	Dividend per Share
DRP	Disaster Recovery Plan
DGGF	Dutch Good Growth Fund (Stichting foundsbeheer DGGF lokaal MKB)
DRL	Debt Repayment Levy
DFC	US International Development Finance Corporation
D-SIB	Domestic systematically important Banks

E	
EAR	Earnings at Risk
EIR	Effective Interest Rate
EPF	Employees' Provident Fund
EPS	Earnings per Share
ERM	Enterprise Risk Management
ESC	Economic Service Charges
ESOP	Employee Share Option Plan
ESG	Environmental, Social, and Governance
ETF	Employees' Trust Fund
EUR	Euro
EVA	Economic Value Addition
EWS	Early Warning Signals

F	
FSVAT	Financial Services Value Added Tax
FMO	Financierings – Maatschappij Voor Ontwikkelingslanden N.V.

G	
GDP	Gross Domestic Product
GHG	Green House Gas
GL	General Ledger
GRI	Global Reporting Initiative

H	
HO	Head Office
HQLA	High Quality Liquid Assets
HR	Human Resources
HRD	Human Resources Development
HTM	Held to Maturity

I	
IBSL	Institute of Bankers of Sri Lanka
ICAAP	Internal Capital Adequacy Assessment Process
ICASL	Institute of Chartered Accountants of Sri Lanka
ICC	International Chamber of Commerce
ICOFR	Internal Control Over Financial Reporting
ICT	Information and Communications Technology
IFA	Investment Fund Account
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IND	Independent Director IRMC Integrated Risk Management Committee
IRMU	Integrated Risk Management Unit ISMS Information Security Management System
ISO	International Organisation for Standardization
IT	Information Technology

Abbreviations

K		P		SREP	
kg	Kilograms	p.a.	Per Annum	SWIFT	Society for Worldwide Interbank Financial Telecommunication
km	Kilometre	P/E	Price Earnings Ratio	SBCP	Specialised Board Subcommittee Capital Planning
KMP	Key Management Personnel	PAT	Profit After Tax	SDFR	Standing Deposit Facility Rate
KPI	Key Performance Indicator	PBT	Profit Before Tax	SLFR	Standing Lending Facility Rate
KRI	Key Risk Indicators	PD	Probability of Default	SRR	Statutory reserve ratio
kWh	Kilowatt-hour	PoS	Point of Sale	SDGs	Sustainable Development Goals
KYC	Know Your Customer	Q		SLBA	Sri Lanka Banks' Association
L		Q&A	Question and Answer	SEO	Search Engine Optimization
LCB	Local Commercial Bank	R		T	
LCR	Liquidity Coverage Ratio	RCSA	Risk and Control Self Assessments	Tn	Trillion
LGD	Loss Given Default	RMU	Risk Management Unit	ToR	Terms of Reference
LKAS	Sri Lanka Accounting Standards	ROA	Return on Assets	TRWCR	Total Risk Weighted Capital Ratio
LTV	Ratio Loan to Value Ratio	ROCE	Return on Capital Employed	TT	Telegraphic Transfer
LIBOR	London Inter Bank offered Rate	ROE	Return on Equity	V	
M		RPT	Related Party Transaction	VAR	Value at Risk
m ³	Cubic meter	RPTRC	Related Party Transactions Review Committee	VAT	Value Added Tax
MIS	Management Information Systems	RSA	Rate Sensitive Assets	W	
MoM	Month on Month	RSL	Rate Sensitive Liabilities	WHT	Withholding Tax
Mn	Millions	RWA	Risk Weighted Assets	Y	
MSME	Micro, Small and Medium Scale Entrepreneur	RPA	Robotic Process Automation	YoY	Year on Year
MW	Megawatt	S			
N		SAFA	South Asian Federation of Accountants		
N/A	Not Applicable	SBU	Strategic Business Unit		
NBT	Nation Building Tax	SDF	Standing Deposit Facility		
NED	Non-Executive Director	SEC	Securities and Exchange Commission of Sri Lanka		
NIC	National Identity Card	SLA	Statutory Liquid Assets		
NID	Non-Independent Director	SLAR	Statutory Liquid Asset Ratio		
NII	Net Interest Income	SLAS	Sri Lanka Accounting Standards		
NIM	Net Interest Margin	SLDB	Sri Lanka Development Bonds		
NPA	Non-Performing Assets	SLF	Standing Lending Facility		
NPL	Non-Performing Loans	SLFRS	Sri Lanka Financial Reporting Standards		
O		SLIBOR	Sri Lanka Inter Bank Offered Rate		
OBS	Off-Balance Sheet	SLIPS	Sri Lanka Interbank Payments System		
OCI	Other Comprehensive Income	SME	Small and Medium Enterprises		
ORMU	Operational Risk Management Unit	SMS	Short Message Service		
OTC	Over-the-Counter				

GLOSSARY OF TERMS

A

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACTUARIAL ASSUMPTIONS

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

ACCRUAL BASIS

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)

A Risk Management Committee in a bank that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to

maturity investments or financial assets at fair value through profit or loss.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest-bearing deposits of commercial banks and the corresponding interest rates.

AVERAGE WEIGHTED PRIME LENDING RATE (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks lending rates offered to their prime customers during the week.

B

BASEL II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the "International Convergence of Capital Measurement and Capital Standards".

BASEL III

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. BASIS POINT (BP) One hundredth of a percentage point, i.e. 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.

C

CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS

Cash flows are inflows and outflows of cash and cash equivalents.

CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

COMMITMENT TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the reporting date.

CONTINGENCIES

A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

CONTROL

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Glossary of Terms

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

COST TO INCOME RATIO

Operating expenses excluding impairment charge for loans and other losses as a percentage of total operating income

CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment debt securities

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

D

DEFERRED TAX

Sum set aside in the financial statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DERIVATIVES

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

DISCOUNT RATE

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

E

EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EFFECTIVE TAX RATE (ETR)

Provision for taxation excluding deferred tax divided by the profit before taxation.

EQUITY INSTRUMENT

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue

EXPECTED LOSS (EL)

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

EXPECTED CREDIT LOSSES (ECLS)

ECLs are probability-weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period used as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes

F

FAIR VALUE

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

FINANCE LEASE

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as "at fair value through profit or loss".

FINANCIAL GUARANTEE CONTRACT

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

GLOSSARY OF TERMS

FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FINANCIAL RISK

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to the party to the contract.

FIRM COMMITMENT

A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

FOREIGN EXCHANGE INCOME

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

G

GLOBAL REPORTING INITIATIVE (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

GOING CONCERN

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

GROSS DIVIDENDS

The portion of profit inclusive of tax withheld distributed to shareholders.

GROUP

A Group is a parent and all its subsidiaries.

GUARANTEES

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet his/her financial obligations to third parties. Certain other guarantees represent nonfinancial undertakings such as bid and performance bonds.

H

HEDGING

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc).

HELD-TO-MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

HIGH QUALITY LIQUID ASSETS (HQLA)

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

I

IMPAIRED LOANS

Loans where the Bank does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT ALLOWANCES

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

IMPAIRMENT PROVISIONS

Impairment provisions are provisions held on the Statement of Financial Position as

a result of the raising of a charge against profit for the incurred loss.

INDIVIDUALLY SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the Bank's Management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group.

Typically assets within the corporate banking business of the Group are assessed individually.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST MARGIN

Net interest income as a percentage of average interest earning assets.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INVESTMENT PROPERTIES

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Glossary of Terms

K

KEY MANAGEMENT PERSONNEL

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills.

LEVERAGE RATIO

The leverage ratio measures a bank's core capital (Capital measure) to its total assets (Exposure measure). The ratio uses capital to judge how leveraged a bank is in relation to its consolidated assets.

LIQUIDITY COVERAGE RATIO (LCR)

Banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash to meet their liquidity needs for a 30 calendar day time horizon under

a significantly severe liquidity stress scenario. LCR is computed by dividing the stock of HQLA by the total net cash outflows over the next 30 calendar days.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

LOANS AND RECEIVABLES

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

N

NET ASSET VALUE PER SHARE

Shareholders' funds divided by the number of ordinary shares in issue.

NET-INTEREST INCOME

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter bank borrowings.

NET STABLE FUNDING RATIO

NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The amount of available and required stable funding are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets.

NON-CONTROLLING INTEREST

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

O

OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

POWER

The Power is the existing rights that give the current ability to direct the relevant activities.

PRICE EARNINGS RATIO (P/E RATIO)

The current market price of the share is divided by the earnings per share of the Bank.

PROBABILITY OF DEFAULT (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

PRUDENCE

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

RELEVANT ACTIVITIES

Relevant activities are activities of the investee that significantly affect the investee's returns.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase Government Securities at a given price on a specified future date.

RETURN ON AVERAGE ASSETS (ROAA)

Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra- industry performance comparison.

RETURN ON AVERAGE EQUITY (ROAE)

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

REVENUE RESERVE

Reserves set aside for future distribution and investment.

GLOSSARY OF TERMS

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of Government Securities by a bank or dealer and resale back to the seller at a given price on a specific future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

RISK-WEIGHTED ASSETS

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

SEGMENT REPORTING

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically- the different industries and the different geographical areas in which it operates.

SHAREHOLDERS' FUNDS

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

SINGLE BORROWER LIMIT

30% of Tier II Capital.

SPECIFIC IMPAIRMENT PROVISIONS

Impairment is measured individually for loans that are individually significant to the Bank.

STATUTORY RESERVE FUND

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

UBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

TIER I CAPITAL

Consists of the sum total of paid up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

TIER II CAPITAL

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

TRANSACTION COSTS

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

TOTAL CAPITAL

Total capital is the sum of Tier I capital and Tier II capital.

U

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

USEFUL LIFE

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YIELD TO MATURITY

Discount rate which the present value of future cash flows would equal the security's current price.

27TH ANNUAL GENERAL MEETING

AGENDA

DATE

31 May 2024

VENUE

"Board Room" SANASA Development Bank PLC,
No.12, Edmonton Road, Kirulapone, Colombo 06

TIME

- | | |
|--------------------------|---|
| 10.00am - 10.05am | Twenty-Seventh Annual General Meeting call to order |
| 10.05am - 10.10am | Notice of Meeting – Company Secretary |
| 10.10am - 10.25am | Confirmation of the Minutes of 26th Annual General Meeting held on 19 May 2023 and Minutes of the Extraordinary General Meeting held on 19 May 2023 |
| 10.25am - 10.50am | To pass General Resolutions |
| 10.50am - 10.55am | Address by the Chairperson |

NOTES

NOTES

CORPORATE INFORMATION

NAME OF COMPANY

SANASA Development Bank PLC

LEGAL FORM

A Public Quoted Company with Limited Liability incorporated under the Companies Act No.17 of 1982 on 6 August 1997 and re-registered under Companies Act No.07 of 2007 and registered as a Licensed Specialised Bank by Central Bank of Sri Lanka under the Banking Act No 30 of 1988 (as amended by the Banking Amendment Act of 1995) and approved Credit Agency under the Mortgage (Amendment) Act No 53 of 1949 and Trust Receipt Ordinance No 12 of 1947

DATE OF INCORPORATION

06 Aug 1997

COMPANY REGISTRATION NUMBER

PB 62 PQ

CENTRAL BANK REGISTRATION NUMBER

Central Bank License No 6 (Under Banking Act No 30 of 1988 on 21 August 1997)

ACCOUNTING YEAR END

31 December

VAT REGISTRATION NUMBER

134007125-7000

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Address : No 12, Edmonton Road, Kirulapone, Colombo 06.

Telex : + 94 112 832 500

Fax : + 94 112 514 256

E mail : comsec@sdb.lk

Web Page : www.sdb.lk

COLOMBO STOCK EXCHANGE LISTING

The Ordinary Voting Shares of the Company were quoted on the Main Board of the Colombo Stock Exchange (CSE) on 31 May 2012

CHIEF EXECUTIVE OFFICER

Mr Priyantha Thalwatte

CHIEF COMPLIANCE OFFICER

Mr Bhanu Wijayarathne

COMPANY SECRETARY

Ms Tamarika Rodrigo

AUDITORS

M/S Ernst & Young Chartered Accountants,
No. 109, Galle Road,
P.O.Box 101, Colombo 03, Sri Lanka

BANKERS

People's Bank
Bank of Ceylon
NDB Bank PLC
Nation Trust Bank PLC
Hatton National Bank PLC
Sampath Bank PLC

BOARD OF DIRECTORS (AS AT 31.12.2023)

Ms Dinithi Ratnayake (Chairperson)
Prof Sampath Amaratunge (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr B R A Bandara (Director)
Mr Thusantha Wijemanna (Director)
Mr Sarath Nandasiri (Director)
Mr Conrad Dias (Director)
Mr Naveendra Sooriyarachchi (Director)
Mr Romani De Silva (Director)
Mr Chandana Dissanayake (Director)
Dr Mahesha Ranasoma (Director)

BOARD SUB COMMITTEE DIRECTORS (AS AT 31.12.2023)

BOARD AUDIT COMMITTEE

Mr Chaaminda Kumarasiri (Chairman - BAC)
Prof Sampath Amaratunge (Director)
Mr Naveendra Sooriyarachchi (Director)
Mr Prasanna Premaratna (Director)

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

Mr Thusantha Wijemanna (Chairman -BHRR)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr Naveendra Sooriyarachchi (Director)
Mr Chandana Dissanayake (Director)

BOARD CREDIT COMMITTEE

Ms Dinithi Ratnayake (Chairperson - BCC)
Mr Thusantha Wijemanna (Director)
Mr Naveendra Sooriyarachchi (Director)
Mr Romani De Silva (Director)
Mr Sarath Nandasiri (Director)

BOARD SELECTION AND NOMINATION COMMITTEE

Ms Dinithi Ratnayake (Chairperson - BS & NC)
Prof Sampath Amaratunge (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Thusantha Wijemanna (Director)

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. Prasanna Premaratna (Chairman - BIRMC)
Prof Sampath Amaratunge (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Conrad Dias (Director)
Mr Chandana Dissanayake (Director)

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Prof Sampath Amaratunge (Chairman - BRPTRC)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr Thusantha Wijemanna (Director)

BOARD STRATEGIC PLANNING COMMITTEE

Ms Dinithi Ratnayake (Chairperson - BSPC)
Mr Chaaminda Kumarasiri (Director)
Mr Conrad Dias (Director)
Mr B R A Bandara (Director)
Dr Mahesha Ranasoma (Director)

BOARD CO-OPERATIVE, RURAL ENTERPRISE AND LIVELIHOOD DEVELOPMENT COMMITTEE

Mr B R A Bandara (Chairman - BCRELDC)
Prof Sampath Amaratunge (Director)
Mr Prasanna Premaratna (Director)
Mr Sarath Nandasiri (Director)
Mr Romani De Silva (Director)

Mr Sarath Nandasiri (Director)
Mr Romani De Silva (Director)

BOARD SUB-COMMITTEE ON SUSTAINABILITY

Mr Romani De Silva (Chairman - BSCS)
Ms Dinithi Ratnayake (Chairperson)
Mr Chaaminda Kumarasiri (Director)
Mr Chandana Dissanayake (Director)
Dr Mahesha Ranasoma (Director)

BOARD IT STEERING COMMITTEE

Mr Conrad Dias (Chairman - BITSC)
Ms Dinithi Ratnayake (Chairperson)
Mr Chaaminda Kumarasiri (Director)

BOARD PROCUREMENT & ASSETS DISPOSAL COMMITTEE

Mr Thusantha Wijemanna (Chairman - BP & ADC)
Mr Prasanna Premaratna (Director)
Mr Naveendra Sooriyarachchi (Director)
Mr Chandana Dissanayake (Director)

MEMBERSHIP IN ASSOCIATIONS

Leasing Association of Sri Lanka
Association of Professional Bankers' of Sri Lanka
The Ceylon Chamber of Commerce
Employers' Federation of Ceylon
The Association of Banking Sector Risk Professionals in Sri Lanka
Association of Compliance Officers of Banks in Sri Lanka
Sri Lanka Banks' Association (Guarantee) Limited
The Financial Ombudsman Sri Lanka (Guarantee) Limited

CREDIT RATING

Fitch Ratings Lanka Ltd. BB+(lka)

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Annual Reports



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