SANASA DEVELOPMENT BANK PLC

FINANCIAL STATEMENTS

31 DECEMBER 2025

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SPF/TP/JJ

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SANASA DEVELOPMENT BANK PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sanasa Development Bank PLC ("the Bank"), which comprise the statement of financial position as at 31 December 2025, 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 31 December 2025, 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.

(Contd...2/)

Partners: D K Hulangamuwa FCA FCMA LLB (London), Ms. Y A De Silva FCA, Ms. G G S Manatunga FCA, W K B S P Fernando FCA FCMA FCCA, B E Wijesuriya FCA FCMA, R N de Saram ACA FCMA, N M Sulaiman FCA FCMA, 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, Ms. P S Paranavitane ACA ACMA LLB (Colombo), B Vasanthan ACA ACMA, W D P L Perera ACA, M U M Mansoor ACA

Principals: T P M Ruberu FCMA FCCA MBA, G B Goudian ACMA, D L B Karunathilaka ACMA, W S J De Silva Bsc (Hons) - MIS Msc - IT, V Shakthivel B.Com (Sp)

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Key audit matter	How our audit addressed the key audit matter
Impairment for expected credit losses of loans and receivables to other customers carried at amortised cost Impairment for expected credit losses of loans and receivables to other customers carried at amortised cost as stated in Note 12 & 21, respectively, is determined by management based on the accounting policies described in Note 2.12 to the financial statements. This was a key audit matter due to • the significant management judgements, assumptions and the high level of estimation uncertainty involved in assessing the future recoverability of Loans and Advances; and • the materiality of the reported amount of allowance of expected credit losses and use of complex calculations in its determination. Key areas of significant judgements, assumptions and estimates used by management in the assessment of the impairment for expected credit losses included determining whether significant increase in credit risk has occurred, forward-looking macroeconomic scenarios and their associated weightages which are subject to inherently heightened levels of estimation uncertainty and subjectivity. Further information on the key estimates, assumptions and judgements is disclosed in Notes 3.2.6.	In addressing the adequacy of the Impairment for expected credit losses of 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 allowances 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. • Assessed 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 advances 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 allowances for expected credit losses made with current economic conditions. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries and status of recovery action of the collaterals. For loans and advances assessed on a collective basis for impairment: - Tested the key inputs and the calculations used in the allowances for expected credit losses. - Assessed the reasonableness of judgements, assumptions and estimates used by the Management in the underlying methodology and the management overlays in consideration of impact arising from the 'Ditwah' cyclone. - Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. Assessed the adequacy of the related financial statement disclosures set out in notes 12,21 and 45.

(Contd...3/)

Key audit matter	How our audit addressed the key audit matter

Information Technology (IT) systems related internal controls over financial reporting
 	
Bank's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.
 	
Accordingly, the design, implementation and operating effectiveness of IT systems and related internal controls over financial reporting were identified as a key audit matter.
	Our audit procedures included the following key procedures:
	
	• Obtained an understanding of the internal control environment of the processes and tested relevant key controls relating to financial reporting and related disclosures.
	• Involved our internal specialized 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.
	  • Tested source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

Other information included in the Bank's 2025 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The 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 do 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.

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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.

(Contd...5/)

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Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007 and section 39 of the Banking Act No 30 of 1988 (as amended by Banking Act No. 24 of 2024), 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.

In our opinion the disclosures made in the accompanying financial statements are in accordance with the requirements of Circular No. 05 of 2024 issued by Central Bank of Sri Lanka.

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

27 February 2026
Colombo

Sanasa Development Bank PLC

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2025

	Note	2025 LKR	2024 LKR
Gross Income	6	18,403,923,767	21,062,580,699
Interest income		17,098,539,394	20,005,051,598
Less: Interest expenses		(8,865,857,751)	(12,184,587,605)
Net interest income	7	8,232,681,643	7,820,463,993
Fee and commission income		716,349,082	631,017,156
Less: Fee and commission expenses		(41,620,128)	(46,695,036)
Net fee and commission income	8	674,728,954	584,322,120
Net gain/(loss) from trading	9	(553,000)	60,116,875
Net fair value gain/(loss) of financial assets at fair value through profit or loss	10	559,066,052	444,081,680
Net other operating income	11	30,522,239	(77,686,610)
Total operating income		9,496,445,888	8,831,298,058
Less: Impairment for loans and other losses	12	(719,189,736)	(558,949,981)
Net operating income		8,777,256,152	8,272,348,077
Less: Operating expenses			
Personnel expenses	13	(4,168,995,986)	(3,964,778,179)
Depreciation and amortisation expenses	14	(702,202,634)	(610,921,460)
Other expenses	15	(2,291,814,746)	(2,245,721,885)
		1,614,242,786	1,450,926,553
Operating profit before Value Added Tax (VAT) on financial services			
Less: Value Added Tax (VAT) on financial services		(714,793,353)	(668,192,659)
Less: Social Security Contribution Levy		(99,276,855)	(98,470,974)
Operating profit/(loss) after VAT on financial services		800,172,578	684,262,920
Profit before tax		800,172,578	684,262,920
Less: Tax expenses	16	(395,254,032)	(274,728,675)
Profit for the year		404,918,546	409,534,246
Other Comprehensive Income			
Other Comprehensive Income/(Expenses) not to be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit plans	31.1.2	(106,466,586)	(195,633,301)
Deferred tax relating to defined benefit plans	16.2.1	31,939,976	58,689,990
Loss arising on re-measuring investments in equity instruments designated at fair value through other comprehensive income	23.1.1	(11,448,154)	-
Revaluation Surplus on Property, Plant and Equipment	25	28,375,000	69,025,000
Deferred tax relating to revaluation surplus on Property, Plant and Equipment	16.2.1	(129,412,760)	-
Other Comprehensive Income for the year net of tax		(187,012,524)	(67,918,311)
Total Comprehensive Income for the year		217,906,021	341,615,936
Earnings per share on profit			
Basic/diluted earnings per share - (LKR).	17	2.47	2.49
Dividend per share: Gross (LKR)		-	-

Chartered Accountants COLOMBO

The Accounting Policies and Notes on pages 10 through 81 from an integral part of the Financial Statements.

Sanasa Development Bank PLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2025

	Note	2025 LKR	2024 LKR
Assets			
Cash and balances with banks	18	7,104,305,823	2,442,293,957
Placements with banks	19	7,801,226,634	9,083,957,854
Financial assets fair value through profit or loss	20	-	6,739,200,074
Financial assets at amortised cost			
- Loans and receivables to other customers	21	109,840,875,877	95,137,106,867
- Debt and other instruments	22	16,605,322,741	26,623,135,466
Financial assets measured at fair value through other comprehensive income	23	196,697,726	208,145,880
Investment in subsidiary	24	6,163,100	6,163,100
Property, plant and equipment	25	970,550,982	1,115,086,601
Right of use assets	26	1,358,410,515	780,437,781
Intangible assets	27	659,060,912	747,453,984
Deferred tax assets	16.2	756,172,119	778,912,222
Other assets	28	1,659,310,397	1,494,056,173
Total assets		146,958,096,826	145,155,949,959
Liabilities			
Due to other customers	29	105,680,974,038	106,989,899,941
Other borrowings	30	20,616,321,069	19,075,131,562
Retirement benefit obligation	31	1,286,496,116	1,041,381,783
Current tax liabilities		892,809,195	717,274,037
Other liabilities	32	3,677,090,022	2,745,762,272
Total liabilities		132,153,690,440	130,569,449,595
Equity			
Stated capital	33	11,406,601,998	11,406,601,998
Statutory reserve fund	34	381,295,092	361,049,165
Retained earnings	35	2,698,388,993	2,388,242,984
Other reserves	36	318,120,303	430,606,217
Total equity		14,804,406,386	14,586,500,364
		14,804,406,386	14,586,500,364
Total equity and liabilities		146,958,096,826	145,155,949,959
Contingent liabilities and commitments	37	1,032,892,725	869,324,533

Certification

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

.....
Sanjeeva Jayasinghe
Head of Finance

The Board of Directors is responsible for these Financial Statements.
Signed for and on behalf of the Board by:

.....	.....	.....	.....
Dinithi Ratnayake	Chaaminda Kumarasiri	Kapila Ariyaratne	Amila Belpamulla
Chairperson	Director	Executive Director / CEO	Company Secretary

The Accounting Policies and Notes on pages 10 through 81 from an integral part of the Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO
27 Colombo 2026

Sanasa Development Bank PLC

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2025

	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
Opening balance as at 1 January 2024	11,287,765,221	340,572,453	2,275,936,735	(19,051,624)	333,975,868	46,656,973	14,265,855,626
Profit for the year	-	-	409,534,246	-	-	-	409,534,246
Other comprehensive income (net of tax)	-	-	(136,943,311)	-	69,025,000	-	(67,918,311)
Total comprehensive income for the year			272,590,935	-	69,025,000		341,615,936
Transactions with equity holders, recognised directly in equity							
Scrip dividend - 2023	118,836,777	-	(139,807,974)	-	-	-	(20,971,199)
Transfer to statutory reserve fund	-	20,476,712	(20,476,712)	-	-	-	-
Total transaction with equity holders	118,836,777	20,476,712	(160,284,687)	-	-	-	(20,971,199)
Closing balance as at 31 December 2024	11,406,601,998	361,049,165	2,388,242,984	(19,051,624)	403,000,868	46,656,973	14,586,500,364
Opening balance as at 1 January 2025	11,406,601,998	361,049,165	2,388,242,984	(19,051,624)	403,000,868	46,656,973	14,586,500,364
Profit for the year	-	-	404,918,546	-	-	-	404,918,546
Other comprehensive income	-	-	(106,466,586)	(11,448,154)	28,375,000	-	(89,539,740)
Deferred Tax on Other Comprehensive Income	-	-	31,939,976		(129,412,760)	-	(97,472,785)
Total comprehensive income for the year	-	-	330,391,936	(11,448,154)	(101,037,760)	-	217,906,021
Transactions with equity holders, recognised directly in equity							
Transfer to statutory reserve fund	-	20,245,927	(20,245,927)	-	-	-	-
	-	20,245,927	(20,245,927)	-	-	-	-
Closing balance as at 31 December 2025	11,406,601,998	381,295,092	2,698,388,993	(30,499,778)	301,963,108	46,656,973	14,804,406,386

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 10 through 81 from an integral part of the Financial Statements.



STATEMENT OF CASH FLOWS

Year ended 31 December 2025

	Note	2025 LKR	2024 LKR
Cash flows from /(used in) operating activities			
Interest received		19,694,745,601	20,577,268,436
Fee and commission received		848,428,986	696,809,121
Receipts from other operating activities		5,933,730	2,779,833
Interest payment		(8,567,284,078)	(14,406,824,572)
Cash payment to employees		(3,816,519,621)	(3,711,040,514)
Payments to suppliers and other operating activities		(2,142,684,860)	(2,273,559,667)
Fee and commission expenses		(41,620,128)	(46,695,036)
Operating profit before changes in operating assets		5,980,999,630	838,737,603
(Increase)/decrease in operating assets			
Funds advanced to customers		(18,176,883,288)	3,068,032,781
Net (increase)/ decrease in other short term securities		871,596,696	(1,038,710,069)
Net (increase)/ decrease in other assets		(1,138,773,246)	(353,648,817)
Increase/(decrease) in operating liabilities			
Deposits from customers		(1,574,200,032)	994,426,906
Net increase/ (decrease) in other liabilities		431,534,825	439,654,428
Net cash from operating activities before taxes		(13,605,725,415)	3,948,492,832
VAT on financial services paid		(848,908,637)	(810,714,276)
Income tax paid		(253,324,876)	(108,284,316)
Net cash from operating activities		(14,707,958,928)	3,029,494,240
Cash flows from /(used in) investing activities			
Dividend received	11	476,195	291,165
(Increase)/decrease in non dealing securities		-	(151,206,356)
(Increase)/decrease in dealing securities		7,297,713,126	(3,419,780,343)
(Increase)/decrease in treasury bonds and other investments		10,003,382,601	13,242,000,498
Proceeds from sale of property, plant and equipment		4,835,348	425,070
Purchase of property, plant and equipment	25	(91,135,973)	(429,588,159)
Purchase of intangible assets	27	(94,124,250)	(165,002,818)
Net cash from/(used in) investing activities		17,121,147,047	9,077,139,057
Cash flows from/(used in) financing activities			
Dividend paid (Withholding Tax)	35	-	(20,971,198)
Repayment of long term borrowing		(9,551,482,215)	(20,781,743,621)
Interest paid on subordinated debt		-	(550,368,079)
Increase/(decrease) in borrowing		11,097,850,277	9,524,870,672
Net cash flow from/(used in) financing activities		1,546,368,062	(11,828,212,226)
Net increase/(decrease) in cash and balances with banks		3,959,556,181	278,421,072
Cash and balances with banks at the beginning of the year	18.3	3,444,749,642	3,166,328,570
Cash and balances with banks at the end of the year	18.3	7,404,305,823	3,444,749,642

The Accounting Policies and Notes on pages 10 through 81 from an integral part of the Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO

1. CORPORATE INFORMATION / REPORTING ENTITY

1.1 General

SANASA Development Bank PLC ("the Bank") is a Licensed Specialized Bank established under the Banking Act No. 30 of 1988 and its amendment there to. It is a limited liability company, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 12, Edmonton Road, Colombo 6. The Bank has a primary listing on the Colombo Stock Exchange.

1.2 Principal activities

SANASA Development Bank PLC provides a comprehensive range of financial services encompassing Development Banking, Corporate Banking, Personal Banking, Corporate and Trade Finance, Leasing and other Associated Activities.

1.3 Subsidiary

Payment Services (Private) Limited is a fully-owned subsidiary of the Bank, that was acquired on 26 May 2020. It was engaged in the business of providing online payment solutions on the web and mobile platforms under the brand name "Upay". The subsidiary's assets, liabilities, equity, income, expenses and cash flows do 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.

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Chartered Accountants
COLOMBO

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. 05 of 2024 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 6 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 2025 were authorized for issue in accordance with a resolution of the Directors on 24 February 2026.

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 31)

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 44 to the Financial Statements.

2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by an Accounting Standard.

2.8 Comparative Information

The comparative information is re-classified wherever necessary to conform to the current year's classification in order to provide a better presentation. The details of such reclassifications are presented in Note 46 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.

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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 45.2.1. (f).

A breakdown of the loans and advances of the Bank classified under stage 2 is given in Note 45.2.1.(g). Sensitivity of the individually significant loan impairment to recovery cash flows is given in Note 45.2.1.(c) while sensitivity of collective impairment provision to the staging of the loans and advances is disclosed in Note 45.2.1. (d).



2.13 Impairment of Other Financial Assets

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

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

2.14 Fair Value of Financial Instruments

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

The Bank measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 42.

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 41, '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 2025 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 37.

2.21 Classification of Investment Properties

Management exercises judgment in determining whether a property qualifies as an investment property. To ensure consistency, the Bank has established specific criteria for this assessment. A property is classified as an investment property if it is held primarily to earn rental income, for capital appreciation, or both, and generates cash flows largely independent of the Bank's other assets. Conversely, properties used for operational purposes, service delivery, or administrative functions where cash f lows are not generated independently are classified as property, plant, and equipment (PPE)

The Bank reviews the classification of its properties annually, considering their current use. As of December 31, 2025, no assets have been classified as investment properties.

2.22 SLFRS 16 – Leases

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



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.

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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.

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

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- 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.

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Derivatives embedded in liabilities and non-financial host contacts, 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.

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 2025.

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

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- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise government securities.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The ECL calculation for debt instruments at FVOCI is explained in Note 3.2.6.5. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

3.2.3.6 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments at FVOCI when they meet the definition of equity under Sri Lanka Accounting Standard - LKAS 32 (Financial Instruments: Presentation) and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.2.3.7 Securities sold under repurchase agreements, due to banks, due to depositors, other borrowers and debt securities holders

After initial measurement, securities sold under repurchase agreements, due to banks, due to depositors, due to other borrowers and due to debt securities holders are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds and costs that are an integral part of the EIR. The Bank does not have compound financial instruments which contains both liability and equity components and require separation as at the date of the issue.

3.2.4 Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank may acquire, dispose of, or terminates a business line (change in business model). When the Bank reclassifies its financial assets it applies the reclassification prospectively from the reclassification date without restating any previously recognised gains, losses (including impairment gains or losses) or interest. Financial liabilities are never reclassified.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

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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 2025.

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

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Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset
  Or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset. but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

3.2.5.2 (b) Financial liabilities

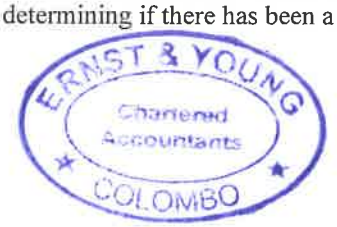
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.2.6 Impairment Allowance for Financial Assets

3.2.6.1 Overview of the ECL principles

The Bank has been recording impairment (expected credit losses) for all loans, debt & other financial instruments not held at FVPL. Equity instruments are not subject to impairment under SLFRS 9.

The ECL impairment is based on the credit losses expected to arise over the life of the asset [the lifetime expected credit loss or (LTECL)], when there is a significant increase in credit risk since origination. In all other instances, the impairment is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 3.2.6.1(b).



The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The policy for grouping financial assets measured on a collective basis is explained in Note 3.2.6.4. The details of individual assessment of ECLs are given in Note 3.2.6.3.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 3.2.6.1 (b). Based on the above process, the Bank categorises its loans into 'stage 1', 'stage 2', 'stage 3' and 'originated credit impaired', as described below:

- Stage 1: When loans are first recognised, the Bank recognises an impairment based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an impairment for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 3.
- Stage 3: Loans considered credit- impaired [as outlined in Note 3.2.6.1 (a)]. The Bank records an impairment for the LTECLs.
- Originated credit impaired: Originated credit impaired assets are financial assets that are credit impaired on initial recognition. They are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. The Bank did not have originated credit impaired loans as at 31st December 2024 and 2023.

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.

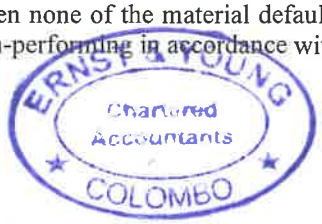
3.2.6.1 (a)Definition of default and cure

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 unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as stage 3 for ECL calculations or whether stage 2 is appropriate.
Such events include:

- Reasonable and supportable forecasts of future economic conditions show a direct negative impact on the performance of a customer/group of customers
- A significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/ group of customers
- The value of collateral is significantly reduced and/or reliability of collateral is doubtful
- The borrower is subject to litigation that significantly affects the performance of the credit facility

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re- classified out of stage 3 when none of the material default criteria have been presented and the borrower is no longer considered as non-performing in accordance with the Directives of the Central Bank.



Once cured, the decision whether to classify an asset as stage 2 or stage 1 largely depends on the days past due, at the time of the cure. The corresponding reduction in ECL is recognised under "Impairment charge/reversal" in Note 12 to the financial statements.

The Bank's criterion for 'cure' for rescheduled/restructured loans is more stringent than ordinary loans and is explained in Note 3.2.6.10.

3.2.6.1 (b)Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have a significantly increased credit risk when it is past due for more than 30 days.

The Bank also applies secondary qualitative methods for triggering a significant increase in credit risk, such as restructuring of an asset while the asset is less than 30 days past due. Further, rescheduled loans will remain in stage 2 for at least one year from the date of Rechedulment even if such loans become less than 30 days past due. In certain cases, the Bank may also consider that events explained in Note 3.2.6.1 (a) are significant increase in credit risk as opposed to a default, for customers who are considered as individually significant.

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 45.2.1 (g).

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).

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3.2.6.3 Calculation of ECLs for individually significant loans

The Bank first assesses ECLs individually for financial assets that are individually significant to the Bank. In the event the Bank determines that such assets are not impaired, moves in to a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The criteria used to determine whether individually significant customer is in default is discussed in Note 3.2.6.1 (a).

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. In determining the expected future cash flows, the Bank takes in to account the base case, the best case and the worst case scenarios considering various modes of settlement of the impaired credit facilities. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re- assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognised through the unwinding of the discount.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;

3.2.6.4 Grouping financial assets measured on a collective basis

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- All customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is determined to be not impaired such customers are moved back to collective ECL calculation.
- The treasury, trading and interbank relationships (such as Due from banks, debt and other instruments at amortised cost/FVOCI)

For all other asset classes, the Bank calculates ECL on a collective basis. The Bank categorises these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral

3.2.6.4 (a) PD estimation process

PD estimation for loans and advances under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most banks in the country at present.

Accordingly, exposures are categorised among 5 groups based on the DPD as follows.

- Zero days past due
- 1 - 30 days past due

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- 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.

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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 2024, 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 2025.

	Base case	Best case	Worst case
2025	25%	10%	65%
2024	25%	10%	65%

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 2025 and 2024.

3.2.6.9 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. For individual customers, the Bank has a policy of writing off the gross carrying amount when the financial asset is past due for many years, based on historical experience of recoveries of similar assets.



If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the statement of profit or loss.

3.2.6.10 Rescheduled and restructured loans

The Bank sometimes makes concessions or modifications to the original terms of loans in response to the borrower's financial difficulties, rather than taking possession of the collateral. The Bank considers a loan as rescheduled/restructured, when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit and Risk Departments. Reschedulement/restructure may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor rescheduled/ restructured loans to ensure that future payments are likely to occur.

When the Bank reschedule/restructure a loan facility of a customer, the entire portfolio of the customer is classified as minimum stage 2 at the modification date. The Bank also considers whether such assets should be classified as stage 3. Rescheduled customers will remain in stage 3/stage 2 for at least one year even the rescheduled loan facility becomes a performing loan in terms of CBSL Directives. Restructured loans are upgraded to stage 1 by the Bank's Risk Department based on their independent evaluation of the customers. If the upgraded rescheduled/restructured loans become past due (for more than 30 days) on a later date, loss allowance reverts to being measured at an amount equal to life time expected credit losses. Details of restructured/rescheduled loans are disclosed in Note 45.2.1 (h). 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.

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 2025 and 2024.

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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:

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- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Bank has right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Bank has right to direct the use of the asset. The Bank has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either;
- The Bank has the right to operate the asset; or
- The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

3.3.1 Bank as the Lessee

The Bank recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined based on the tenor of rent agreements.
In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re- measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Banks' incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments such as Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Bank presents right of use assets under Note 26 to the financial statements while the corresponding lease liability is presented in Note 32, '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.

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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 21.2.1, 'Loans and advances'. Interest income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

The Bank recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of other income.

3.4 Fiduciary Assets

The Bank provides fiduciary services that result in the holding of assets on behalf of its customers. Assets held in fiduciary capacity are not reported in the Financial Statements, as they are not assets of the Bank.

3.5 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

3.6 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to the amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

3.7 Impairment of Non-Financial Assets

The carrying amounts of the Bank's non- financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre- tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.



3.8 Other Taxes

3.8.1 Value Added Tax (VAT)

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits & provisions relating to terminal benefits.

3.8.2 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 2025 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 2025.

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 SLFRS 17 – Insurance Contracts

However, there is no impact on the financial statements of the bank by applying the above to accounting standards.

5. ACCOUNTING STANDARDS/CBSL DIRECTIVES ISSUED BUT NOT YET EFFECTIVE AS AT 31ST DECEMBER 2025

The new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

SLFRS 18 - Presentation and Disclosure in Financial Statements
The standard will be effective for annual reporting periods beginning on or after 1 January 2027. Early adoption is permitted. This amendment does not have a material impact on the Financial Statements of the Company.

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SLFRS 19 - Subsidiaries without Public Accountability: Disclosures
SLFRS 19 Subsidiaries without Public Accountability: Disclosures specifies the disclosure requirements an entity is permitted to apply instead of the disclosure requirements in other SLFRS Accounting Standards. The amendments will be effective for annual reporting periods beginning on or after 1 January 2027. Early adoption is permitted. This amendment does not have a impact on the Financial Statements of the Company.

Amendments to SLFRS 9 – Financial Instruments and SLFRS 7 –Financial Instruments: Disclosures
Amendments introduce important enhancements to the classification, measurement, derecognition, and disclosure requirements applicable to financial instruments, with the objective of strengthening transparency, improving consistency, and addressing emerging market developments such as sustainability-linked features and nature-dependent electricity contracts.
The amendments will be effective for annual reporting periods beginning on or after 1st January 2026. Early adoption is permitted.

SLFRS S1 GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY- RELATED FINANCIAL INFORMATION

SLFRS S1 requires entities to provide material, decision-useful sustainability-related financial disclosures covering governance, strategy, risk management, and metrics and targets, aligned with financial statements and focused on impacts on future cash flows. All listed entities in the Main Board of the Colombo Stock Exchange are required to adopt for annual periods beginning on or after 1 January 2026. Early adoption is permitted.

SLFRS S2 CLIMATE RELATED DISCLOSURES

The objective of SLFRS S2 Climate-related Disclosures is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. All listed entities in the Main Board of the Colombo Stock Exchange are required to be adopted for annual periods beginning on or after 1 January 2026. Early adoption is permitted.

The Bank has applied all relevant accounting standards which have been issued up to 31 December 2025 in the preparation of the Financial Statements for the year ended 31 December 2025.



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	2025 LKR	2024 LKR
Interest income	7.	17,098,539,394	20,005,051,598
Fee and commission income	8.	716,349,082	631,017,156
Net Gain/(Loss) from Trading	9.	(553,000)	60,116,875
Net Fair Value Gain/(Loss) from Financial Assets at Fair Value through Profit or Loss	10.	559,066,052	444,081,680
Net Other Operating Income	11.	30,522,239	(77,686,610)
		18,403,923,767	21,062,580,699

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.

Interest income	2025 LKR	2024 LKR
Cash and balances with banks	79,222,424	100,173,980
Placements with banks	892,957,873	1,128,645,949
Financial assets at amortised cost:		
-Loans and receivables to other customers	14,565,056,623	14,795,033,351
-Debt and other instruments	1,557,945,474	3,848,914,091
Financial assets - fair value through profit or loss	3,357,000	132,284,227
Total interest income	17,098,539,394	20,005,051,598
Interest expenses		
Financial liabilities at amortised cost:		
-Due to other customers	7,825,125,872	10,287,471,096
-Other borrowers	893,076,185	1,328,060,835
-Subordinated term debt	-	432,543,169
-Finance cost of lease liability	147,655,694	136,512,505
Total interest expenses	8,865,857,751	12,184,587,605
Net interest income	8,232,681,643	7,820,463,993

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7. NET INTEREST INCOME (Contd...)

7.1 Interest income from Sri Lanka Government securities

	2025 LKR	2024 LKR
Interest income from Sri Lanka Government securities	1,445,845,838	3,877,114,943
	1,445,845,838	3,877,114,943

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.

	2025 LKR	2024 LKR
Fee and commission income	716,349,082	631,017,156
Fee and commission expenses	(41,620,128)	(46,695,036)
Net fee and commission income	674,728,954	584,322,120

8.1 Fee and commission income earned from

	2025 LKR	2024 LKR
Loans	242,007,639	149,505,718
Deposits	107,765,171	105,461,295
Guarantees	2,328,748	1,817,996
Commission earned from insurance	67,367,134	78,404,998
Commission earned from ATM	72,647,726	78,416,349
Others	224,232,664	217,410,800
Fee and commission income	716,349,082	631,017,156

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.

	2025 LKR	2024 LKR
Sri Lanka Government securities - Treasury bills and treasury bonds	(553,000)	60,116,875
	(553,000)	60,116,875

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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.

	2025 LKR	2024 LKR
Sri Lanka Government securities - Treasury bills and treasury bonds	(1,398,600)	(2,506,265)
Unit trust	560,464,652	446,587,945
Total	559,066,052	444,081,680

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.

	2025 LKR	2024 LKR
Gain on sale of property, plant and equipment	3,686,790	78,691
Dividend income	476,195	291,165
Other income	26,359,254	(78,056,466)
Other operating income	30,522,239	(77,686,610)

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

	2025 LKR	2024 LKR
Stage 1	773,046	(211,314)
Total	773,046	(211,314)

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12. IMPAIRMENT FOR LOANS AND OTHER LOSSES (Contd...)

12.2 Placements with banks

	2025 LKR	2024 LKR
Stage 1	(239,823)	(1,861,868)
Total	(239,823)	(1,861,868)

12.3 Financial assets at amorised cost - Loans and receivables to customers

	2025 LKR	2024 LKR
Stage 1	339,796,329	91,112,220
Stage 2	(178,646,385)	(18,997,884)
Stage 3	556,975,308	488,879,455
Total	718,125,252	560,993,791

12.4 Debt and other instruments

	2025 LKR	2024 LKR
Stage 1	531,261	29,372
Total	531,261	29,372
Total	719,189,736	558,949,981

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 32.

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).



13. PERSONNEL EXPENSES (Contd...)

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 2025 (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.

	2025 LKR	2024 LKR
Salary and bonus	2,868,563,912	2,738,795,383
Contributions to defined contribution plans - EPF	361,598,352	335,829,118
- ETF	77,477,670	71,963,383
Contributions to defined benefit plans	210,968,464	168,751,769
Overtime	8,906,500	8,953,429
Staff welfare	34,268,746	39,395,375
Staff allowances	404,162,064	374,296,359
Others	203,050,278	226,793,363
Total	4,168,995,986	3,964,778,179

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	
	2025	2024	2025	2024
Buildings	20	20	5	5
Computer hardware	3-5	3-5	20 - 33.33	20 - 33.33
Machinery and equipment	5	5	20	20
Motor vehicles	4	4	25	25
Furniture and fitting	5	5	20	20
Digital Equipment	5	5	20	20

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14. DEPRECIATION AND AMORTISATION EXPENSES (Contd....)

Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight-line basis in the Statement of Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life, based on a pattern in which the asset's economic benefits are consumed by the Bank. The Bank assumes that there is no residual value for its intangible assets.

Asset category	Useful life (years)		Amortization Rate per Annum (%)	
	2025	2024	2025	2024
Computer software	3-7	3-7	14 - 33.33	14 - 33.33
Core Banking System	10	10	10	10

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 2025, the Bank conducted an operational efficiency review and estimates were not changed accordingly.

	2025 LKR	2024 LKR
Depreciation of property, plant and equipment	270,658,784	228,456,223
Amortisation of Right of use assets**	249,026,091	211,350,225
Amortisation of intangible assets	182,517,759	171,115,012
Total	702,202,634	610,921,460

** Bank has only Buildings under Right of Use Assets

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.

	2025 LKR	2024 LKR
Directors' emoluments	29,619,550	52,328,500
Auditors' remunerations	9,600,000	5,875,000
Professional and legal expenses	12,304,960	24,684,977
Office administration and establishment expenses	2,240,290,236	2,162,833,408
Total	2,291,814,746	2,245,721,885

15.1 Directors' emoluments include fees paid to Non-executive Directors.

15.2 Auditors' remunerations

	2025 LKR	2024 LKR
Audit fees	4,600,000	3,900,000
Audit related fees & expenses	1,700,000	1,050,000
Non-audit expenses	3,300,000	925,000
	9,600,000	5,875,000



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.



16. TAX EXPENSE (Contd....)

	2025 LKR	2024 LKR
Current tax expense		
Income tax for the year	469,986,712	461,140,565
Deferred taxation charge /(reversal)	(74,732,680)	(186,411,890)
Total	395,254,032	274,728,675

16.1 Reconciliation of tax expenses

	2025 LKR	2024 LKR
Profit before tax	800,172,578	684,262,920
Income tax for the period (Accounting profit at 30%)	240,051,773	205,278,876
Income exempt from tax /or not taxable	(189,811,316)	(329,336,844)
Add: Tax effect of expenses that are not deductible for tax purposes	715,990,988	870,705,936
Less: Tax effect of expenses that are deductible for tax purposes	(323,501,219)	(285,507,405)
Add: Provision for assessments	27,256,486	
Tax expense for the year	469,986,712	461,140,564
Deferred taxation charge	(74,732,680)	(245,101,880)
Amount of Deferred Tax Expense /(Income)	-	58,689,990
At the effective income tax rate of 49.40% (2024 : 40.15%)	395,254,032	274,728,674



16. TAX EXPENSE (Contd..)

16.2 Deferred tax assets, liabilities and income tax relates to the followings:

	Statement of financial position		Statement of comprehensive income	
	2025	2024	2025	2024
Deferred tax liability	LKR	LKR	LKR	LKR
Capital allowances for property, plant and equipment	(12,475,846)	(12,544,699)	68,853	(49,248,620)
Land Revaluation Surplus	129,412,760	-	129,412,760	-
	116,936,914	(12,544,699)	129,481,614	(49,248,620)
Deferred tax assets				
Defined benefit plans	385,948,835	312,414,535	(73,534,300)	(82,580,177)
Impairment allowance	476,362,373	425,734,380	(50,627,993)	(92,683,902)
Right to use assets	10,797,825	28,218,608	17,420,784	(20,589,181)
	873,109,033	766,367,523	(106,741,509)	(195,853,260)
Deferred taxation charge/(reversal)			22,740,104	(245,101,880)
Net deferred tax liability /(asset)	(756,172,119)	(778,912,222)		

16.2.1 Composition of deferred tax charge

Impact on income tax expense	(74,732,680)	(186,411,890)
Impact on other comprehensive income	97,472,785	(58,689,990)
Impact on comprehensive income	22,740,104	(245,101,880)

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 2025.

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.

	2025	2024
	LKR	LKR
Net profit for the year	404,918,546	409,534,246
Profit attributable to ordinary shareholders	404,918,546	409,534,246

	2025	2024
	Number	Number
Weighted average number of ordinary shares in issue	164,166,494	164,166,494
	164,166,494	164,166,494
Basic/diluted earnings per ordinary share	2.47	2.49

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18. CASH AND BALANCES WITH BANKS

Accounting Policy

Cash and balances with banks 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 balances with banks are carried at amortised cost in the Statement of Financial Position. All cash and balances with banks balances held by the Bank were available for use.

For the purpose of the Statement of Cash Flows, cash and balances with banks consist of cash and short term deposits as defined above and placements with banks (less than 3 months) .

	2025 LKR	2024 LKR
Cash in hand	404,560,619	553,989,208
Balances with banks	6,700,846,056	1,888,632,556
Less : Impairment	(1,100,852)	(327,807)
Carrying value after impairment	7,104,305,823	2,442,293,957

18.1 Analysis of cash and balances with banks based on exposure to credit risk

	Stage 1	
	2025 LKR	2024 LKR
Cash and balances with banks	7,105,406,675	2,442,621,764
Less : Impairment	(1,100,852)	(327,807)
Carrying value after impairment	7,104,305,823	2,442,293,957

18.2 Stage wise classification of impairment allowances of cash and balances with banks

	Stage 1	
	2025 LKR	2024 LKR
Opening balance as at 1 January	327,806	539,120
Charges/(reversal) to income statement	773,046	(211,314)
Closing balance as at 31 December	1,100,852	327,806

18.3 Cash and balances with banks for cash flow statement

	2025 LKR	2024 LKR
Cash and balances with banks	7,104,305,823	2,442,293,957
Repurchase agreement	-	702,455,685
Fixed deposits less than 3 months	300,000,000	300,000,000
	7,404,305,823	3,444,749,642

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.

	2025 LKR	2024 LKR
Placements with banks	7,802,428,744	9,085,399,787
Less: Impairment	(1,202,110)	(1,441,933)
Carrying value after impairment	7,801,226,634	9,083,957,854

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19. PLACEMENTS WITH BANKS (Contd...)

19.1 Analysis of placements with banks based on exposure to credit risk

	Stage 1	
	2025	2024
	LKR	LKR
Placements with banks	7,802,428,744	9,085,399,787
Less : Impairment allowance for placement	(1,202,110)	(1,441,933)
Carrying value after impairment	7,801,226,634	9,083,957,854

19.2 Stage wise classification of impairment allowances of placements with banks

	Stage 1	
	2025	2024
	LKR	LKR
Opening balance as at 1 January	1,441,933	3,303,801
Charges/(reversal) to income statement	(239,823)	(1,861,868)
Closing balance as at 31 December	1,202,110	1,441,933

*** Since specialized banks are not required to maintain statutory reserve requirement (SRR) at CBSL, it must instead comply with capital adequacy and liquidity requirements specific to its business model. (Refer note no 45.6)

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.

	2025	2024
	LKR	LKR
Sri Lanka Government securities - Treasury bills and Treasury bonds	-	257,985,600
Unit trust	-	6,481,214,474
Total	-	6,739,200,074

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.

	2025	2024
	LKR	LKR
Gross loans and receivables (Note 21.1)	118,564,908,494	103,181,716,494
Less: Individual impairment	(4,635,080,987)	(3,648,482,252)
Collective impairment	(4,088,951,630)	(4,396,127,375)
Net loans and receivables	109,840,875,877	95,137,106,867

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21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd...)

21.1 Analysis of loans and receivables to other customers based on exposure to credit risk

	2025			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Individual impairment loans				
Term loan			6,838,259,275	6,838,259,275
Leasing			874,124,690	874,124,690
Collective impairment loans				
Pawning	11,016,078,857	193,730,076	23,615,662	11,233,424,595
Cash margin	5,985,347,362	102,431,498	2,171,483	6,089,950,343
Staff loans	1,663,726,907	2,042,413	2,312,167	1,668,081,487
Term loans				
Business	676,221,922	33,885,997	233,017,584	943,125,503
Co-operative	2,221,863,305	83,806,019	37,696,268	2,343,365,592
Housing	1,523,801,834	306,300,918	375,699,932	2,205,802,684
Personal	241,322,429	18,507,645	145,917,213	405,747,287
Fixed and floating	13,777,822,981	950,100,819	2,558,540,770	17,286,464,570
SME	16,843,948,098	1,020,390,524	2,063,613,824	19,927,952,446
Upahara	38,786,298,805	173,611,065	124,460,100	39,084,369,970
Lease rentals receivables	8,160,288,714	1,294,709,207	209,242,131	9,664,240,052
Gross loans and receivables	100,896,721,214	4,179,516,181	13,488,671,099	118,564,908,494
Less : Impairment allowance	(1,018,577,440)	(608,890,494)	(7,096,564,684)	(8,724,032,618)
Net loans and receivables	99,878,143,774	3,570,625,687	6,392,106,415	109,840,875,876

	2024			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Individual impairment loans				
Term loans			4,895,729,636	4,895,729,636
Leasing			630,084,631	630,084,631
Collective impairment loans				
Pawning	7,514,803,817	376,473,975	42,078,732	7,933,356,524
Cash margin	6,766,468,794	265,262,719	6,081,349	7,037,812,862
Staff loans	1,708,162,412	580,301	-	1,708,742,713
Term loans				
Business	136,205,773	47,835,972	332,081,005	516,122,750
Co-operative	759,365,973	68,276,446	51,360,433	879,002,852
Housing	1,263,379,574	373,730,425	455,474,260	2,092,584,259
Personal	284,992,470	33,654,589	200,096,890	518,743,949
Fixed and floating	16,181,849,176	973,071,294	3,656,555,018	20,811,475,488
SME	7,995,535,909	1,128,859,990	3,001,608,318	12,126,004,217
Upahara	37,622,194,671	193,707,668	26,835,688	37,842,738,027
Lease rentals receivables	4,694,322,423	1,025,656,189	469,339,974	6,189,318,586
Gross loans and receivables	84,927,280,992	4,487,109,568	13,767,325,934	103,181,716,494
Less : Impairment allowance	(678,781,111)	(787,536,879)	(6,578,291,637)	(8,044,609,627)
Net loans and receivables	84,248,499,881	3,699,572,689	7,189,034,297	95,137,106,867



21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd...)

21.2 Gross loans and receivables analysis by product

	2025 LKR	2024 LKR
Loans and receivable		
Pawning	11,298,991,504	7,942,303,776
Cash margin	6,220,305,255	7,037,812,862
Staff loans	1,670,502,616	1,708,742,713
Term loans		
Business	1,708,010,318	1,232,640,068
Co-operative	2,952,610,082	1,450,831,734
Housing	2,509,196,963	2,306,251,994
Personal	562,152,215	679,484,302
Fixed and floating	19,725,096,493	22,097,647,846
SME	21,883,379,729	13,609,805,956
Upahara	39,496,298,578	38,296,792,026
Lease rentals receivable (Note 21.2.1)	10,538,364,742	6,819,403,217
Gross total	118,564,908,494	103,181,716,494

21.2.1 Lease rentals receivable

	2025 LKR	2024 LKR
Gross lease receivable within one year	2,512,491,312	1,877,007,672
Unearned income on rentals receivable	(1,230,820,149)	(802,927,198)
Gross lease receivable within one year	1,281,671,163	1,074,080,474
Gross lease receivable after one year	11,330,935,702	6,998,949,492
Unearned income on rentals receivable	(2,074,242,123)	(1,253,626,751)
Gross lease receivable after one year	9,256,693,579	5,745,322,741
Gross lease receivable total	10,538,364,742	6,819,403,215

21.3 Gross loans and receivables analysis by currency

	2025 LKR	2024 LKR
Sri Lankan Rupee	118,564,908,494	103,181,716,494
Gross total	118,564,908,494	103,181,716,494

21.4 Gross loans and receivables analysis Industry

	2025 LKR	2025 %	2024 LKR	2024 %
Agriculture, Forestry & Fishing	16,367,419,387	13.80%	17,300,969,256	16.77%
Manufacturing	3,354,320,437	2.83%	2,595,563,236	2.52%
Tourism	1,707,380,736	1.44%	1,458,771,059	1.41%
Construction and Infrastructure Development	8,830,635,277	7.45%	7,845,434,950	7.60%
Wholesale and Retail Trade	5,514,191,318	4.65%	5,971,526,905	5.79%
Financial Services	10,205,281,804	8.61%	4,021,290,302	3.90%
Consumption	65,689,728,224	55.40%	59,467,296,775	57.63%
Transportation and Storage	5,301,310,407	4.47%	3,032,173,651	2.94%
Information Technology and Communication	50,278,483	0.04%	88,390,275	0.09%
Professional, Scientific and Technical Activities	429,604,277	0.36%	278,129,576	0.27%
Arts, Entertainment and Recreation	36,668,298	0.03%	20,195,028	0.02%
Education	190,034,276	0.16%	179,943,061	0.17%
Healthcare, Social Services and Support services	888,055,570	0.75%	922,032,421	0.89%
	118,564,908,494	100.00%	103,181,716,495	100.00%

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21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd...)

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 2025 and 31st December 2024.

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

	2025 LKR	2024 LKR
Stage 1		
Opening balance as at 1 January	678,781,111	587,668,891
Charges/(reversal) to income statement	339,796,329	91,112,220
Closing balance as at 31 December	1,018,577,440	678,781,111
Stage 2		
Opening balance as at 1 January	787,536,879	806,534,763
Charges/(reversal) to income statement	(178,646,385)	(18,997,884)
Closing balance as at 31 December	608,890,494	787,536,879
Stage 3		
Opening balance as at 1 January	6,578,291,637	6,216,716,734
Charges/(reversal) to income statement	556,975,308	488,879,455
Write - off during the year	(38,702,261)	(127,304,552)
Closing balance as at 31 December	7,096,564,684	6,578,291,637

21.6 Movement in individual and collective impairment

	Individual impairment LKR	Collective impairment LKR	Total impairment LKR
Opening balance as at 1 January 2024	3,874,068,410	3,736,851,979	7,610,920,389
Charge/(reversal) to income statement	(225,586,158)	786,579,947	560,993,790
Recovery/(write-off) during the year	-	(127,304,552)	(127,304,552)
Closing balance as at 31 December 2024	3,648,482,252	4,396,127,374	8,044,609,627
Opening balance as at 1 January 2025	3,648,482,252	4,396,127,374	8,044,609,627
Charge/(reversal) to income statement	986,598,735	(268,473,483)	718,125,252
Recovery/(write-off) during the year	-	(38,702,261)	(38,702,261)
Closing balance as at 31 December 2025	4,635,080,987	4,088,951,630	8,724,032,618

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 45 has disclosed the product segmentation as at 31st December 2025 and 2024, after validating the impairment model. The Bank estimated Expected Credit Loss (ECL) as at December 31, 2025, based on the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at December 31, 2025, after validating the impairment model.

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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.

	2025 LKR	2024 LKR
Debentures	101,277,055	101,365,915
Repurchase agreement	-	702,455,685
Treasury bill	15,314,643,470	21,787,314,036
Trust Certificates	284,510,354	-
Commercial papers	-	878,595,890
Treasury bonds	905,764,793	3,153,745,609
Less: Impairment	(872,931)	(341,669)
Carrying value after impairment	16,605,322,741	26,623,135,466

22.1 Analysis of debt and other instruments based on exposure to credit risk

	Stage 1	
	2025 LKR	2024 LKR
Debentures	101,277,055	101,365,915
Repurchase agreement	-	702,455,685
Treasury bill	15,314,643,470	21,787,314,036
Trust Certificates	284,510,354	-
Commercial papers	-	878,595,890
Treasury bonds	905,764,793	3,153,745,609
Less : Impairment allowance	(872,931)	(341,669)
Carrying value after impairment	16,605,322,741	26,623,135,466

22.2 Stage wise classification of impairment allowances of debt and other instruments

	Stage 1	
	2025 LKR	2024 LKR
Opening balance as at 1 January	341,670	312,298
Charges/(reversal) to income statement	531,261	29,372
Closing balance as at 31 December	872,931	341,670

22.3 Repurchase and reverse repurchase transactions in scripless treasury bonds and scripless treasury bills

Directive No. 1 of 2019, issued by the Central Bank of Sri Lanka, requires Licensed Banks/Primary Dealers to disclose following additional information on repurchase and reverse repurchase transactions in scripless treasury bonds and bills.

	2025		2024	
	Amortised Cost	Fair Value of Securities Received	Amortised Cost	Fair Value of Securities Received
Repurchase Agreement	-	-	702,455,685	775,551,027
Total	-	-	702,455,685	775,551,027

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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.

	2025 LKR	2024 LKR
Unquoted equity securities (Note 23.1)	196,697,726	208,145,880
Financial assets measured at fair value through other comprehensive income	196,697,726	208,145,880

23.1 Unquoted equity securities

	2025		2024	
	Number of shares	Amount LKR	Number of shares	Amount LKR
SANASA Life Insurance Co. PLC	7,590,494	75,830,776	7,590,494	75,830,776
Credit Information Bureau of Sri Lanka	100	10,000	100	10,000
Consorzio Etimos S.C.	2	75,194	2	75,194
National Credit Guarantee Institution(NCGI)	15,114,475	151,143,740	15,114,475	151,143,740
Loss from share valuation as at 31 December	-	(30,361,984)	-	(18,913,830)
		196,697,726		208,145,880

23.1.1 Movement in unquoted equity securities

	2025 LKR	2024 LKR
Opening balance as at 1 January	208,145,880	56,939,524
Investments made during the year	-	151,206,356
Disposal during the year	-	-
Loss from mark to market valuation	(11,448,154)	-
Closing balance as at 31 December	196,697,726	208,145,880

23.1.2 Valuation of unquoted equity securities

Type	Level	Method of valuation	Significant unobservable inputs	Sensitivity of fair value to unobservable inputs
Unquoted share investment	Level 3	Market approach - price to book value of comparable peer companies	Medium price to book value - liquidity discount	Positively correlated sensitivity
			Regulatory non-compliance adjustment	Positively correlated sensitivity

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24. INVESTMENT IN SUBSIDIARIES

Accounting Policy

The accounting policies for " Investment in Subsidiaries" are given in Notes 1.3 to the Financial Statements.

	2025	2024
	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.

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.

25. PROPERTY, PLANT AND EQUIPMENT (Contd,,,)

Rates of depreciation for each category of property, plant and equipment are given in Note 14, 'Depreciation and Amortisation Expenses'.

2025	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	628,691,082	933,786,798	585,604,828	501,113,400	136,771,987	328,008,505	3,113,976,600
Additions	1,198,559	57,510,869	14,896,523	17,530,022	-	-	91,135,973
Surplus on revaluation of property	28,375,000	-	-	-	-	-	28,375,000
Disposals	-	(36,490,251)	(7,632,854)	(2,129,829)	(1,963,327)	(31,311,509)	(79,527,770)
Closing balance as at 31 December	658,264,641	954,807,416	592,868,497	516,513,593	134,808,660	296,696,996	3,153,959,803
Less: Accumulated depreciation							
Opening balance as at 1 January	48,669,965	612,601,570	543,750,195	435,697,060	135,559,216	222,611,993	1,998,889,999
Charge for the year	2,671,589	160,548,314	18,472,103	28,785,303	353,965	59,827,511	270,658,785
Disposals	-	(48,646,958)	(9,296,761)	(1,519,587)	(1,935,325)	(24,741,332)	(86,139,963)
Closing balance as at 31 December	51,341,554	724,502,926	552,925,537	462,962,776	133,977,856	257,698,172	2,183,408,821

2024	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	559,666,082	552,170,317	578,388,974	487,868,435	136,033,057	328,008,505	2,642,135,370
Additions	-	404,639,532	10,817,209	13,392,489	738,930	-	429,588,160
Surplus on revaluation of property	69,025,000	-	-	-	-	-	69,025,000
Disposals	-	(23,023,051)	(3,601,355)	(147,524)	-	-	(26,771,930)
Closing balance as at 31 December	628,691,082	933,786,798	585,604,828	501,113,400	136,771,987	328,008,505	3,113,976,600
Less: Accumulated depreciation							
Opening balance as at 1 January	45,644,016	531,549,789	526,014,527	401,357,330	135,230,148	157,010,292	1,796,806,102
Charge for the year	3,025,949	103,757,146	21,255,106	34,487,254	329,068	65,601,701	228,456,224
Disposals	-	(22,705,365)	(3,519,438)	(147,524)	-	-	(26,372,327)
Closing balance as at 31 December	48,669,965	612,601,570	543,750,195	435,697,060	135,559,216	222,611,993	1,998,889,999

	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 2025	606,923,087	230,304,490	39,942,960	53,550,817	830,804	38,998,824	970,550,982
Net book value as at 31 December 2024	580,021,117	321,185,228	41,854,633	65,416,340	1,212,771	105,396,512	1,115,086,601

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25. PROPERTY, PLANT AND EQUIPMENT (Contd,,,)

25.1 Freehold land and buildings

The details of the land and buildings owned by the Bank are as follows:

Location/Address	Valuation information		Extent			As at 31 December 2025 Cost/ Fair Value				As at 31 December 2024 Cost/ Fair Value			
	Name of the Valuer	Date of valuation	Land	Building	No of buildings	Land Fair value	Land Cost	Building Cost	Building Carrying value	Land Fair value	Land Cost	Building Cost	Building Carrying value
			(Perches)	(Square feet)		LKR	LKR	LKR		LKR	LKR	LKR	LKR
No. 14, Edmonton Road, Kirulapone	Mr.K.T Nihal	12/29/2025	17.85	-	-	133,800,000	38,999,000	-	-	125,000,000	38,999,000	-	-
No. 12/01, Edmonton Road, Kirulapone	Mr.K.T Nihal	12/29/2025	18.05	-	-	101,600,000	46,799,000	-	-	94,800,000	46,799,000	-	-
A1, SANASA Housing Project, Toppass, Nuwara Eliya	Mr.E.M.P.A.G.N.I.B. Ekanayake	12/31/2025	13	1,252	1	16,500,000	400,000	2,100,000	96,250	15,840,000	400,000	2,100,000	201,250
No. 145, Rathnapura Road, Horana	Mr.D. M. M. G. Podibanda	1/12/2026	13	7,120	1	45,500,000	20,539,000	6,500,000	1,047,330	39,000,000	20,539,000	6,500,000	1,570,834
No. 63A, Matara Road, Akuressa	Mr.D.K. Jathunga	12/30/2025	14	3,728	1	56,000,000	14,423,820	8,975,180	2,580,365	53,200,000	14,423,820	8,975,180	3,029,124
No. 255, Sunny Side Gardens, Karapitiya	Mr.D.L. Pathamasiri	12/29/2025	18.50	5,992	1	50,875,000	9,250,000	20,833,360	3,354,869	48,100,000	9,250,000	20,833,360	4,017,369
No. 342, Main Street, Kegalle	Mr.R.M.W.N.K. Chandrasekara	1/25/2026	19	7,590	1	190,000,000	34,760,400	14,118,600	2,294,273	190,000,000	34,760,400	14,118,600	3,000,203
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	Mr.H.A.V.S Indrajith	12/25/2025	160	3,434	1	3,275,000	1,002,912	4,568,824	-	3,235,000	1,002,912	4,568,824	-
60/64,Sahasapura Scheme, Baseline Mw. Borella	Mr.K.T Nihal	12/29/2025	-	650	1	-	-	2,420,118	-	-	-	2,420,118	30,251
						597,550,000	166,174,132	59,516,082	9,373,087	569,175,000	166,174,132	59,516,082	11,849,030

*** The market approach and Level 2 fair value measurement have been used by all valuers to determine the value of the above freehold lands.

25.2 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of LKR 91,135,973/- (2024 - LKR 429,588,160/-). Cash payments amounting to LKR 91,135,973/- (2024 - LKR 429,588,160/-) were made during the year for purchase of property, plant and equipment.

25.3 Property, plant and equipment includes fully depreciated assets having a gross carrying amounts of LKR 1,813,730,639/- (2024 -LKR 1,713,073,705/-)

25.4 There were no restrictions on the title of the property, plant and equipment as at 31 December 2025.

25.5 There were no idle property, plant and equipment as at 31 December 2025.

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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.

	2025 LKR	2024 LKR
Cost		
Opening balance as at 1 January	1,972,416,021	1,660,933,310
Additions and improvements during the year	826,998,824	311,482,711
Closing balance as at 31 December	2,799,414,845	1,972,416,021
Less: Accumulated amortisation		
Opening balance as at 1 January	1,191,978,239	980,628,014
Amortisation expenses for the year	249,026,091	211,350,225
Closing balance as at 31 December	1,441,004,330	1,191,978,239
Net book value as at 31 December	1,358,410,515	780,437,781

27. INTANGIBLE ASSETS

Accounting Policy

Recognition

An intangible asset is an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes. An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. Expenditure incurred on an intangible item that was initially recognised as an expense by the Bank in previous annual Financial Statements or interim Financial Statements are not recognised as part of the cost of an intangible asset at a later date.

Computer Software

Cost of purchased licenses and all computer software costs incurred, licensed for use by the Bank which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category 'Intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill

Goodwill, if any that arises upon the acquisition of subsidiaries is included in intangible assets.

Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred. Goodwill is measured at cost less accumulated impairment losses.

Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

Rates of amortisation for computer software and licenses are given in Note 14, 'Depreciation and Amortisation Expenses'.

	2025 LKR	2024 LKR
Cost		
Opening balance as at 1 January	1,745,043,076	1,580,040,258
Additions	94,124,250	165,002,818
Disposal	(106,500)	-
Closing balance as at 31 December	1,839,060,826	1,745,043,076
Less: Accumulated amortisation		
Opening balance as at 1 January	997,589,092	826,474,080
Charge for the year	182,517,759	171,115,012
Disposal	(106,937)	-
Closing balance as at 31 December	1,179,999,914	997,589,092
Net book value as at 31 December	659,060,912	747,453,984

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27. INTANGIBLE ASSETS (Contd...)

27.1 There were no idle intangible assets as at 31 December 2025.

27.2 There were no restrictions on the title of the intangible assets as at 31 December 2025.

28. OTHER ASSETS

	2025 LKR	2024 LKR
Postage legal and other charges receivable	253,601,563	122,559,573
Unamortised staff cost	976,409,803	968,754,838
Deposits, prepayments and other receivables	359,990,700	354,696,459
Inventory	69,308,331	48,045,303
Total	1,659,310,397	1,494,056,173

29. 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.

	2025 LKR	2024 LKR
Total amount due to other customers	105,680,974,038	106,989,899,941
Total	105,680,974,038	106,989,899,941

29.1 Analysis of due to other customers

	2025 LKR	2024 LKR
By product		
Savings deposits	22,008,224,706	20,926,764,822
Fixed deposits	83,672,749,332	86,063,135,119
Total	105,680,974,038	106,989,899,941

	2025 LKR	2024 LKR
By currency		
Sri Lanka Rupee	105,680,974,038	106,989,899,941
Total	105,680,974,038	106,989,899,941

30. OTHER BORROWINGS

Accounting Policy

The accounting policies pertaining to "Other Borrowings" are given in Note 3.2.3.7 to the Financial Statements.

	2025 LKR	2024 LKR
Term loans (Note 30.1)	16,023,420,565	15,324,827,866
Refinance borrowing (Note 30.2)	4,592,900,504	3,750,303,696
Total	20,616,321,069	19,075,131,562

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30. OTHER BORROWINGS (Contd....)

30.1 Details of term loans

Institution	Fixed/Floating	Tenure (Months)	2025 LKR	2024 LKR
Seylan Bank PLC	Floating	12	-	502,686,475
Seylan Bank PLC	Floating	1	-	1,001,868,852
HNB Bank PLC	Floating	60	37,538,014	187,653,689
HNB Bank PLC	Floating	48	-	125,274,440
HNB Bank PLC	fixed	2	1,001,553,425	-
HNB Bank PLC	Floating	4	-	500,817,623
HNB Bank PLC	Floating	4	-	502,686,475
Bank of Ceylon	Floating	14-63	1,736,167,547	3,711,492,713
Bank of Ceylon	Fixed	1	3,001,356,164	
Peoples Bank	Fixed	1	1,001,469,589	
Peoples Bank	Fixed	12	1,498,814,532	
Peoples Bank - MM	Fixed	12	501,082,466	
United States International Development Finance Corporation (DFC)	Fixed	81	7,245,438,828	8,792,347,598
			16,023,420,565	15,324,827,865

30.1.1 Movement in term loans

	Opening Balance As at 1 January 2025 LKR	Obtained during year/ Revaluation LKR	Repayment LKR	Closing Balance As at 31 December 2025 LKR
Seylan Bank PLC	1,500,000,000		(1,500,000,000)	-
HNB Bank PLC	1,312,640,000	2,000,000,000	(2,275,140,000)	1,037,500,000
Bank of Ceylon	3,695,849,445	3,000,000,000	(1,968,536,000)	4,727,313,445
People's Bank	-	3,710,000,000	(713,750,000)	2,996,250,000
DFC	8,777,498,995	532,339,333	(2,076,635,666)	7,233,202,662
Interest payable	38,839,425	448,862,137	(458,547,104)	29,154,458
	15,324,827,865	9,691,201,470	(8,992,608,770)	16,023,420,565

The Bank complied with all borrowing covenants reported under Note 30.1 as at 31st December 2025, other than the following covenant breaches.

Covenant	Description	Limit	Frequency
Asset Quality Ratio (OCER)	*"Asset Quality Ratio (Open Credit Exposures Ratio)"* means, as of any date of determination, the result obtained by dividing Problem Exposures less total provisions as per SLFRS 9, by Total Capital.	<25%	within sixty (60) days after the end of each fiscal quarter
Gross Non-Performing Loan Ratio	*"Gross Non-Performing Loan Ratio"* means, as of any date of determination, the ratio of Gross Non-Performing Loans to the aggregate amount of customer loans and advances (excluding deposits with other banks)	<5%	

The carrying amount of the related liability is Rs.11,810,339,488 and the liability does not become payable on demand on breach of each covenant.

-The DFC NPL Ratio from March to December 2025 and the Asset Quality Ratio (OCER) for March 2025 were considered in the waiver request. The request included both ratios, and the waiver has been requested for 2 years starting from 1st April 2025 to 31st March 2027 still the waiver is in process.

The Bank holds dollar denominated FDs to mitigate the foreign currency risk, and those match 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.



30. OTHER BORROWINGS (Contd...)

30.2 Refinance borrowings (Contd...)

	2025 LKR	2024 LKR
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000
Borrowings under Refinance of PAMP RF	309,775,113	272,950,065
Borrowing under Saubagya	119,851,467	316,238,753
Borrowing - Refinance Smile III RF	282,203,300	288,634,600
Borrowing - Suwashakthi Loan	1,105,000	4,806,083
Borrowing - Kapruka Ayojana	16,225,035	17,312,825
Borrowing - SAPP 4P Youth Loan	1,050,000	7,624,650
Borrowing - SAPP RF Youth Loan	33,016,500	66,345,517
Borrowing - SAPP RF FI Bulk Refinance	29,058,750	550,000
Borrowing - ADB Tea Refinance	159,845,590	159,845,590
Borrowing - ADB SME LOC Refinance	1,049,411,051	897,584,100
Borrowing - CBSL DAD Refinance	17,144,827	28,551,543
Borrowing - SAPP RF Agribusiness Loan Refinance	3,541,667	404,167
Borrowing- ADB SME LOC2 Working Capital	668,763,666	910,154,382
Borrowing- RE-ENER.MSME GOVERNMENT	1,686,942,707	716,748,660
Borrowing - E-FRND II RF SOLAR	4,560,000	
Borrowing - SMELOC2 REVOLV REFIN	141,888,327	
Borrowing - RE-ENER.MSME GOV NPL	1,458,333	
Interest payable	12,859,171	8,352,761
	4,592,900,504	3,750,303,696

Movement in refinance loans	Opening Balance As at 1 January 2025 LKR	Obtained during year/ Revaluation LKR	Repayment LKR	Closing Balance As at 31 December 2025 LKR
SANASA Federation (Refinance of Athwela Loans)	54,200,000	-	-	54,200,000
Borrowings under Refinance of PAMP RF	272,950,065	224,050,000	(187,224,952)	309,775,113
Borrowing under Saubagya	316,238,753	-	(196,387,286)	119,851,467
Borrowing - Refinance SMILE III RF	288,634,600	80,650,000	(87,081,300)	282,203,300
Borrowing - Suwashakthi Loan	4,806,083	-	(3,701,083)	1,105,000
Borrowing - Kapruka Ayojana	17,312,825	5,272,000	(6,359,790)	16,225,035
Borrowing - SAPP 4P Youth Loan	7,624,650	-	(6,574,650)	1,050,000
Borrowing - SAPP RF Youth Loan	66,345,517	-	(33,329,017)	33,016,500
Borrowing - SAPP RF FI Bulk Refinance	550,000	58,695,000	(30,186,250)	29,058,750
Borrowing - ADB Tea Refinance	159,845,590	0	-	159,845,590
Borrowing - ADB SME LOC Refinance	897,584,100	151,826,951	-	1,049,411,051
Borrowing - CBSL DAD Refinance	28,551,543	-	(11,406,716)	17,144,827
Borrowing - SAPP RF Agribusiness Loan Refinance	404,167	4,250,000	(1,112,500)	3,541,667
Borrowing- ADB SME LOC2 Working Capital	910,154,382	-	(241,390,716)	668,763,666
Borrowing- RE-ENER.MSME GOVERNMENT	716,748,660	1,184,500,000	(214,305,953)	1,686,942,707
Borrowing - E-FRND II RF SOLAR	-	5,700,000	(1,140,000)	4,560,000
Borrowing - SMELOC2 REVOLV REFIN	-	141,888,327	-	141,888,327
Borrowing - RE-ENER.MSME GOV NPL	-	1,500,000	(41,667)	1,458,333
Interest payable	8,352,761	4,506,410	-	12,859,171
	3,750,303,696	1,862,838,688	(1,020,241,880)	4,592,900,504

30.2.1 Maturity analysis of refinance borrowings

	2025 LKR	2024 LKR
Due within one year	1,271,586,332	980,475,716
1-5 years	1,862,586,036	1,673,640,290
After 5 years	1,458,728,136	1,096,187,690
	4,592,900,504	3,750,303,696

30.3 Securities and terms of borrowings

Interest rate ranging for above borrowings 4% to 11% per annum.
As of 2025 and 2024, the bank has no pledged loan portfolios.

31. RETIREMENT BENEFIT OBLIGATION

31.1 Defined benefit liability

	2025 LKR	2024 LKR
Defined benefit liability (Note 31.1.1)	1,286,496,116	1,041,381,783
Total	1,286,496,116	1,041,381,783

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31 RETIREMENT BENEFIT OBLIGATION (Contd...)

31.1 Defined benefit liability (Contd...)

31.1.1 Movement in defined benefit obligation

	2025 LKR	2024 LKR
Opening balance as at 1 January	1,041,381,783	766,114,529
Net benefit expense (Note 31.1.2)	314,895,050	364,385,070
Benefit paid	(69,780,717)	(89,117,816)
Closing balance as at 31 December	1,286,496,116	1,041,381,783

31.1.2 Net benefit expense

	2025 LKR	2024 LKR
Amounts recognised in profit and loss		
Interest cost	123,924,432	102,659,346
Current service cost	84,504,032	66,092,423
Amendments	-	-
	208,428,464	168,751,769
Amounts recognised in the other comprehensive income		
Experience (gain)/loss	(13,773,493)	59,016,451
(Gain) loss due to changes in assumptions	120,240,079	136,616,850
	106,466,586	195,633,301
Total expense for the year	314,895,050	364,385,070

31.1.3 The principal financial assumptions used are as follows:

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2025. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2025	2024
Long term interest rate (%)	10.90	11.90
Future salary increase rate (%)	10.00	10.00
Retirement age (years)	60	60

Mortality - GA 1983 Mortality table issued by the Institute of Actuaries London
The weighted average duration of the defined benefit plan obligation at the end of the reporting period is 11.4 years (2024: 11.2 years)
The discount rate was revised to 10.9% (vs 11.9% last year) to reflect the yield rates of the treasury Bond.

31.2 Sensitivity analysis on discounting rate and salary increment rate to statement of financial position and comprehensive income

		2025		2024	
Assumption	**Rate change**	**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+	(120,240,079)	(120,240,079)	(94,440,379)	(94,440,379)
Discount rate	1-	140,464,351	140,464,351	110,156,318	110,156,318
Salary increment rate	1+	136,650,874	136,650,874	108,354,707	108,354,707
Salary increment rate	1-	(119,251,891)	(119,251,891)	(94,577,681)	(94,577,681)

31.3 The expected benefit payout in the future years of retirement gratuity

	2025 LKR	2024 LKR
Within next 12 months	69,475,049	68,130,552
Between 2 and 5 years	512,584,513	461,532,212
Beyond 5 years	949,704,906	844,187,506

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32. OTHER LIABILITY

	2025 LKR	2024 LKR
Special purpose project funds	397,252,924	397,252,924
Lease liability (Note 32.1)	1,366,635,593	765,895,546
Accruals and other payables	1,913,201,505	1,582,613,802
Total	3,677,090,022	2,745,762,272

32.1 Movement in lease liabilities

	2025 LKR	2024 LKR
Opening balance as at 1 January/Effect of adoption of SLFRS 16 as at 1 January	765,895,546	602,933,888
Additions	717,980,650	272,209,651
Accretion of interest	147,655,694	136,512,505
Payments during the year	(264,896,297)	(245,760,497)
Closing balance as at 31 December	1,366,635,593	765,895,546

32.2 Maturity analysis of contractual undiscounted cash flows

	2025 LKR	2024 LKR
Less than 1 year	292,319,456	228,864,770
Between 1 and 5 years	1,052,376,697	783,992,081
More than 5 years	592,126,633	203,299,879
Total lease liabilities as at 31 December	1,936,822,786	1,216,156,730

33. STATED CAPITAL

	2025 LKR	2024 LKR
Ordinary shares - Issued and fully paid	11,406,601,998	11,406,601,998
Total	11,406,601,998	11,406,601,998

33.1 Details of ordinary shares issued and fully paid

	Value		Number of shares	
	2025	2024 LKR	2025	2024
Opening balance as as 1 January	11,406,601,998	11,406,601,998	164,166,494	164,166,494
	11,406,601,998	11,406,601,998	164,166,494	164,166,494

34. STATUTORY RESERVE FUND

	2025 LKR	2024 LKR
Opening balance as at 1 January	361,049,165	340,572,453
Transfer during the period	20,245,927	20,476,712
Closing balance as at 31 December	381,295,092	361,049,165

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35. RETAINED EARNINGS

	2025 LKR	2024 LKR
Opening balance as at 1 January	2,388,242,984	2,275,936,735
Profit for the year	404,918,546	409,534,247
Other comprehensive income, net of tax	(74,526,610)	(136,943,311)
Transfers to other reserves	(20,245,927)	(20,476,712)
Scrip dividend	-	(139,807,974)
Closing balance as at 31 December	2,698,388,993	2,388,242,984
Dividend per share	0.87	0.87

36. OTHER RESERVES

2025	Opening balance as at 1 January 2025	Movement/ transfers	Closing balance as at 31 December 2025
	LKR	LKR	LKR
General reserve	46,656,973	-	46,656,973
Revaluation reserve	403,000,868	28,375,000	431,375,868
Available for sale/fair value through OCI reserve	(19,051,624)	(11,448,154)	(30,499,778)
Total	430,606,217	16,926,846	447,533,063

2024	Opening balance as at 1 January 2024	Movement/ transfers	Closing balance as at 31 December 2024
	LKR	LKR	LKR
General reserve	46,656,973	-	46,656,973
Revaluation reserve	333,975,868	69,025,000	403,000,868
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
Total	361,581,217	69,025,000	430,606,217

37. CONTINGENT LIABILITIES AND COMMITMENTS

Accounting Policy
The accounting policies pertaining to "Commitments and Contingencies" are given in Note 2.20 to the Financial Statements.

37.1 Bank guarantees and Commitements

	2025 LKR	2024 LKR
Bank guarantees	389,539,808	284,090,361
Undrawn Credit Lines	643,352,917	585,234,172
Total	1,032,892,725	869,324,533

37.2 Maturity analysis of Bank guarantees and Commitements

As at December 2024 (LKR)

	On Demand	Below 03 Month	03- 06 Month	06 - 09 Month	09 - 12 Month	Above One Year	Total
Financial Guarantee	9,740,343	63,181,207	74,106,715	45,514,357	86,941,440	4,606,299	284,090,361
Undrawn Credit Lines	585,234,172	-	-	-	-	-	585,234,172
Total Commitment and Guarantees	594,974,515	63,181,207	74,106,715	45,514,357	86,941,440	4,606,299	869,324,534

As at December 2025 (LKR)

	On Demand	Below 03 Month	03- 06 Month	06 - 09 Month	09 - 12 Month	Above One Year	Total
Financial Guarantee	138,762,930	55,913,614	55,701,360	90,723,000	47,662,000	776,904	389,539,808
Undrawn Credit Lines	643,352,917	-	-	-	-	-	643,352,917
Total Commitment and Guarantees	782,115,847	55,913,614	55,701,360	90,723,000	47,662,000	776,904	1,032,892,725

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37. CONTINGENT LIABILITIES AND COMMITMENTS (Contd...)

37.3 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

1. Cases filed against the Bank with respect to mortgaged property and title of property.	
- District courts	L/17/11, L/528, 218/L, MB/1935, DMB /005/16, DLM/48/22
2. Cases filed against the Bank to restraining the payment of Bank Guarantee Bonds	
- District Court	DMR/496/15, M/8879
3. Appeals filed by the customers against the court orders delivered favor to Bank	
- Supreme Court	SC/HC/LA/143/2024 & SC/HC/LA/145/2024 SC/HC/LA/22/2024
- High Court Civil Appeal	SP/HCCA/GA/83/2023 (FA), WP/HCCA/85/2022 (FA) WP/HCCA/COL/01/2019 (F), WP/HCCA/COL/21/2021 (RA)
4. Appeals filed by the Bank against the court orders delivered favor to customers	
- Supreme Court	SC/HC/LA/83/2019, SC/AP/68/2024, SC/SPL/LA/203/2024, CHC/63/25/MR
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, SP/3964/22, DSP/379/2023, DSP/442/2023, L/341/23
	M/5387, DSP/82/2024, DSP/18/2024
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, 551/CL, 552/CL, 553/CL
8. Cases filed against the Bank by the employees and former directors	
- District Court	DMR/4015/17, DSP/430/2021
- Labour Tribunal	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	
- Supreme Court	SC/CON/11/2024
- Court Civil Appeal	CA/WRIT/816/2024
- District Court	6495/SPL, M/10933/20, M/10972/20
	L/191/22, L/192/22, L/193/22, L/194/22, L/195/22, DSP/09/23, DSP/10/23, DSP/11/23, DSP/15/23,

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38. 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.

39. 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".

39.1 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.

39.1.1 Key management personnel compensation

	2025 LKR	2024 LKR
Short term employee benefits	79,135,000	72,845,452

39.1.2 Other transactions (loans and receivables) with key management personnel - Balance outstanding

	2025 LKR	2024 LKR
Granting	-	-
Repayments	-	-
Closing balance as at 31 December	-	-
Interest income	-	-

39.1.3 Deposits and investment from key management personnel - Balance outstanding

	2025 LKR	2024 LKR
Deposits accepted and renewed during the period	750,000	99,702
Balance as at 31 December	324,823	119,713
Interest Expenses	18,912	1,419

39.1.4 Shareholdings by key management personnel

	2025 Number	2024 Number
Number of shares held by KMP	119,676	119,676

39.1.5 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.

39.1.6 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.

40. ASSETS PLEDGED

As of 2025 and 2024, the bank has no pledged loan portfolios.

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41. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2025	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total LKR
Financial assets				
Cash and balances with banks	7,104,305,823	-	-	7,104,305,823
Placements with banks	7,801,226,634	-	-	7,801,226,634
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at amortised cost				
- Loans and receivables to other customers	109,840,875,877	-	-	109,840,875,877
- Debt and other instruments	16,605,322,741	-	-	16,605,322,741
Financial assets measured at fair value through other comprehensive income	-	-	196,697,726	196,697,726
Total financial assets	141,351,731,075	-	196,697,726	141,548,428,801
Financial liabilities				
Due to other customers	105,680,974,038	-	-	105,680,974,038
Other borrowings	20,616,321,069	-	-	20,616,321,069
Total financial liabilities	126,297,295,107	-	-	126,297,295,107

As at 31 December 2024	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total LKR
Financial assets				
Cash and balances with banks	2,442,293,957	-	-	2,442,293,957
Placements with banks	9,083,957,854	-	-	9,083,957,854
Financial assets at fair value through profit or loss	-	6,739,200,074	-	6,739,200,074
Financial assets at amortised cost				
- Loans and receivables to other customers	95,137,106,867	-	-	95,137,106,867
- Debt and other instruments	26,623,135,466	-	-	26,623,135,466
Financial assets measured at fair value through other comprehensive income	-	-	208,145,880	208,145,880
Total financial assets	133,286,494,144	6,739,200,074	208,145,880	140,233,840,098
Financial liabilities				
Due to other customers	106,989,899,941	-	-	106,989,899,941
Other borrowings	19,075,131,562	-	-	19,075,131,562
Total financial liabilities	126,065,031,503	-	-	126,065,031,503

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42. FAIR VALUE OF FINANCIAL INSTRUMENTS

42.1 Financial instruments recorded at fair value

The following is a description of how fair values are determined for financial instrument that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumption that a market participant would make when valuing the instrument.

Fair value through other comprehensive income (OCI)
Fair value through OCI valued using valuation techniques or pricing models primary consist of unquoted.

Fair value through profit and loss (FVTPL)
Quoted equities, Sri Lanka Government securities (Treasury bills and bonds) and unit trust are included in financial assets fair value through profit or loss. Government securities are measured using average yield published by Central Bank of Sri Lanka. Quoted equities are valued using market price in active markets as at the reporting date. Unit trusts are measured using market price in markets that are not active.

42.2 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

42.2.1 Analysis of financial instruments recorded at fair value by level of fair value hierarchy

	As at 31 December 2025			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Financial assets fair value through profit or loss				
Sri Lanka Government securities- Treasury bonds	-	-	-	-
Unit trusts	-	-	-	-
Fair Value through other comprehensive income				
Unquoted equity securities	-	-	196,697,726	196,697,726
	-	-	196,697,726	196,697,726

	As at 31 December 2024			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Financial assets fair value through profit or loss				
Sri Lanka Government securities- Treasury bonds	-	257,985,600	-	257,985,600
Unit trusts	-	6,481,214,474	-	6,481,214,474
Fair Value through other comprehensive income				
Unquoted equity securities	-	-	208,145,880	208,145,880
	-	6,739,200,074	208,145,880	6,947,345,954

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.

	2025 LKR	2024 LKR
Net gain/(loss) from trading	(553,000)	60,116,875
Net fair value gain/(loss) of financial assets at fair value through profit or loss		
Sri Lanka Government securities- Treasury bonds	(1,398,600)	(2,506,265)
Unit trusts	560,464,652	446,587,945
Total gain/(loss)	558,513,052	504,198,555

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42. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)

42.3 Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

		As at 31 December 2025	
	Level	Carrying value LKR	Fair value LKR
Financial assets			
Cash and balances with banks	Note*	7,104,305,823	7,104,305,823
Placements with banks	Note*	7,801,226,634	7,801,226,634
Financial assets at amortised cost			
- Loans and receivables to other customers	2	109,840,875,877	108,023,575,381
- Debt and other instruments	Note*	16,605,322,741	16,605,322,741
Total financial assets		141,351,731,075	139,534,430,579
Financial liabilities			
Due to other customers	2	105,680,974,038	118,472,363,288
Other borrowings	2	20,616,321,069	20,616,321,069
Total financial liabilities		126,297,295,107	139,088,684,357

		As at 31 December 2024	
		Carrying value LKR	Fair value LKR
Financial assets			
Cash and balances with banks	Note*	2,442,293,957	2,442,293,957
Placements with banks	Note*	9,083,957,854	9,083,957,854
Financial assets at amortised cost			
- Loans and receivables to other customers	2	95,137,106,867	94,266,912,165
- Debt and other instruments	Note*	26,623,135,466	26,623,135,466
Total financial assets		133,286,494,144	132,416,299,443
Financial liabilities			
Due to other customers	2	106,989,899,941	116,429,001,671
Other borrowings	2	19,075,131,562	19,075,131,562
Total financial liabilities		126,065,031,503	135,504,133,233

Note*

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity. Loans and advances to customers with a variable rate are also considered to be carried at fair value.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing interest rates of the Bank.

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43. 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 2024 or 2025.

The following table presents income, profit, total assets, total liabilities & cash flows of the Bank's operating segments.

	As at 31 December 2025				
	Banking	**Leasing**	**Treasury**	**Pawning**	**Total**
	LKR	**LKR**	**LKR**	**LKR**	**LKR**
Interest income	11,820,331,402	1,520,910,845	2,533,482,771	1,223,814,376	17,098,539,394
Add: Inter-segment interest income	10,289,113,237	-	9,545,156,066	-	19,834,269,303
Total interest income	22,109,444,639	1,520,910,845	12,078,638,837	1,223,814,376	36,932,808,697
Interest expenses	(6,640,745,664)	(688,049,677)	(697,474,113)	(839,588,297)	(8,865,857,751)
Add: Inter-segment interest expense	(9,545,156,067)	-	(10,289,113,236)	-	(19,834,269,303)
Total interest expense	(16,185,901,731)	(688,049,677)	(10,986,587,349)	(839,588,297)	(28,700,127,054)
Net interest income	5,923,542,908	832,861,168	1,092,051,488	384,226,079	8,232,681,643
Fee and commission income	660,408,532	55,940,550	-	-	716,349,082
Fee and commission expenses	(37,712,703)	(3,907,425)	-	-	(41,620,128)
Net fee and commission income	622,695,829	52,033,125	-	-	674,728,954
Net gain/(loss) from trading	-	-	(553,000)	-	(553,000)
Net fair value gain/(loss) of financial assets at fair value through profit or loss	-	-	559,066,052	-	559,066,052
Net other operating income	30,046,044	-	476,195	-	30,522,239
Total operating income	6,576,284,781	884,894,293	1,651,040,735	384,226,079	9,496,445,888
Impairment for loans and other losses	(743,694,988)	29,112,000	(1,064,483)	(3,542,265)	(719,189,736)
Net operating income	5,832,589,793	914,006,293	1,649,976,252	380,683,814	8,777,256,152
Depreciation and amortisation expenses	(570,656,986)	(59,125,944)	(271,642)	(72,148,062)	(702,202,634)
Segment result	5,261,932,807	854,880,349	1,649,704,610	308,535,752	8,075,053,518
Un-allocated expenses					(6,460,810,732)
Value Added Tax (VAT) on financial services					(714,793,353)
Social Security Contribution Levy					(99,276,855)
Profit before tax					800,172,578
Tax expenses					(395,254,032)
Profit for the year					404,918,546
Other comprehensive income					
Other comprehensive income for the year net of tax					(187,012,524)
Total comprehensive income for the year					217,906,022
Segment assets	89,298,611,878	9,252,256,328	31,707,552,925	11,290,007,667	141,548,428,798
Un-allocated assets					5,409,668,027
Total assets	89,298,611,878	9,252,256,328	31,707,552,925	11,290,007,667	146,958,096,825
Segment liabilities	90,048,197,344	9,329,921,105	21,390,794,367	11,384,777,624	132,153,690,440
Total equity	-	-	-	-	14,804,406,386
Total liabilities	90,048,197,344	9,329,921,105	21,390,794,367	11,384,777,624	146,958,096,825
Addition to non-current assets	150,613,154	15,605,075	-	19,041,994	185,260,223

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43. SEGMENT REPORTING (Contd...)

	As at 31 December 2024				
	Banking LKR	**Leasing LKR**	**Treasury LKR**	**Pawning LKR**	**Total LKR**
Interest income	12,668,940,334	985,224,393	5,210,018,248	1,140,868,623	20,005,051,598
Add: Inter-segment interest income	12,718,214,047	-	10,157,292,684	-	22,875,506,731
Total interest income	25,387,154,381	985,224,393	15,367,310,932	1,140,868,623	42,880,558,329
Interest expenses	(8,988,885,884)	(671,227,187)	(1,646,831,341)	(877,643,192)	(12,184,587,605)
Add: Inter-segment interest expense	(10,157,292,684)	-	(12,718,214,047)	-	(22,875,506,731)
Total interest expense	(19,146,178,568)	(671,227,187)	(14,365,045,388)	(877,643,192)	(35,060,094,336)
Net interest income	6,240,975,813	313,997,206	1,002,265,543	263,225,431	7,820,463,994
Fee and commission income	588,662,495	42,354,662	-	-	631,017,157
Fee and commission expenses	(43,450,460)	(3,244,577)	-	-	(46,695,036)
Net fee and commission income	545,212,035	39,110,085	-	-	584,322,119
Net gain/(loss) from trading	-	-	60,116,875	-	60,116,875
Net fair value gain/(loss) of financial assets at fair value through profit or loss	-	-	444,081,680	-	444,081,680
Net other operating income	(77,977,775)	-	291,165	-	(77,686,610)
Total operating income	6,708,210,073	353,107,291	1,506,755,263	263,225,431	8,831,298,059
Impairment for loans and other losses	(489,984,931)	(74,124,769)	2,043,811	3,115,911	(558,949,979)
Net operating income	6,218,225,142	278,982,522	1,508,799,074	266,341,342	8,272,348,080
Depreciation and amortisation expenses	(520,866,959)	(38,894,705)	(304,179)	(50,855,617)	(610,921,460)
Segment result	5,697,358,182	240,087,817	1,508,494,896	215,485,724	7,661,426,620
Un-allocated expenses					(6,210,500,064)
Value Added Tax (VAT) on financial services					(668,192,659)
Social Security Contribution Levy					(98,470,974)
Profit before tax					684,262,922
Tax expenses					(274,728,675)
Profit for the year					409,534,248
Other comprehensive income					
Other comprehensive income for the year net of tax					(67,918,311)
Total comprehensive income for the year					341,615,938
Segment assets	81,153,575,352	6,059,981,939	45,096,733,231	7,923,549,577	140,233,840,099
Un-allocated assets					4,922,109,861
Total assets	81,153,575,352	6,059,981,939	45,096,733,231	7,923,549,577	145,155,949,960
Segment liabilities	94,445,916,616	7,052,561,103	19,849,604,862	9,221,367,012	130,569,449,594
Total equity	-	-	-	-	14,586,500,364
Total liabilities	94,445,916,616	7,052,561,103	19,849,604,862	9,221,367,012	145,155,949,960
Addition to non-current assets	507,196,248	37,873,872	-	49,520,858	594,590,978

* 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.



44. 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 2025			As at 31 December 2024		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Assets	LKR	LKR	LKR	LKR	LKR	LKR
Cash and balances with banks	7,104,305,824	-	7,104,305,824	2,442,293,957	-	2,442,293,957
Placements with banks	7,801,226,635	-	7,801,226,635	9,083,957,854	-	9,083,957,854
Financial assets fair value through profit or loss	-	-	-	6,739,200,074	-	6,739,200,074
Financial assets at amortised cost						
- Loans and receivables to other customers	33,358,243,425	76,482,632,448	109,840,875,873	24,960,637,386	70,176,469,482	95,137,106,868
- Debt and other instruments	16,363,343,807	241,978,934	16,605,322,741	25,679,512,421	943,623,046	26,623,135,466
Financial assets measured at fair value through other comprehensive income	-	196,697,726	196,697,726	-	208,145,880	208,145,880
Investment in subsidiary	-	6,163,100	6,163,100	-	6,163,100	6,163,100
Property, plant and equipment	-	970,550,981	970,550,981	-	1,115,086,601	1,115,086,601
Right of use assets	170,758,095	1,187,652,421	1,358,410,516	103,097,637	677,340,145	780,437,782
Intangible assets	-	659,060,911	659,060,911	-	747,453,984	747,453,984
Deferred tax assets	-	756,172,119	756,172,119	-	778,912,222	778,912,222
Other assets	322,909,896	1,336,400,503	1,659,310,399	539,120,857	954,935,314	1,494,056,171
Total assets	65,120,787,682	81,837,309,142	146,958,096,824	69,547,820,186	75,608,129,774	145,155,949,959
Liabilities						
Due to other customers	57,026,678,114	48,654,295,924	105,680,974,038	64,443,515,192	42,546,384,750	106,989,899,941
Other borrowings	16,051,705,795	4,564,615,273	20,616,321,068	14,534,302,788	4,540,828,774	19,075,131,562
Retirement benefit obligation	-	1,286,496,116	1,286,496,116	-	1,041,381,783	1,041,381,783
Current tax liabilities	892,809,195	-	892,809,195	717,274,037	-	717,274,037
Other liabilities	2,032,586,692	1,644,503,330	3,677,090,022	1,758,470,312	987,291,960	2,745,762,272
Total liabilities	76,003,779,796	56,149,910,643	132,153,690,439	81,453,562,328	49,115,887,267	130,569,449,595
Net asset/(liability)	(10,882,992,114)	25,687,398,500	14,804,406,386	(11,905,742,142)	26,492,242,507	14,586,500,364

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45. RISK MANAGEMENT

45.1 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:

45.2 Credit Risk
45.2.1 Assessment of Expected Credit Losses
45.2.2 Risks on Credit-related Commitments
45.2.3 Collateral and Other Credit Enhancements
45.2.4 Stage-wise movement of loans & advances and commitments & contingencies
45.2.5 Analysis of Risk Concentration
45.2.5.1 Geographical Distribution
45.2.5.2 Industry Analysis
45.2.6 Commitments and Contingencies

45.3 Liquidity Risk and Funding Management
45.3.1 Loans & advances to Deposits (due to banks and due to depositors) Ratio
45.3.2 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

45.4 Market Risk
45.4.1 Interest Rate Risk
45.4.2 Currency Risk

45.5 Operational Risk
45.6 Capital Management

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises of Non - Executive Directors. Meetings of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

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45. RISK MANAGEMENT (Contd....)

Integrated Risk Management Unit

The business units (i.e. Credit Departments, Branches, Regional Offices, Treasury etc.) have primary responsibility for Risk Management. The Integrated Risk Management Unit, which has no responsibility for profit or volume targets, acts as the 2nd line of defense and reports to the Chief Risk Officer (CRO) who in turn directly reports to the BIRMC.

Executive Integrated Risk Management Committee (EIRMC)

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 subsequent to the unprecedented economic crisis experienced during the prior years. The credit underwriting standards of the Bank were strengthened 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. Market risk was relatively at a moderate level during the year as the economy experienced a decline in the interest rates with minor volatilities. Repricing strategies were adopted in line to optimize the balance sheet mismatches. The operational risks too increased owing to potentially higher external frauds due to economic reasons.

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

- Special Remediation and Rehbilitation Unit has been already established and currently is fully operational.

- 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 that liquidity is managed at an optimum level with the engagement of ALCO, whilst maintaining the risk parameters.

- Following the severe impacts of Cyclone Ditwah in late November, the Bank promptly took necessary actions to ensure uninterrupted operations. Heightened monitoring was applied to credit portfolios, and provision requirements were reassessed and maintained at revised levels to ensure adequacy..

45. RISK MANAGEMENT (Contd....)

Risk Mitigation

As part of its overall risk management, the Bank primarily focuses on strong operating cash-flows to sustain debt obligations of the borrowers. Further, as a fallback, where the credit may appear weak, the bank obtains various types of collaterals to mitigate such 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 a fallback.

45.2 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.

45.2.1 Assessment of Expected Credit Losses

45.2.1 (a) Analysis of the total amortised cost for expected credit losses

As at 31st December	Note	2025 Stage 1 LKR	Stage 2 LKR	Stage3 LKR	Total LKR	2024 LKR
Cash and balances with banks	18	7,105,406,675	-	-	7,105,406,675	2,442,621,764
Placements with banks	19	7,802,428,744	-	-	7,802,428,744	9,085,399,787
Financial assets at amortised cost						
- Loans and receivables to other customers	21	100,896,721,214	4,179,516,181	13,488,671,099	118,564,908,494	95,137,106,867
- Debt and other instruments	22	16,606,195,672	-	-	16,606,195,672	26,623,135,466
Credit related commitments & contingencies	37	1,032,892,725	-	-	1,032,892,725	869,324,533
Total allowance for expected credit losses		133,443,645,030	4,179,516,181	13,488,671,099	151,111,832,310	134,157,588,418

45.2.1 (b) Movement of the total allowance for expected credit losses during the period

	Note	2025 LKR	2024 LKR
Balance as at 1st January		8,044,609,627	7,610,920,389
Net charge for the year		718,125,252	560,993,790
Write-off during the year	21.6	(38,702,261)	(127,304,552)
Balance as at 31st December		8,724,032,618	8,044,609,627

The methodology used in the determination of expected credit losses is explained in Note 3.2.6 to the financial statements. As explained in the said note, the bank has made allowances for overlays where required to address the uncertainties arising due to customers falling in risk-elevated industries.

45.2.1 (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 105.28 Mn (2024: Rs 44.13 Mn).

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45. RISK MANAGEMENT (Contd....)

45.2.1 (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 2025 would have reduced by approximately 10% (2024 - 5%). The total loans and advances in stage 2 as at 31st December 2025 amounts to Rs 4.17 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 2025 would have further increased by approximately 92% (2024 - 92%). The total loans and advances in stage 1 as at 31st December 2025 amounts to Rs 118 Bn of the Bank. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

45.2.1 (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)

2025

	Sensitivity effect on Statement on Financial Position Increase/(Decrease) in impairment provision				Sensitivity effect on Income Statement
	Stage 1	Stage 2	Stage 3	Total	
	LKR	LKR	LKR	LKR	LKR
PD 1% increase across all age buckets	230,081,477	12,118,492	-	242,199,969	242,199,969
PD 1% decrease across all age buckets	(230,081,477)	(12,118,492)	-	(242,199,969)	(242,199,969)
LGD 5% increase	157,601,731	62,653,334	314,126,759	534,381,824	534,381,824
LGD 5% decrease	(157,601,731)	(62,653,334)	(314,126,759)	(534,381,824)	(534,381,824)

45.2.1 (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 2025 are disclosed in Note 3.2.6.6 along with the weightages used in 2024. During the year, due to the uncertainties arise current adverse macro-economic conditions on the business operations , the Bank increased the weightage assigned to the worst case scenario by 5%, decreasing the weightage of the base case scenario by the same amount. Accordingly, the Bank's impairment provision increased by approximately Rs 34.3 Mn during the year.

A further worst case scenario increase up to 100% with a weightage on other scenario,would have increased the collective impairment provision of the Bank by approximately Rs 51 Mn as at 31st December 2025.

Following table also summarizes the key economic indicators (GDP, Unemployment) used in estimating economic factor adjustment and impact on their changes.

		As at 31 December 2025					
Key drivers	ECL scenario	Assigned Weightings %	2025 %	2026 %	2027 %	2028 %	2029 %	Long term rate %
GDP growth	Base case	25	5.40	5.25	5.37	5.47	5.61	5.61
	Best case	10	5.40	5.69	6.04	6.42	6.82	6.82
	Worst case	65	5.40	4.89	4.74	4.78	5.03	5.03
Unemployment rate	Base case	25	4.30	5.09	5.08	5.07	5.07	5.07
	Best case	10	4.30	4.82	4.72	4.62	4.52	4.52
	Worst case	65	4.30	5.12	5.14	5.16	5.17	5.17
Inflation	Base case	25	2.40	2.42	2.35	2.32	2.33	2.33
	Best case	10	2.40	1.79	1.41	1.11	0.87	0.87
	Worst case	65	2.40	3.58	4.25	5.04	5.96	5.96
Interest Rate	Base case	25	8.94	8.94	8.80	8.70	8.61	8.15
	Best case	10	8.94	8.04	7.38	6.78	6.22	6.41
	Worst case	65	8.94	10.27	10.91	11.58	12.30	12.98

Since the beginning of the year, as the Bank has reassessed the key economic indicators used in its ECL models, the expected GDP growth rate over the next few years has been revised appropriately, given the economic forecasts. Unemployment also follow a similar trend. Central Bank base rates have also been revised downwards for the short term, as part of the governmental response. Long-term expectations remain unchanged.

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45. RISK MANAGEMENT (Contd....)

45.2.1 (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	2025				2024
	Not Contractually Past Due 0 - 30 Days	Contractually Past Due 31 - 60 Days	Contractually Past Due 61- 90 Days	Total	Total
	LKR	LKR	LKR	LKR	LKR
Term Loans	472,482,644	931,790,811	1,182,329,532	2,586,602,987	2,819,136,383
Pawning	129,946,190	47,568,264	16,215,623	193,730,077	376,473,974
Cash margin	28,901,246	40,990,162	32,540,091	102,431,499	265,262,719
Staff loans	2,039,149	3,264	-	2,042,413	580,301
Lease rentals receivable	12,233,912	745,676,541	536,798,753	1,294,709,206	1,025,656,191
	645,603,141	1,766,029,042	1,767,883,999	4,179,516,182	4,487,109,568

45.2.1 (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
2024	722,298,917	3,810,468,260	4,532,767,177	103,218,668	1,530,347,303	1,633,565,971
2025	484,482,388	3,292,299,133	3,776,781,521	71,983,069	1,451,124,176	1,523,107,245

45.2.1 (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 75.2 Mn worth of rescheduled/restructured loans to stage 1. Due to this upgrade, the impairment provision against these loans decreased from Rs 16.2 Mn to Rs 2.7 Mn as at 31st December 2025.

45.2.1 (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 2025 LKR					
	Modelled ECL	Modelled ECL Post-model adjustments	Management overlays	Total judgements adjustments	Total ECL	Judgmental adjustments as a % of total ECL
Pawning	5,760,017	-	-	-	5,760,017	0%
Cash margin	2,429,183	-	-	-	2,429,183	0%
Term loans						
Business	821,075,726	2,256,847	870,909	3,127,756	824,203,482	0%
Co-operative	350,254,499	206,226	167,997	374,223	350,628,722	0%
Housing	297,148,753	2,326,730	1,239,989	3,566,719	300,715,472	1%
Personal	253,447,108	519,105	124,782,193	125,301,298	378,748,406	33%
Fixed and floati	3,933,878,694	(336,779)	45,916,650	45,579,871	3,979,458,565	1%
SME	1,869,490,217	12,971,093	17,195,511	30,166,604	1,899,656,821	2%
Upahara	227,939,458	(815,195)	2,725,630	1,910,435	229,849,893	1%
Lease rentals recei	743,359,858	3,060,996	3,394,302	6,455,298	749,815,156	1%
	8,507,550,413	20,189,023	196,293,181	216,482,204	8,724,032,617	

The Bank is in the process of implementing internal scorecard system for analyzing credit risk of financial assets starting from next financial year.

45.2.2 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.

45.2.3 Collateral and Other Credit Enhancements

45.2.3 (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, and inventory etc.
For retail lending: mortgages over residential properties, motor vehicles, gold etc.

45. RISK MANAGEMENT (Contd....)

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 has provided adequate impairment provisions for ECL against financial assets secured by cash/deposits held within the bank (Note No. 19). Further, no allowance for ECL has been recognized for government securities denominated in Sri Lankan rupees, other financial assets secured by government guarantees, treasury bills, and treasury bonds. Except for the above, the bank has recognized ECL for all other financial assets classified at amortized 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		2025		2024	
	Note	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
		LKR	LKR	LKR	LKR
Cash and balances with banks	18	7,104,305,823	7,104,305,823	2,442,293,957	2,442,293,957
Placements with banks	19	7,801,226,634	7,801,226,634	9,083,957,854	9,083,957,854
Financial assets fair value through profit or loss	20	-	-	6,739,200,074	6,739,200,074
Financial assets at amortised cost					
- Loans and receivables to other customers*	21	109,840,875,878	49,947,820,056	95,137,106,868	51,255,534,999
- Debt and other instruments	22	16,605,322,741	16,605,322,741	26,623,135,466	25,920,679,782
Financial assets measured at fair value through other comprehensive income	23	196,697,726	196,697,726	208,145,880	208,145,880
Other assets		5,539,080,785	5,539,080,785	4,922,109,859	4,922,109,859
		147,087,509,586	87,194,453,764	145,155,949,959	100,571,922,406

A portion of the loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank approximately 18.5% each.(2024: 17% each). Further 21.8% (2024: 15%) of the loans & advances are secured against other securities including movable property, gold, lease receivables, etc. Approximately 28% (2024: 28%) of stage 3 loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank.

Approximately 51% of the loan book consists of Uphara and Uthathamachara, SME and Personal loans, out of its total lending portfolio. 51% of this portfolio is salary/pensioned based. 11% of loan accounts are covered through collateral like properties. And also Upahara and Uththamachara loan portfolio is 100% backed by insurance coverage.

45.2.3 (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.

45.2.3 (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.



45. RISK MANAGEMENT (Contd....)

45.2.4 Stage-wise movement of loans & advances and commitments & contingencies

45.2.4. (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	Stage 2 Subject to Lifetime ECL but not Credit Impaired	Stage 3 Subject to Lifetime ECL Credit Impaired	Total
	LKR	LKR	LKR	LKR
Balance as at 1st January 2024	83,412,152,380	7,443,673,784	15,623,989,873	106,479,816,037
Current stage of new financial assets originated	23,970,370,596	970,190,810	205,580,305	25,146,141,711
Changes in the gross carrying amount				
- Transfer to stage 1	(4,854,427,492)	(779,340,932)	(435,247,407)	(6,069,015,831)
- Transfer to stage 2	86,471,318	(476,674,689)	555,478,259	165,274,888
- Transfer to stage 3	41,462,550	(822,196,636)	(606,042,903)	(1,386,776,989)
Financial assets that have been derecognised	(17,728,748,360)	(1,848,542,770)	(1,449,127,641)	(21,026,418,771)
Write-off during the year	-	-	(127,304,552)	(127,304,552)
Changes to contractual cash flows due to modifications				-
Balance as at 31st December 2024	84,927,280,992	4,487,109,568	13,767,325,934	103,181,716,494
Balance as at 1st January 2025	84,927,280,992	4,487,109,568	13,767,325,934	103,181,716,494
Current stage of new financial assets originated	56,823,058,335	1,184,939,227	874,302,323	58,882,299,885
Changes in the gross carrying amount				
- Transfer to stage 1	(5,596,203,000)	623,657,230	370,828,362	(4,601,717,408)
- Transfer to stage 2	(1,171,827,782)	(341,646,795)	321,816,408	(1,191,658,169)
- Transfer to stage 3	(665,749,989)	(486,630,073)	(516,649,513)	(1,669,029,575)
Financial assets that have been derecognised	(33,419,837,343)	(1,287,912,975)	(1,290,250,155)	(35,998,000,473)
Write-off during the year	-	-	(38,702,261)	(38,702,261)
Changes to contractual cash flows due to modifications				-
Balance as at 31st December 2025	100,896,721,213	4,179,516,182	13,488,671,096	118,564,908,492

45.2.4. (b) Stage-wise movement of impairment for loans and advances

More information about the significant changes in the impairment for loans and advances during the period is provided in the tables below

	Stage 1 Subject to 12-month ECL	Stage 2 Subject to Lifetime ECL but not Credit Impaired	Stage 3 Subject to Lifetime ECL Credit Impaired	Total
	LKR	LKR	LKR	LKR
Balance as at 1st January 2024	587,668,892	806,534,764	6,216,716,734	7,610,920,390
Net impairment charge for the year due to:				
New financial assets originated	140,847,544	271,563,291	34,308,218	446,719,053
Changes in the impairment amount				
- Transfer to stage 1	10,128,668	(40,182,936)	11,436,012	(18,618,256)
- Transfer to stage 2	8,269,627	(37,073,143)	236,856,327	208,052,811
- Transfer to stage 3	4,853,759	(126,643,421)	545,974,751	424,185,089
Financial assets that have been derecognised	(72,987,379)	(86,661,674)	(339,695,853)	(499,344,906)
Write-off during the year	-	-	(127,304,552)	(127,304,552)
Balance as at 31st December 2024	678,781,111	787,536,879	6,578,291,637	8,044,609,628
Balance as at 1st January 2025	678,781,111	787,536,879	6,578,291,637	8,044,609,628
Net impairment charge for the year due to:				
New financial assets originated	406,402,541	35,773,753	98,419,647	540,595,941
Changes in the impairment amount				
- Transfer to stage 1	99,403,569	(28,580,400)	83,248,271	154,071,440
- Transfer to stage 2	(25,260,506)	(41,066,602)	142,474,682	76,147,574
- Transfer to stage 3	(10,799,660)	(85,554,856)	641,671,435	545,316,919
Financial assets that have been derecognised	(129,949,616)	(59,218,280)	(408,838,727)	(598,006,623)
Write-off during the year	-	-	(38,702,261)	(38,702,261)
Interest accrued on impaired loans and advances	-	-	-	-
Other movements	-	-	-	-
Balance as at 31st December 2025	1,018,577,439	608,890,494	7,096,564,684	8,724,032,617

45.2.4. (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 balances with banks, placements with banks, debt and other instruments at amortised cost and debt instruments at fair value through other comprehensive income.

45.2.5 Analysis of Risk Concentration

The following tables/charts show the exposure to credit risk for the Financial Assets, including geography of counterparty and industry.

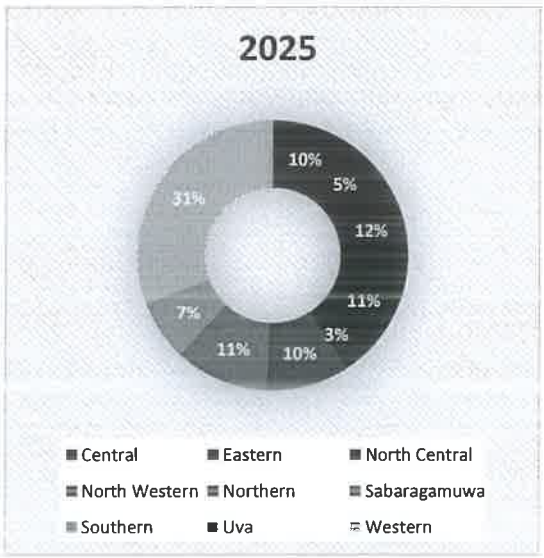
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45. RISK MANAGEMENT (Contd....)

45.2.5.1 Geographical Distribution

Gross advance portfolio - Geographical wise is as follows

2025

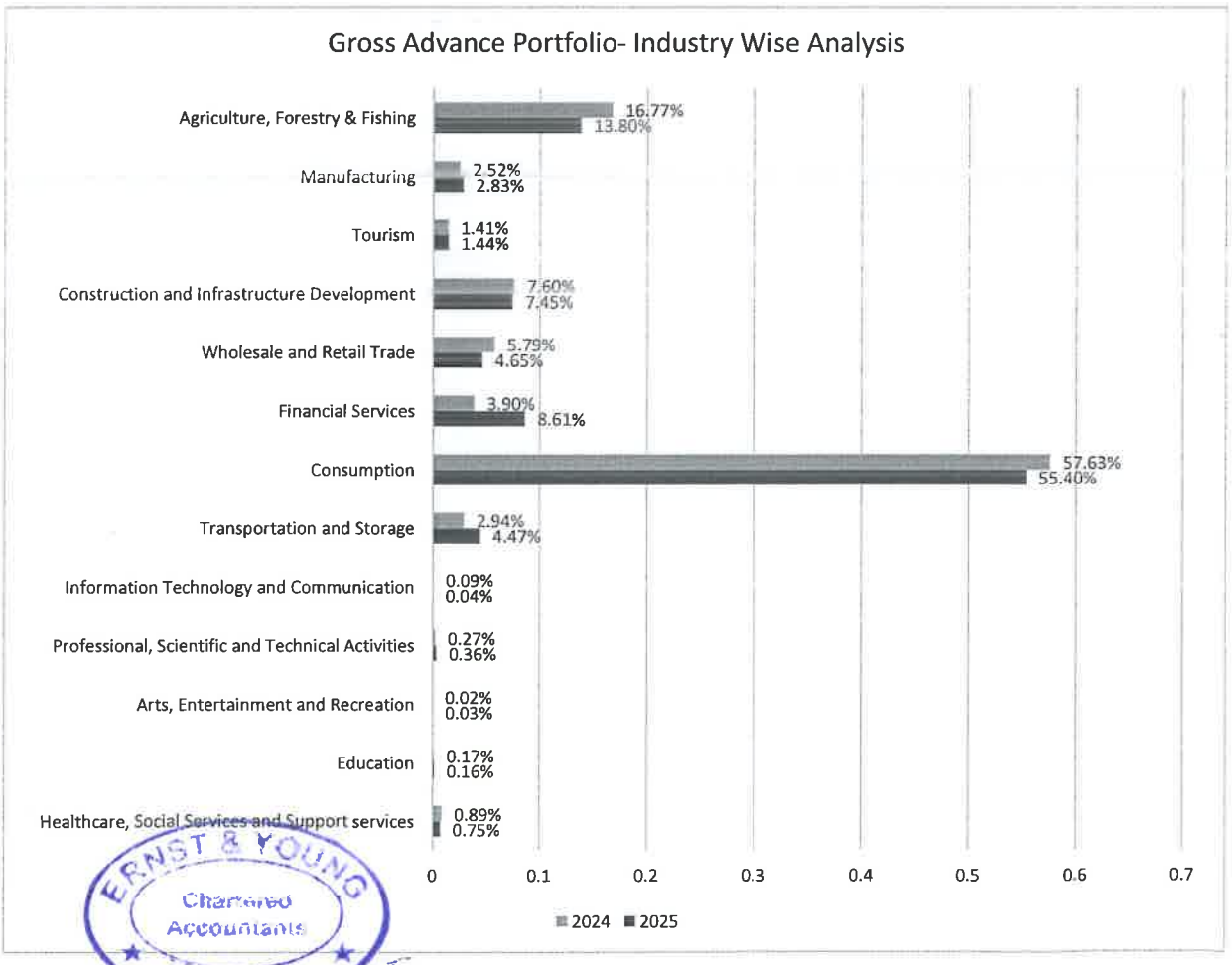


2024



45.2.5.2 Industry Analysis

Gross advance portfolio - Industry wise is as follows



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45. RISK MANAGEMENT (Contd....)

45.2.6 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. 37.

Bank does not recognize a loss allowance for financial guarantee contracts as these contracts are fully backed by a Bank deposit (Savings or fixed deposit)

45.3 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 key regulatory requirements are to maintain the Liquidity Coverage Ratio and the Net Stable Funding Ratio at the regulatory minimum of 100%. The Position of the bank for the year end are as follows.

	2025	2024
Liquidity Coverage Ratio (LCR)	151.86	279.65
Net Stable Funding Ratio (NSFR)	144.82	173.02

45.3.1 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 2025: 114.71% (2024: 96.45%)

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45. RISK MANAGEMENT (Contd...)

45.3.2 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 2025. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the tables do not reflect the expected cash flows indicated by its deposit retention history based on the behavioural pattern.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Financial Liabilities

	As at 31 December 2025							
	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 balances with banks	7,104,305,823	-	-	-	-	-	-	7,104,305,823
Investments	1,525,854,695	5,526,495,836	9,637,383,026	7,474,836,884	241,978,934	214,308,980	-	24,620,858,355
Loans and receivables to other customers	1,540,514,110	4,473,514,342	9,175,261,471	22,593,109,279	22,646,122,872	19,248,231,164	39,328,132,193	119,004,885,431
Total financial assets	10,170,674,628	10,000,010,178	18,812,644,497	30,067,946,163	22,888,101,806	19,462,540,144	39,328,132,193	150,730,049,609
Financial liabilities								
Due to other customers	2,709,384,102	6,350,981,936	18,730,716,770	31,745,804,501	28,069,583,060	15,218,550,370	5,441,166,823	108,266,187,562
Other borrowings	-	1,782,997,161	5,025,214,062	4,585,869,735	7,359,644,971	1,423,745,229	1,459,259,412	21,636,730,570
Total financial liabilities	2,709,384,102	8,133,979,097	23,755,930,832	36,331,674,236	35,429,228,031	16,642,295,599	6,900,426,235	129,902,918,132
Net financial assets/(liabilities)	7,461,290,526	1,866,031,081	(4,943,286,335)	(6,263,728,073)	(12,541,126,225)	2,820,244,545	32,427,705,958	20,827,131,477

	As at 31 December 2024							
	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 balances with banks	2,442,293,957	-	-	-	-	-	-	2,442,293,957
Investments	1,253,960,045	13,134,151,966	19,144,616,546	3,756,205,845	5,779,813,021	1,352,859,893	-	44,421,607,316
Loans and receivables to other customers	2,013,709,186	3,552,696,157	4,872,965,851	17,963,338,087	15,449,389,688	12,470,350,005	45,406,460,805	101,728,909,779
Total financial assets	5,709,963,188	16,686,848,123	24,017,582,397	21,719,543,932	21,229,202,709	13,823,209,898	45,406,460,805	148,592,811,052
Financial liabilities								
Due to other customers	3,596,921,049	7,579,883,969	21,307,418,818	37,919,889,999	28,326,199,984	10,775,562,220	5,428,984,030	114,934,860,069
Other borrowings	-	2,292,921,353	1,572,104,500	14,132,624,258	8,890,023,238	3,443,618,830	1,139,241,407	31,470,533,586
Total financial liabilities	3,596,921,049	9,872,805,322	22,879,523,318	52,052,514,257	37,216,223,222	14,219,181,050	6,568,225,438	146,405,393,655
Net financial assets/(liabilities)	2,113,042,139	6,814,042,801	1,138,059,079	(30,332,970,325)	(15,987,020,513)	(395,971,152)	38,838,235,368	2,187,417,397

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45. RISK MANAGEMENT (CONTD....)

45.4 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The Bank classifies exposures to market risk into either trading or non–trading portfolios and manages each of those portfolios separately.

Market risk limits are set and continuously reviewed by the risk department and treasury department of the Bank. As a part of its established market risk management process, the risk department and treasury department also monitors early signs of possible changes in market conditions such as : anticipated and actual changes to interest rates; socio economic factors driving mortgage prepayment behaviors; and economic and geopolitical factors driving currency and equity price movement. Those two departments take adequate actions to mange market risk when necessary.

45.4.1 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 monthly 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 2025 and 31st December 2024 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

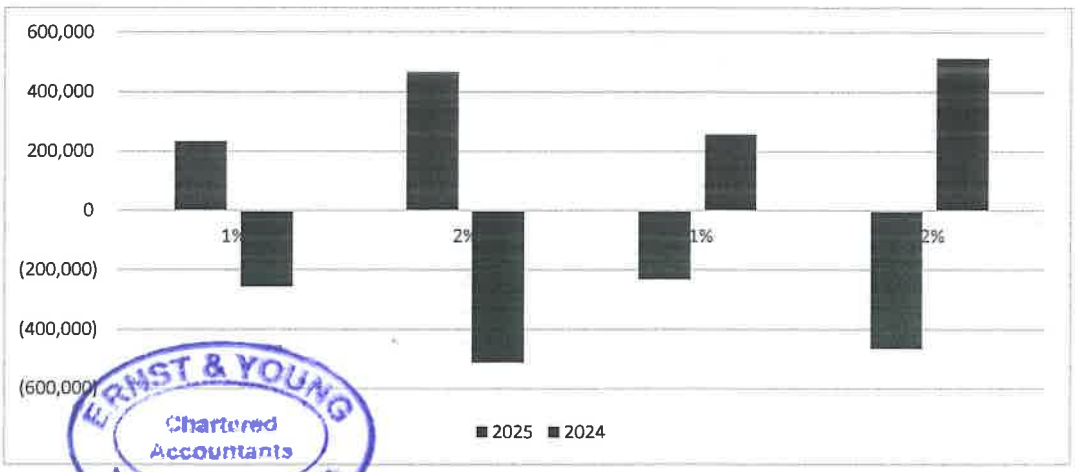
Rate Sensitive Assets (RSA) & Rate Sensitive Liabilities (RSL)

	2025 LKR	2024 LKR
Rate Sensitive Assets (RSA)	52,817,313,110	75,484,700,913
Rate Sensitive Liabilities (RSL)	90,699,453,509	101,149,125,845
GAP (RSA - RSL)	(37,882,140,399)	(25,664,424,932)

Impact on Statement of Profit or Loss due to Interest Rate Shocks

	2025 LKR	2024 LKR
Interest Rate Shock		
1.00%	233,017,297	(256,644,249)
2.00%	466,034,594	(513,288,499)
-1.00%	(233,017,297)	256,644,249
-2.00%	(466,034,594)	513,288,499

Impact on Statement of Profit or Loss due to interest rate shocks



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45. RISK MANAGEMENT (Contd...)

45.6 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 endevours to enhance credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or monitor the credit growth carefully.

Regulatory capital	**Actual 2025 LKR**	**Required 2025 LKR**	**Actual 2024 LKR**	**Required 2024 LKR**
Common Equity Tier 1 Capital	13,389,173,361	7,071,746,493	13,060,134,160	5,676,873,415
Total Tier 1 Capital	13,389,173,361	8,014,646,026	13,060,134,160	7,423,603,697
Tier 2 Capital Instruments	982,964,918	806,237,630	1,195,277,067	912,978,727
Total Capita1	14,372,138,279	8,820,883,656	14,255,411,227	8,336,582,424
Total Risk Weighted Assets	94,290,364,084		87,085,817,208	
Common Equity Tier 1 Capital Ratio %	14.20%	7.50%	15.00%	6.50%
Total Tier 1 Capital Ratio %	14.20%	8.50%	15.00%	8.50%
Total Capital Ratio %	15.24%	12.50%	16.37%	12.50%

46. COMPARATIVE INFORMATION

The comparative information has been reclassified wherever necessary to conform to the current year's presentation and details are given below.

46.1 Statement of Profit or Loss

There were no reclassifications during the year.

46.2 Statement of Financial Position

There were no reclassifications during the year.

46.3 Statement of Cash Flow

There were no reclassifications during the year.

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SANASA DEVELOPMENT BANK PLC
SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

Item	Bank	
	As at 31.12.2025 (Audited)	As at 31.12.2024 (Audited)
Regulatory Capital Adequacy (LKR in Millions)		
Common Equity Tier 1	13,389	13,060
Core (Tier 1) Capital	13,389	13,060
Total Capital Base	14,372	14,255
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (%) - (Minimum Requirement - 2025-7.00%, 2024-7.00%)	14.20	15.00
Tier 1 Capital Ratio (%) - (Minimum Requirement - 2025-8.50%, 2024-8.50%)	14.20	15.00
Total Capital Ratio (%) - (Minimum Requirement - 2025-12.50%, 2024-12.50%)	15.24	16.37
Leverage Ratio (Minimum Requirement - 3%)	9.13	9.07
Regulatory Liquidity		
Total Stock of High-Quality Liquid Assets (LKR in Millions)	16,671	27,709
Liquidity Coverage Ratio (%) - (Minimum Requirement - 2025-100%, 2024-100%)	151.86	279.65
Net Stable Funding Ratio (%) - (Minimum Requirement - 100%)	144.82	173.02
Assets Quality (Quality of Loan Portfolio)		
Impaired Loans (Stage 3) to total loan, Ratio (%)*	5.36	6.93
Impairment (Stage 3) to Stage 3 Loans Ratio (%)*	52.61	47.78
Profitability		
Interest Margin (%)	5.37	5.18
Return on Assets (before Taxes) (%)	1.11	0.96
Return on Equity (%)	2.76	2.84

Share Information	31.12.2025	31.12.2024
Market value per share/Last trading price (Rs.)	58.10	45.90
Highest price per share for the period (Rs.)	69.40	46.80
Lowest price per share for the period (Rs.)	33.10	29.70

Memorrandum information	31.12.2025	31.12.2024
Credit ratings	BB+	BB+
Number of Employees	1263	1298
Number of Branches	94	94

* Including Undrawn Portion of Credit

Certification:

We the undersigned, being the Chief executive officer and the Head of Finance SDB Bank jointly certify that,

a) the above statement have been prepared in compliance with the format and definitions prescribed by the central Bank of Sri Lanka.

Sanjeeva Jayasinghe
Head of Finance

Kapila Ariyaratne
Executive Director / CEO

ERNST & YOUNG
Chartered Accountants
COLOMBO