

A BANK TO BANK ON

SANASA Development Bank PLC
Annual Report 2019



A BANK TO BANK ON

Our focus has not changed. We are unwaveringly committed to serving the micro and SME sectors.

We are committed to empowering women entrepreneurs; to the emancipation of youth; to the support and proliferation of sustainability related business as well as agribusinesses and “green projects”. Our proposition to all stakeholders is thus one of trust and confidence.

We are...a Bank they all can bank on!

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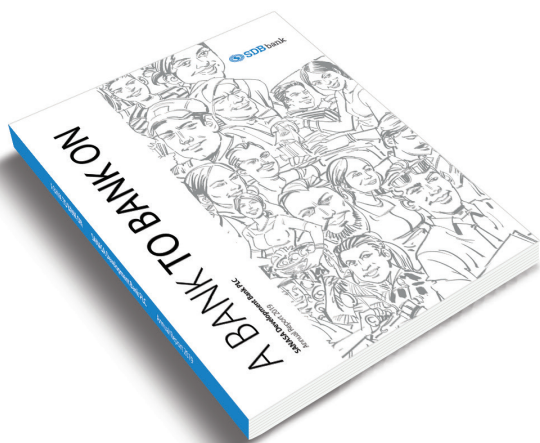
Feedback Form
Inner Back Cover – Corporate Information



- Online GRI Content Index
- Online Branch Network
- Online Ratio Formulas
- Online Event Calendar



About this Report



Our sixth Integrated Annual Report provides readers with a clear understanding of how we create sustainable value over the short, medium, and long term. Our value creation story discusses our strategy, business model, governance and risk management processes, financial performance, and the future outlook for SANASA Development Bank PLC (“SDB bank” or “the Bank”).

Cutting the clutter

To ensure that we communicate relevant information concisely while comprehensively meeting compliance requirements, our Integrated Annual Report is available in the following formats in addition to the printed report:



Reporting period and boundary

This Integrated Report covers material information of SDB bank's performance for the financial year beginning 1 January 2019 to 31 December 2019. Our most recent report, which is also available on our website, is for the year ended 31 December 2018. We have adopted annual reporting cycle in respect of both financial and sustainability reporting.

We report no restatements of information provided in previous reports, or any significant changes from previous reporting periods in the scope and aspect boundaries, other than those stated in the disclosure provided in Note 44 to the Financial Statements.

Remaining in compliance

Following good governance practices, the Board of Directors of SDB bank accepts responsibility for the contents of this Integrated Annual Report.

We have complied with the Sri Lanka Financial Reporting Standards, the Banking Act No. 30 of 1988 and the requirements of the Companies Act No. 07 of 2007 in preparing the Financial Statements for 2019 which are presented on pages 133 to 190.

In producing this Integrated Annual Report we have drawn on concepts, principles, and guidance from the following:

1. The International Integrated Reporting Framework;
2. GRI Standards – “In accordance: core option”; and
3. The United Nations Sustainable Development Goals (SDGs)

We have categorised the capitals to best describe our value creation process following paragraphs 2.10 and 2.17-2.19 of the International <IR> Framework, which provides that organisations preparing an integrated report are not required to adopt the <IR> Framework categorisation of capitals.

Contact for feedback

We welcome your comments and suggestions on this Integrated Annual Report. For feedback and editorial information please contact:

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This is SDB bank

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Banking on Us

Who we are

We are a Licensed Specialised Bank registered by the Central Bank of Sri Lanka, under the Banking Act No. 30 of 1988 (as amended by the Banking Act of 1995).

At SDB bank, our strength lies in the robust relationships we nurture with rural and underbanked communities through an extensive network of co-operative societies and Government organisations. Our network comprises 94 branches manned by a workforce of 1,475 dedicated employees across the island.

We foster socio-economic progress by improving financial literacy and inculcating sound financial habits among grassroots communities, even if we will have to witness our customers eventually migrate to mainstream financial institutions that had previously considered them unsuitable.

Our customer base includes:

- Retail customers
- SME customers
- Co-operative societies

Our varied product portfolio provides solutions that span areas such as development, personal banking and leasing, while our deposit products encourage these communities to invest and save.

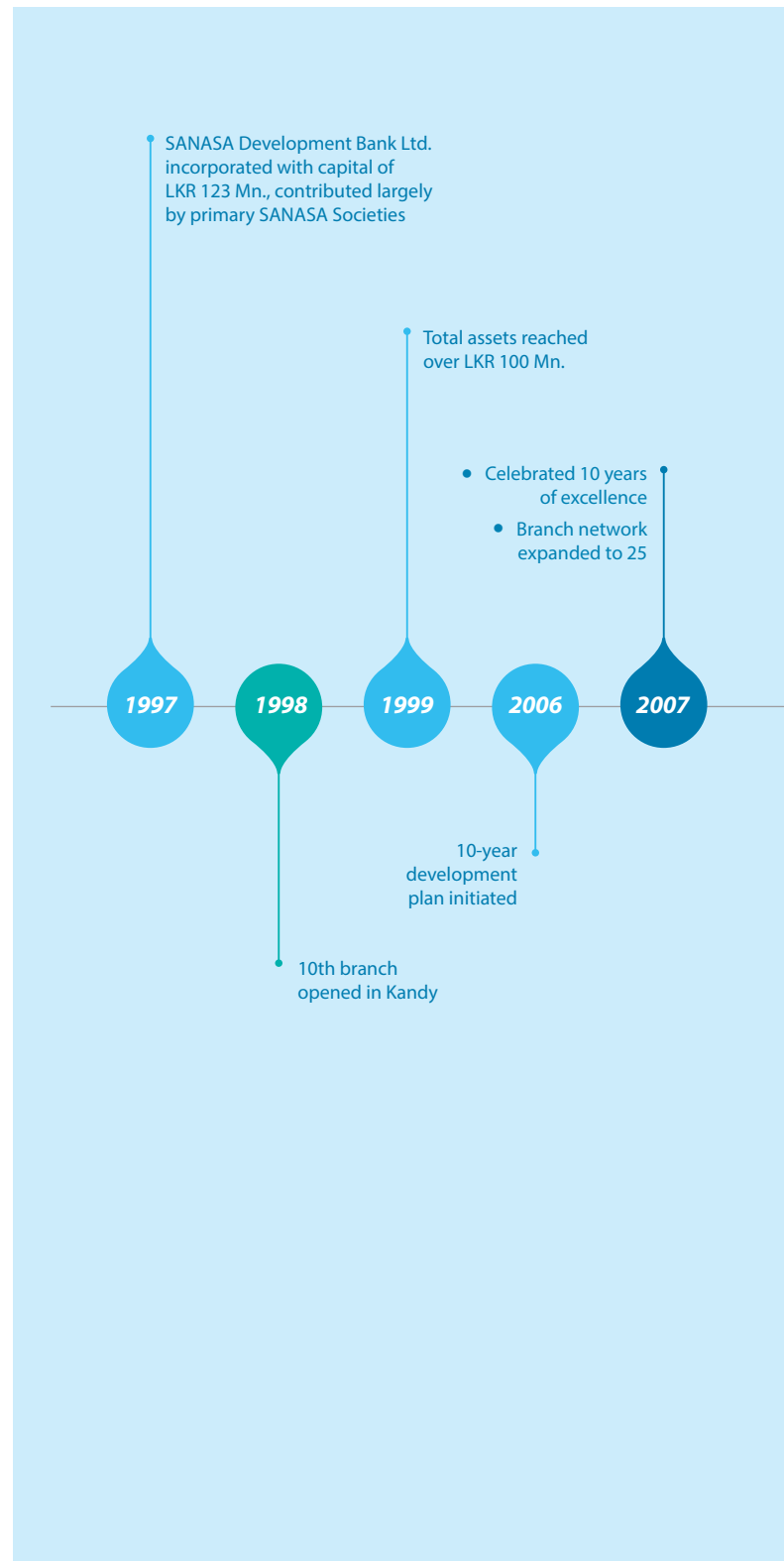
SDB bank is listed on the Main Board of the Colombo Stock Exchange. The Bank has been assigned a National Long-term Rating of BB+(lka) with a stable outlook by Fitch Ratings Lanka Ltd., and the (SL)BBB- with stable outlook by ICRA Lanka Limited.

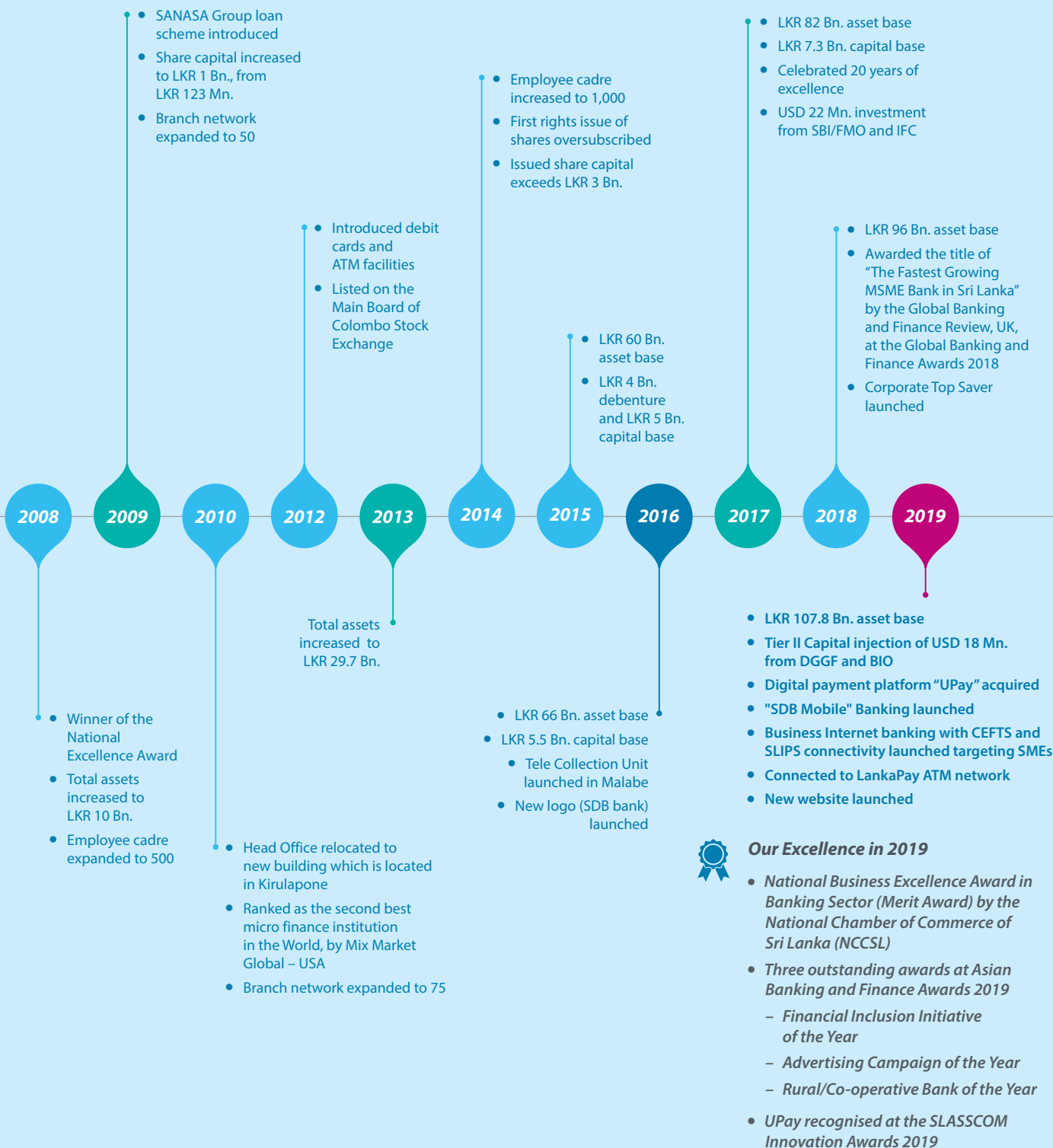
Our rural focus is reinforced by the direct links the Bank maintains with over 8,500 co-operatives countrywide. Our rapid growth and SME-sector strength have allowed us to secure significant investment from some of the top global development finance institutions along with technical support, positioning us strongly to capitalise on these gains in the year 2020.

Our Journey

Since its inception up to end 2019, SDB bank's assets have grown from approximately LKR 100 Mn. to LKR 107.8 Bn. During this time, the Bank's geographical footprint has also expanded to 94 branches and through LankaPay we offer our customers access to nearly 5,000 ATM points covering grassroots communities across a large portion of the country. These achievements were not easily won.

Through the many socio-political and economic challenges that dotted this period of time, including 30 years of ethnic strife, recession, and of course the 2004 tsunami and other natural disasters, our services to this underserved segment of society have remained unfazed. In addition, we have focused on improving financial literacy and financial inclusion. Today we are one of the leading financial institutions for individuals, micro and SME businesses, and communities who have no other viable opportunity to realise their aspirations and improve their way of life.





Our Vision

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



Our Mission

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



Our Values

- To foster and maintain the highest ethical standards at all levels of the Bank and its agencies in dealing with customers, stakeholders, and competitors.
 - To be innovative and demand-driven in providing financial services.
 - To be courteous and professional in all business dealings.
 - To avoid discrimination on the grounds of religion, sex, ethnicity, social status, and language.
- To refrain from extending financial services for unethical and illegal pursuits.



Our Goals

- Improve the asset base to stay competitive and resilient in the market.
 - Transition from a largely microfinance focus to a broader SME corporate focus.
- Establish SDB bank as the Bank of choice for the co-operative sector.
 - Introduce a comprehensive digital platform to future-proof the Bank.
- Provide a delightful experience to customers through value added service.
 - Maintain a highly motivated and competent team aligned with the mission of the Bank.
 - Be the role model Bank for responsible finance in Sri Lanka.

2019 at a Glance



Financial capital

Profit for the year

2019 – LKR 253.41 Mn.

2018 – LKR 356.95 Mn.

Net interest income

2019 – LKR 5.7 Bn.

2018 – LKR 4.7 Bn.

Customer deposits

2019 – LKR 72.4 Bn.

2018 – LKR 67.5 Bn.

Total assets

2019 – LKR 107.8 Bn.

2018 – LKR 96.8 Bn.

Capital base

2019 – LKR 7.7 Bn.

2018 – LKR 7.4 Bn.



Institutional capital

Corporate culture and values

- Values clearly articulated
- Included in induction training
- Regular dissemination throughout the Bank

Organisational knowledge

- Over 20 years of knowledge
- Keen understanding of SMEs
- Products suited to customers
- Strategic Plan

Systems, Processes and IT

- Loan Originating System
- Mobile Deposit Collection
- Information Dashboard
- Payment platform
- Mobile banking app
- Internet banking
- SDB ATM Switch

Business ethics and integrity

- Governance framework
- Compliance policies
- Endorsement by international investors



Manufactured capital

Digital banking options in 2019:

- UPay payment app
- SDB Mobile banking app
- Business Internet banking with CEFTS and SLIPS connectivity targeting SMEs
- Connected to LankaPay ATM network

Investment in PPE 2019 –

LKR 172 Mn.
(2018 – LKR 217 Mn.)

Total branch network

2019 – 94
2018 – 94

Investment in IT equipment and intangible assets

LKR 395 Mn.
(2018 – LKR 105 Mn.)

ATM network

2019 – 12
2018 – 12



Customer capital

Increasing customer convenience:

- E-banking security
- ATM switch

Women entrepreneurs educated through Uththamavi workshops

2019 – 4,000
2018 – 2,000

- Co-operative sector deposit and loan schemes
- Uththamavi Loans for women entrepreneurs
- Product portfolio that caters to people of all ages and occupations
- Uththamachara Product for Ranaviru families



Employee capital



New recruits

2019 – 55
2018 – 254



Male: Female equality

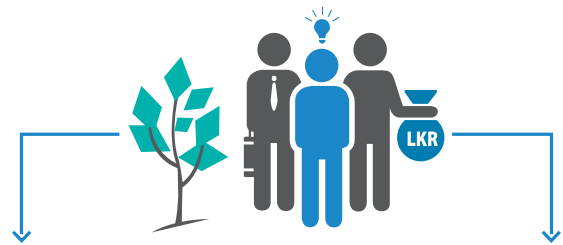
2019 – 52% : 48%
2018 – 52% : 48%

Investment in training

2019 – LKR 9.9 Mn.
2018 – LKR 9.8 Mn.

Initiatives 2019

- Life Line programme
- Great place to work programme



Investor capital

Net asset value per share

2019 – LKR 136.20

2018 – LKR 132.28

Earnings per share – basic

2019 – LKR 4.50

2018 – LKR 6.34

Market value per share

2019 – LKR 63.90

2018 – LKR 75.00

P/E ratio

2019 – 14.20 Times

2018 – 11.83 Times



Business partner capital

Purchasing from local suppliers

Partnerships to benefit customers

Business tie-ups with Browns & Company PLC, John Keells Foundation, Diesel & Motor Engineering PLC, and State Ministry of Defence.

Strategic partnerships and active memberships



Social and environmental capital

- Surakimu Siripa Polythene cleanup project
- Contributing towards SGDs
- Other CSR initiatives

Students supported for scholarship exams through Lakdaru seminars

2019 – 4,445
2018 – 32,000

Leadership to Bank On

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Chairperson's Message



The Bank has brought speed to its digital journey and with the UPay platform, mobile banking, and agency banking the Bank will be able to expand its services and achieve better yields in the years to come.

Dear Shareholders,

As I write my last message as the Chairperson of SANASA Development Bank, much of the rest of the world is in the grip of the COVID-19 pandemic. I mention this because it defines the future outlook of SDB bank and the country itself, which will undoubtedly be impacted.

In this moment, when the world is looking for alternative ways of being and doing business while developing and maintaining more sustainable and resilient systems, I urge our shareholders to look more closely at this institution in which you have invested. I ask you do so because I feel our Bank is ready to rise to the occasion and grow as a true leader of co-operative financing and enable the Post COVID-19 Sri Lankan community to be stronger and more resilient, both financially and socially.

Some of you may know that SANASA Development Bank was created by the SANASA Movement in 1997 to strengthen a vision embraced by one million people, who believed in self-reliance and were committed to building a social order based on co-operative principles and values. SANASA had been working towards that vision for 20 years, before they created SANASA Development Bank. The Bank was one of the four pillars that was expected to facilitate the co-operative movement to enter and compete in

the market economy as an alternative force, building and strengthening co-operative enterprises and deepening finance to rural communities.

The Bank envisioned by its founders under the leadership of Dr Kiriwandeniya was inseparable from the SANASA Movement. Building on the development interventions of the SANASA Movement and guided by common people's aspirations, this institution, in addition to conducting banking services, was to serve as the apex financial institution for the co-operative sector. The uniqueness expected from SANASA Development Bank when it was launched, compared to other banks, was that the products and services were not only to be tailor-made to the needs of the people but would also be crafted with the active collaboration of co-operative activists working intimately with their member. In other words, the experience and wisdom of the thrift and credit co-operative movement would inform the development of products and services.

The Bank was expected to create a new way of doing business and understand the people in a much more intimate manner, instead of "selling generic products through heavy propaganda" to people. It was envisioned that the Bank would actively engage with and serve those who tended to be

neglected by the formal banking systems, offering products and services to enhance their wealth and increase their financial and life security.

SANASA Development Bank has stood with the people of this country in their darkest hours. This was evident in the aftermath of the Tsunami, during and after the end of the war, and natural calamities such as droughts, floods and landslides. The Bank developed mechanisms to enable victims to recover quickly and move forward even as it worked closely with the Central Bank of Sri Lanka to enable communities access refinance schemes designed by various governments. We have supported the State through refinance schemes and co-operative development programmes, helping reorganise communities, rebuild their lives and reintegrate with the rest of the nation after the war ended. We have been consistently recognised as one of the best microfinance models in the world and most recently, as the fastest growing SME bank in Sri Lanka.

Moving forward, we have streamlined the operations to cater to the SME customers who are the key drivers of Sri Lankan economy. With its strong relationships with other organisations of the SANASA Movement as well as market players at the top ends of value chains, SDB bank is venturing slowly into value chain financing, mainly to improve the agri industries.

As you are well aware, during the last few years SDB bank re-engineered operations and strategically shifted business focus to small and medium sector from microfinancing. While the Bank continued to support the microfinance sector by partnering in linkage financing systems with SANASA societies and other microfinance organisations, direct lending has tilted more towards SME customer segment. This required much investment in upgrading the skills of the staff, improving our brand visibility in the SME market, putting in place a stringent risk management and auditing culture, developing more sophisticated credit underwriting skills and more efficient and customer-centric products and processes.

Since these changes were integrated into the system, it was possible for the Bank to continue to function effectively even during the uncertain first few months after the advent of the COVID-19 pandemic with long periods of curfew and strict protection regimes. The staff worked from home and customers engaged with the Bank from home through digital platforms. We also facilitated special liquidity lines to co-operative societies, enabling them to better support their membership and thereby stay relevant. With the hiring of a new CEO endowed with more digital experience, the Board expected the Bank to leapfrog in its business, capitalising on the hard earned investments and networks made by the co-operative movement.

In 2019, much effort was invested to secure a stable SME portfolio despite the Easter Sunday attacks and explore more digitalised business platforms to cut costs and reach customers through better managed channels. The Bank has brought speed to its digital journey and with the UPay platform, mobile banking, and agency banking the Bank will be able to expand its services and achieve better yields in the years to come.

One of the main achievements in 2019 was meeting the minimum capital requirement to comply with the BASEL III guidelines, as directed by the Central Bank of Sri Lanka (CBSL). Despite the unhealthy business environment following the Easter Sunday attacks, the Bank succeeded in raising LKR 3.2 Bn. in subordinated term debts as Tier 2 capital: LKR 1.8 Bn. from Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V. and LKR 1.4 Bn. from Belgian Investment Company for Developing Countries NV/SA (BIO). This enabled us to meet regulatory requirements without compromising the ownership rights of existing shareholders.

My term ends in a challenging time when return on the shareholder investment is marginal. However, I retire with the confidence that the Bank is firmly established in the market with a stable brand, sound management system, technological platforms and a solid business focus to deliver on its mission, and generate stable returns on investments.

I extend my appreciation to our current business partners, shareholders and customers for placing your trust in us and being a part of our journey. I invite you to remain with us, engage with us and educate us on our shortcomings so that we can continue to improve our services and add value to your investment.

My sincere appreciation goes to everyone who served with me on the Board during the past nine years. Their contributions in numerous capacities were invaluable in steering the Bank during good times and hard times. I have no doubt that the present Board will ensure the integrity of policies and guide the CEO and the Management to steer the Bank to new and more promising destinations through fair weather and foul.

As you know, 2019 was a difficult year. The year 2020 has posed formidable challenges. I greatly appreciate the positive approach and the leadership of the CEO and the Corporate Management and our staff, who rose to the occasion and engaged with multiple stakeholders simultaneously to take on unexpected issues and resolve them satisfactorily.

I thank Dr Kiriwandeniya the Leader of the SANASA Movement for laying the foundation for SANASA Development Bank and the original shareholders who were simple co-operative leaders, with less sophisticated academic backgrounds but strong and resolute in their conviction that this country needs a bank that listens to the community and creates products and services the community needs. The regulatory systems, the employment unions, and even shareholders need to rethink how they should engage and support the growth of such a bank, as it has a tremendous potential to make the Sri Lankan economy strong and resilient and Sri Lanka more green and co-operative.

SANASA Development Bank, which had a simple management system and a consistent shareholder composition when I took over as the Chairperson in 2011, has grown into a much more sophisticated bank with a diversified portfolio with improved technology platforms and management systems. As a result of being listed, the shareholder portfolio has become more diverse. This diversity has enhanced the dynamism of the Board of Directors. Despite all these changes, I am happy to mention that the Bank remains strongly committed to its original purpose of building stronger co-operative enterprises in Sri Lanka. The Bank has put in place structures to ensure this, through the Co-operative Subcommittee of the Board, the Co-operative Development Unit and a specially trained team of employees to build relationships and business with the co-operative sector. The Board, while supporting the Management to expand its business horizons, is equally committed to ensuring that our commitment to the co-operative sector as aspired by SANASA leaders remains intact and strong. I am confident that the new Chairman and current and future members of the Board as well as our Senior Management of the Bank will continue to add value to this model, and make this Bank one of the leaders of inclusive finance in Asia.

I wish the new Chairman, the Board, all our shareholders and well wishers, good health and success!



Samadanie Kiriwandeniya
Chairperson

26 February 2020

Chief Executive Officer's Review



As we traverse new terrain following the seemingly inexorable march of COVID-19 across the world, we continue to benefit from the prudent actions taken during the year. For instance, our introduction of digital banking options and our efforts to familiarise our stakeholders with internet banking are paying dividends, allowing our customers to conduct vital banking transactions any time they need to.

Taking grassroots communities into the digital era has never been more critically important – and that is the timely journey we embarked on during the year under review. With 40% of Sri Lankans already digitally literate, our investments in digital platforms will pay-off in the years to come. Today, the formerly unbanked or under banked are able to capitalise on the chance to access and move funds – all from the palm of their hand. Particularly for micro and small businesses, this convenience, combined with growing financial literacy, will open many a door that was formerly denied to them. A rise in digital banking customers will also contribute towards nation building as the country endures and adapts to the changes that will inevitably be brought on by the growing spread of COVID-19 across the world.

Digital beginnings

During the year under review, we continued to support our key customer groups – co-operatives, small and medium sized enterprises (SMEs) and the retail segment – as they strove to return to normal life after the April disruptions. We introduced mobile banking using in-house expertise and invested in the UPay app to bring convenient, modern banking options to the masses. This digital push was combined with a raft of financial literacy programmes and internet banking kiosks installed across 100 co-operatives country-wide.

We also launched a business internet banking solution for our corporate banking customers. This segment is comparatively new to SDB bank but essential to our customer portfolio. As our SME customers grow, their financial needs change. Through the corporate banking segment we are able to migrate and retain former SME customers and provide financial services that are tailored to their needs. In return we benefit from the wider diversification of our portfolio.

Deepening investor confidence

The successful raising of LKR 1.8 Bn. from Stichting Fondsbeheer DGGF Lokaal MKB and 1.4 Bn. from Belgian Investment Company for Developing Countries NV/SA (BIO) is testament to the strength of our relationships and the confidence of our investors. Subject to compliance with the conditions stipulated in the Banking Act Direction No. 1 of 2016, these loans are due to be repaid in June 2024 and December 2024, and will contribute significantly towards the achievement of our 2017-2020 Strategic Plan.

Recognising excellence

SDB bank received many accolades during the year. We emerged victorious at the Asian Banking and Finance Awards 2019 held at the Shangri-La – Singapore with awards for the Financial Inclusion Initiative of the Year, the Advertising Campaign of the Year, and Rural/Co-operative Bank of the Year. At the 2019 National Business Excellence Awards, organised by the National Chamber of Commerce of Sri Lanka (NCCSL), SDB bank received a merit award in the Banking Sector category. Other awards for the year under review include recognition for our UPay app which secured the Second Runner-up Award in the Best Client Delivery Innovation category at the SLASSCOM Innovation Awards 2019.

Operating results

Our financial performance, during the year under review is a testament to the Bank's resilience and strength of operations. Net interest income increased by 20.62% over the previous year, exceeding the target set in the budget. Net interest income margin too slightly improved to 5.88% in the current year from 5.55% in 2018, which was commendable in the face of uncertainties following the Easter attacks, excess liquidity in the financial system and uncertain market conditions. A lower growth in fee-based income, however, caused the net operating Income to rise only by 11.24%.

Reflecting the deterioration in asset quality witnessed across the industry in the country, the provision for impairment, made in compliance with the requirements of the Accounting Standard, SLFRS 9 increased significantly from LKR 526 Mn. in 2018 to LKR 917 Mn. Consequently, the Bank's profit for the year reduced from LKR 357 Mn. in 2018 to LKR 253 Mn. We contributed LKR 997 Mn. to the national economy through taxes paid during the year.

Our net loans and advances, deposits, and total assets grew by 10.73%, 7.35%, and 11.33% respectively. Capital adequacy ratios for both Tier 1 capital and total capital were maintained well above the regulatory minimum thresholds. Implementation of BASEL III was also completed and its provisions are now fully applicable.

The unexpected hit to Sri Lanka's economy in April of the reporting year badly impacted our key customer demographic. Racial violence threatened to raise its head once more but at SDB bank, with our reputation for providing financial services regardless of race, religion or language, we remained true to rural communities across the nation, helping them to get back on their feet.

Brand refresh

During the year under review, we began a successful brand rejuvenation programme that is designed to bring SDB bank into the new digital era. While we have traditionally named our products and services using catchy terms such as *Athamaru* and *Jawaya*, research showed that a more straight-forward approach would make it easier for our diverse customers to identify our product range at a glance. As a result, names such as *Athamaru* were converted to SDB Gold Loan. In phases we will be converting the names of all our products and services with the SDB bank moniker at the forefront. It is a cost-effective naming convention that promotes both the Bank and its products and services.

Concurrently we also began changing the look and feel of our branches beginning with Pilimathalawa and Aluthgama. With the leasing arrangements for premises of these two branches coming up for renewal, we were able to convert their interiors and exteriors. The new customer-friendly look and feel provides an oasis of calm for our hardworking customers.

Passionate people

To be an SDB bank employee is to be passionate about our development mission. Uplifting the lives of our key customer demographic is a challenging but rewarding experience. Simply introducing them to our products and services will not cover the scope of what it takes to widen their horizons. This is why the role our people play in serving our customers is so critical. Not only do they provide financial services, but they also engage in teaching and creating awareness, and lifting levels of financial literacy among members of rural and grassroots communities.

Ensuring that our hardworking employees receive the support they need to better the lives of our customers, we partnered with Great Place to Work Sri Lanka. Having first listened to the suggestions of our people and conducted a pulse check on key concerns, we have now begun implementing steps that will lead to greater employee engagement.

This initiative is conducted in collaboration with training and capacity building programmes aimed at improving their technical expertise and experience in core banking as well as soft skills. Improving their digital banking skills has also been a critical focus which in turn empowers them to help customers make the transition to digital channels.

Future outlook

As the Chairperson has illustrated in her message, the journey ahead is going to be challenging. We are, however, well positioned to meet those challenges head on. Our employees are primed to help customers rebuild their lives. While continuing to train them in core banking skills we will also provide a wider range of development opportunities, including mentoring and grooming for future roles.

We will also continue to improve and streamline our systems and processes and the tools that allow our people to provide customers with the kind of financial products and services that truly speak to them. The refurbishment of our branches will also continue, ensuring that our customers have a professional, peaceful, and welcoming physical space to interact with SDB bank employees and successfully complete their banking transactions. A large part of our customer demographic still needs to be able to switch completely to digital banking. Whether individuals, clusters of individuals in co-operative societies or SMEs, digital banking has the potential to open doors that were formerly never within their reach.

As they go through those doors our customers' financial needs will begin to change. When they do we will be there for them at that point as well. Supporting them as they continue improving their lifestyles means preparing for tomorrow's changes today. Going forward, we will continue to introduce meaningful value additions such as mobile banking for our corporate customer segment to ensure that they too are part of our journey towards a digital future.

Sustainable business

Contributing towards the United Nations Sustainable Development Goals through what we do has been an honour. At the same time, it is important to note that many of the SDGs, such as zero hunger, ending extreme poverty, and gender equality have been at the forefront of what we have been doing for decades. The reporting year has been no different.

Our products and services are geared to serve a number of lifestyle stages and demographics from young children to youth, to women – particularly women entrepreneurs, war veterans and their families, and senior citizens. Yet, I am proud of the way our employees have taken the spirit of service beyond our product offering. Many participate in our financial literacy programmes for entrepreneurs, provide instruction on how to use internet banking and go the extra mile to understand the customer and raise solutions for the issues they face. I do not exaggerate when I say that improving the lives of rural and grassroots communities is a passion that drives our employees. For their commitment and dedication, I am truly thankful.

Further kudos

I also extend my sincere appreciation to the regulators for their guidance, the SANASA societies for their patronage and support, and the Chairperson and the Board of Directors for their visionary direction. Let me take this moment to thank Chairperson, Ms Samadanie Kiriwandeniya, who is due to complete her tenure of nine years in May 2020 for her immeasurable contribution to the Bank during her time with us. I also take this opportunity to wish our incoming Chairman every success in the role. In addition to all employees, I also thank the Management team.

Though the terrain ahead promises to be rough, together we will prevail in meeting our objectives.



Thilak Piyadigama
Chief Executive Officer

26 February 2020

BANKING ON **OUR PEOPLE**

No matter how the terrain ahead changes with time, we continue to bank on our people – beginning with our leadership teams

Board of Directors



Mr Chaaminda Kumarasiri
Non-Executive, Independent Director

Ms Dinithi Ratnayake
Non-Executive, Non-Independent Director

Ms Samadanie Kiriwandeniya
Chairperson – Non-Executive,
Non-Independent Director

Mr K G Wijerathne
Non-Executive, Non-Independent Director

Prof Sampath Amaratunge
Non-Executive, Independent Director



Mr B R A Bandara

Non-Executive, Non-Independent Director

Mr Lakshman Abeysekera

*Senior Director – Non-Executive,
Independent Director*

Mr Prasanna Premaratna

Non-Executive, Independent Director

Mr S Lionel Thilakarathne

Non-Executive, Non-Independent Director

Mr Prabhash Subasinghe

Non-Executive, Non-Independent Director

Ms Samadanie Kiriwadeniya

*Chairperson – Non-Executive,
Non-Independent Director*

Appointed as Chairperson in 2011

The Corporate Leader of SANASA Group, Ms Kiriwadeniya presently holds Directorships of SANASA Campus Ltd., *Uththamavi* Guarantee Limited, SANASA Travels (Pvt) Ltd. and SANASA International Company Limited.

She holds a Bachelor's Degree in Sociology from the University of Peradeniya and Master's Degree in Sociology from University of Saskatchewan, Canada, and draws from extensive Senior Management experience in the fields of Participatory Development, Gender Issues Management, Micro Finance and Conflict Resolution.

Ms Kiriwadeniya served in the capacity of Senior Manager, Deputy General Manager (International Relations – SDB bank) and National Coordinator of the Post-Tsunami Programme.

Mr Lakshman Abeysekera

*Senior Director – Non-Executive,
Independent Director*

Appointed to the Board in 2013

Mr Abeysekera draws from almost three decades of experience in the fields of Accounting, Finance and Management, and he is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka as well as a member of governing council of Association of Accounting Technicians of Sri Lanka.

Mr Abeysekera is highly proficient in international trade, shipping, and pharmaceutical sectors across local, public quoted and multinational companies. He presently holds Non-Executive Directorship at People's Insurance PLC, Directorship at Janrich Foods Ltd. and NovEx Pharmaceuticals Limited.

Mr Abeysekera holds an MBA from the Institute of Postgraduate Management, University of Sri Jayewardenepura, and was the former Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Senior Accountant at Lankem Ceylon PLC and Accountant at Hoechst (Ceylon) Limited.

Prof Sampath Amaratunge

Non-Executive, Independent Director

Appointed to the Board in 2016

Prof Amaratunge is an expert in the field of economics with special reference to rural development and draws from three decades of service as a leading academic in Sri Lanka and he is the current Chairman of University Grants Commission (UGC).

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

He was a Vice-Chancellor of the University of Sri Jayewardenepura, a Member of the University Grants Commission and Chairman of the Federation of University Teachers Association (FUTA).

Mr Prabhash Subasinghe

Non-Executive, Non-Independent Director

Appointed to the Board in 2017

A visionary entrepreneur with an established leadership record in diverse industries including rubber, seafood, insurance and banking.

Mr Subasinghe is also the Managing Director of Global Rubber Industries (Pvt) Ltd. and Global Seafoods (Pvt) Ltd., Chairman of the Sri Lanka Association of Manufacturers and Exporters of Rubber Products, Board member of Sri Lanka Society of Rubber Industry and a Key Advisor for the National Export Strategy. Further, during the past several years he served as a member of Sri Lanka Exports Development Board (EDB) in December 2019 he has been appointed as the Chairman of EDB – Sri Lanka.

He holds a BSc in Applied Economics and Business Management from Ivy League Cornell University followed by Executive Level education at Harvard, INSEAD and the Center of Creative Leadership Colorado USA. Mr Subasinghe was also the President of the Seafood Exporters Association of Sri Lanka.

Mr S Lionel Thilakarathne

Non-Executive, Non-Independent Director

Appointed to the Board in 2017

With extensive experience in Project Management and Participatory Project Planning and Implementation in rural areas, Mr Thilakarathne has been actively engaged in implementing many community development programmes in Agriculture and Fisheries. He is also an experienced trainer, having developed a training curriculum and conducted TOT training on establishing Community Governance. He has published three books on Participatory Governance.

Mr Thilakarathne holds a Diploma in Management from the Open University of Sri Lanka. At present he is the Chairman of Nikaweratiya SANASA Union LTD., Executive Director of Rural Centre for Development, Treasurer of Green Movement of Sri Lanka and Director of Governance Forums of Sri Lanka.

Mr K G Wijerathne

Non-Executive, Non-Independent Director

Appointed to the Board in 2018

An Executive Director of the SANASA Federation, the apex organisation of SANASA Movement in Sri Lanka, Mr Wijerathne also provides leadership as Chairman of Pahalawewa SANASA Society and Director of Matala District Union and Matala District Co-operative Council. He draws from decades of experience in working at grassroots level with the SANASA Movement.

Mr Wijerathne is an Attorney-at-Law with over 20 years of experience and possesses a LLB Degree and Higher National Diploma in Management from the Open University of Sri Lanka.

He followed a Diploma Course in Co-operative Management at the International Co-operative Institute in Moscow, Insurance Management and Administration Course at the Credit Union National Association, USA and the Credit Unions Leadership Training Course at the Association of Asian Confederation of Credit Union in Thailand. Mr Wijerathne is a former Director of the SANASA Insurance Company Limited and General Manager at Matala SANASA DTCCS.

Mr Chaaminda Kumarasiri

Non-Executive, Independent Director

Appointed to the Board in 2018

A good governance advocate, thought leader, corporate trainer, leadership coach and management consultant with many years of experience, Mr Kumarasiri holds senior leadership positions in leading local as well as multinational organisations. He is the Founder/CEO of the Human Capital Partner and the Chairman/Principal Consultant of HCP Consulting (Pvt.) Ltd. He is also a regular writer on Financial Literacy, Strategic Management and Leadership for print media and a sought after resource person for organisational transformation projects and capacity building initiatives.

Mr Kumarasiri counts over 20 years of lecturing and corporate training experience focused on strategic planning, leadership development, organisational transformation, change management, and financial intelligence for business managers and emotional well-being through mindfulness. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Association of Chartered Certified Accountants (ACCA) – UK, and the Association of Accounting Technicians of Sri Lanka (AAT), and also an Associate Member of the Institute of Certified Management Accountants of Sri Lanka (CMA). He holds a BSc. Accountancy (Special) degree from the University of Sri Jayewardenepura with a First Class and has completed his MBA in Finance at the University of Colombo. He also serves as a Director of Telecommunication Regulatory Commission of Sri Lanka, member of the governing council of The Institute of Chartered Accountants of Sri Lanka; the national body of accountants.

Mr Kumarasiri previously also held the positions of Financial Controller at Bank of Ceylon, Chief Financial Officer at The Lanka Hospitals Corporation PLC, Assistant Vice President at HSBC Securities Services and Senior Manager – Assurance and Advisory Business Services at Ernst & Young including a secondment to the Financial Services Area office of Ernst & Young LLP, New York.

Mr Prasanna Premaratna

Non-Executive, Independent Director

Appointed to the Board in 2018

Drawing from over 30 years of private and public sector experience as an Agriculturist and Development Banker, Mr Premaratna was heavily invested in the development of Small and Medium Scale Enterprises (SME) across Sri Lanka. As a Development Banker, he was mainly involved in assisting many start-up projects. Today, he holds the position of Board member of the South Asia Partnership of Sri Lanka (SAPSRI).

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

Mr. Premaratna was a Chairman of the Regional Development Bank of Sri Lanka, Vice President of DFCC Bank and the Chief Executive Officer of DFCC Consulting Private limited. He was also a Pioneer Member of the Management Team of Pelwatte Sugar Industries before moving into the Banking Sector.

Mr B R A Bandara

Non-Executive, Non-Independent Director

Appointed to the Board in 2019

Anchored to a career spanning across three decades in the co-operative sector, Mr Bandara presently holds Directorships of Polgahawela SANASA Shareholders Trust Company Ltd. and SANASA Printers & Publishers Ltd. He is also the General Manager of Polgahawela SANASA Societies Union Ltd.

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

Mr Bandara has also held the post of Director of the SANASA Producer and Consumer Alliance Limited, and was also Chairman of Panaliya SANASA Society.

Ms Dinithi Ratnayake

Non-Executive, Non-Independent Director

Appointed to the Board in 2020

Ms Ratnayake has broad and In-depth knowledge on financial institutions, advisory and transactional banking knowledge and experience, including her strong credit background, and exposure to debt capital markets and international Risk and Compliance practices. She is well positioned to leverage on her in-depth understanding of the financial institutions landscape both locally and internationally, through years of close association and relationship with banks, financial institutions, and regulators.

Ms Ratnayake is a Senior Banking Professional with over 24 years banking experience, for the most part at Citibank N.A. as a Director, Head of Financial Institutions Group in Sri Lanka. Prior experience includes Retail and Institutional Banking at ANZ Grindlays Bank PLC and Corporate Banking at Seylan Bank PLC.

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

She is also a Governing Council member of South Asia Partnership Sri Lanka, a NGO which engages in social development, working towards building empowered communities to achieve sustainable growth.

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

She is the representative Director of FMO & SBI Emerging Asia Financial Sector Fund PTE. LTD, who is a major Shareholder of SDB bank.

Corporate Management



Mr Thilak Piyadigama

Chief Executive Officer

MBA (PIM – USJP), Degree from Engineering Council (UK), NDT (Electronic and Telecommunication Engineering – UOM)



Ms Y A D A D P Seneviratne

Deputy Chief Executive Officer

Master of Public Administration (Colombo), Diploma in International Commercial Arbitration (University of London), Solicitors Final Examination (Law Society, UK), Attorney-at-Law



Mr S A Samarakoon

Deputy General Manager – IT and Operations

MBA (Colombo), BSc Eng (Comp. Sc. & Eng – Moratuwa), C Eng., MIEEE



Mr H C Lokugeegana

Head of Business Banking

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



Mr Terrance Kumara

Chief Financial Officer

MBA (USQ), FCA, ACMA, MAAT



Ms Tamarika Rodrigo

Deputy General Manager/Company Secretary

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



Mr M W S G Silva

Head of Human Resources

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



Mr Sameera D Liyanage

Assistant General Manager –

Marketing and Retail Banking

MCIM (UK), MSLIM, PG Dip. in Marketing (CIM), Chartered Marketer



Mr K A I D Dayananda

Chief Internal Auditor

FCCA (UK), MBA (Banking Mgt) SIKKIM Manipal India



Ms P C Liyanage

Head of Legal

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



Ms P Krishani Enoka

Head of Treasury

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



Ms M H Attanayake

Head of Credit

BSc Agri. (Hons), MSc Agri



Ms M M Y L Muththunga

Head of Systems and Operations

BSc (Hons)



Mr J P Dinil Perera

Chief Digital Officer

Project Management Professional (PMI), Certified Information Systems Auditor (ISACA), Intermediate Banking Diploma (IBSL)

Senior Management



Mr K K S U Kumara
Head of Administration
BSc (Mgt)



Mr W T R Prabath
Chief Manager – Human Resources Management
MBA (Honolulu), BSc (Physics – Special) Hons,
Higher Dip. in Advanced Financial Mgt, Dip. in
Business Mgt., Dip in Financial Mgt, AUKAP (UK)



Mr E A L S Edirisuriya
Head of Co-operative Development
Dip. in Finance & Bank Mgt., Investment Advisor
Certified by CSE.



Mr P G Sunil
Regional Manager – North Western Region
BSc Business Administration (Sp)



Ms K K Champa J Dassanayake
Head of SME
BSc Agri., MSc (Hons), AIB



Mr P W K J R Chandrasiri
Regional Manager – Sabaragamuwa Region
BSc Mgt. & Administration (Sp. USJP)



Mr G A S Wimalaratne
Regional Manager – North Central Region
BA (Hons) Business Statistics, Postgraduate
Dip. – Business Statistics



Mr B W S Premarathne
Regional Manager – Central Region
MBA (UK), B. Com (Special), MCIM (UK), MSLIM,
MAAT, HNDA, Chartered Marketer



Ms S N T Igalagamage
Compliance Officer
MBA (UK), BSc (Agri-Special) Hons.,
Dip. in HRM, MIMSL



Mr T D Swarnage
Regional Manager – Western 1 Region
MBA (Cardiff Metropolitan), BB Mgt (Kelaniya),
Intermediate Examination (IBSL)



Ms U P Champa U Perera
Chief Manager – Head of Finance
MBA (UOC), ACA, BSc Accounting (Sp. USJP)



Mr M J H Perera
Senior Manager – Credit Review
BSc Business Administration (Sp)



Mr R S A M B Y Rajakaruna

Senior Manager – Human Resources Development
BA, PGCC (India), Dip. in Psy, ACGC, National Dip in
T&D (SLITAD)



Mr W H M U B Welikumbura

Senior Manager – Retail Liabilities and
Fee Based Services
MBA (Pera), PGDM, MSLIM, BMS, Associate APB



Mr R A C N Rathnayake

Regional Manager – Uva Region
BSc Accountancy & Finance (SP) Hons,
Registered Trainer & Consultant
(Ministry of Public Management Reforms)



Ms P R Perinpanayagam

Senior Manager – Head of Risk Management
CFA, FCCA (UK), BSc Hons Applied Accounting (UK)



Ms N N Edirisinghe

Senior Manager – Head of Credit Administration
BSc (Colombo), Intermediate Banking Diploma
(IBSL), Certificate in Hire Purchase and Lease
Financing (IBSL), ACS



Mr P Senadeera

Senior Manager – Kiribathgoda Branch
MFE, PG Dip. in Economic Development (Colombo),
AIB, DBF (IBSL), Dip in Finance & Bank Management
(IBSL), Intermediate Banking Diploma (IBSL), Dip in
SME Finance (IBSL), MAAT, ATII (SL)



Mr D H Gamage

Senior Manager – Matara Branch
Intermediate Banking Diploma (IBSL), Advanced
National Diploma in HRM



Mr A S Perera

Senior Manager – Bandarawela Branch
BA, Intermediate Banking Diploma (IBSL), National
Certificate in Technology (Civil Engineering)



Mr K B S Kumara

Senior Manager – Deputy Head of Credit
BA (Special), Diploma in Microfinance (IBSL)



Mr B A I Wickramaratne

Senior Manager – Internal Audit

MSc App Fin (USJP), BSc Applied Accounting (Oxford Brookes), FIB (IBSL)



Mr W V P A Samantha

Senior Manager – Divisional Head – Leasing Assessment

B Com (Special), AIB, DBF (IBSL), MSc App Fin (USJP)



Mr K H P P K Gnanasiri

Senior Manager – Ampara Branch BA (Special)



Mr W D S D Mahathanthila

Senior Manager – Finance

PG Dip. in Business & Financial Administration (CA Sri Lanka), BSc Applied Sciences (Rajarata)



Mr P K A D S Perera

Senior Manager – Divisional Head – Co-operative and Corporate Credit Assessment

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



Mr U K B Aravinda

Regional Manager – Southern Region

BSc Business Administration (USJP), CBA (CA Sri Lanka), MBA



Mr H M M Herath

Senior Manager –

Information Technology Infrastructure

MSc Computer Systems & Networking, BSc Computing & Information Systems, Microsoft Certified Professional, CIW Security Analyst, CISCO Certified Network Associate (CCNA), Microsoft Certified Systems Engineer on Microsoft Windows 2000, Microsoft Certified Systems Administrator, Microsoft Certified Database Administrator on Microsoft SQL Server



Mr K Lakshman

Senior Manager – Karapitiya Branch

Intermediate Examination (IBSL)



Ms N P D M Priyangani

Senior Manager – Divisional Head –

Retail Credit Assessment

MSc, Executive Dip. in Service Management, CBF



Mr D M S D Dissanayake
Senior Manager – 1st Colombo City Branch
 CBF



Ms A A S Subhashine
Senior Manager – Horana Branch
 MSc Dip. in Microfinance, Executive Dip. in Service Management, CBF



Mr T M R Thennakoon
Senior Manager – Battaramulla Branch
 Intermediate Examination (IBSL)



Mr R Adikaram
Senior Manager – Information Systems Audit
 Executive MSc in Information Security, Certified Information System Auditor (ISACA), Dip. in Information Systems Security Control & Audit, Dip. in International Relations, CBF



Mr N C Pallegama
Senior Manager – Ekala Branch
 Dip. in SME Finance, CBF, Certificate in Hire Purchase & Leasing



Mr S H S I Udayangana
Senior Manager – Head of Recovery and Collection
 BBM, Dip. in Banking & Finance, Dip. in Micro Finance, Dip. in Public Management, Dip. in Small & Medium Enterprises, Dip. in Counseling, CBF, AIB



Mr W S Pushpakumara
Senior Manager – SME Centre
 MBA, Dip. in Banking & Finance, Dip. in SME Finance, Dip. in Intermediate Banking, AIB



Mr S C Wickramaratne
Senior Manager – Centralised Operations
 BMS, ACBF, DBF, CBF



Ms N A D M Neththasinghe
Senior Manager – ICBS
 BSc (Business Management), DBF, CBF, AIB



Mr K D R K Randeniya
Regional Manager – Northern Region
BBA, Dip. in Management Science, CBF



Mr T M S K Gunathilaka Banda
Senior Manager – Kegalle Branch
BSc. (Business Management), CBF, DBF, Dip. in
SME & Finance



Mr S Pandipperuma
Senior Manager – Akuressa Branch
BBA (Accounting & Finance), Certified Business
Accountant (CBA)



Ms U G P Ranojani
Senior Manager – Legal
LLB, Attorney at Law, Notary Public



Ms D N P Madurawala
Senior Manager – Consumer Products
BSc, MFE, CBF, DBF, Certificate in HRM



Ms C J Meemanage
Senior Manager – Internal Audit
FCA, BSc. Finance (Sp), AIB, Dip. in Information
System Security Control and Audit (DISSCA)

Not in picture

Mr A M Nimal Chandra
Regional Manager – Western Region II
BA

Ms K V R Jeewanthi
Senior Manager – Research and Refinance
BSc Business Administration (Special) (SJP),
PGD in Community Development (Colombo),
Intermediate Banking Diploma (IBSL),
Micro Finance Facilitator (CGAP)

Ms K K Ranganie
Senior Manager – Credit Administration
Hub – Karapitiya
HNDA, Intermediate Banking Diploma (IBSL)

Mr R A N K D Wijesinghe
Senior Manager – Gampaha Branch
Dip. in SME (IBSL)

Mr A M P Fernando
Senior Manager – Divisional Head –
SME Credit Assessment
Dip. in Credit Management, Dip. in SME Finance,
Dip. in Micro Finance, CBF

Mr J A C K Jayakody
Senior Manager – Kuliyaipitiya Branch
BA, CBF

Mr W D Premachandra
Senior Relationship Officer – Business Banking
MBA (USJP), B com (USJP)

Our Business Model

030	Creating Value
034	Operating Environment
036	Strategic Direction
038	Stakeholder Engagement
039	Materiality

Creating Value



Business activities

As a development bank, the primary business activities of SDB bank comprise financial intermediation and maturity transformation. Acting as an intermediary primarily between co-operative societies, the SME sector and retail customers, it mobilises deposits and lends money. The role of maturity transformation involves converting short-term funds sourced from depositors and other sources to medium- to long-term development loans as per the requirements of our borrowers.

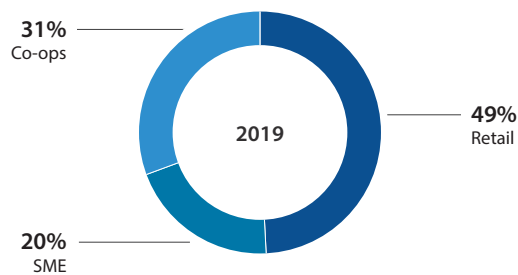
Market segments

Retail, SME and co-operative customers are the three key market segments to whom SDB bank provides financial services. A lack of sufficient access to finances is a major impediment for them in realising their potential and contributing to the economic development of the country. The heavy emphasis on collaterals by lending institutions has made it difficult for these sectors to secure required financing. SDB bank maintains close tie up with these three market segments.

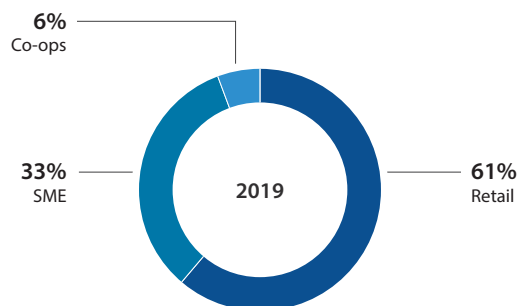
Composition of the business volumes across the three key segments as at 31 December 2019 are given below:

Key business segment	Loans and advances portfolio %	Deposit base %
Co-operative societies	6	31
SME sector	33	20
Retail customers	61	49

Deposits



Loans and advances



SANASA Ecosystem

Operating on co-operative principles with a success story spanning over 100 years, the SANASA movement is non-partisan and non-political in service to humanity. With a bottom up management style, the SANASA Ecosystem starts at the grassroots level in villages and townships where a few individuals get together to the setting up of primary co-operative societies. Altogether there are over 8,000 such co-operative societies across the country.

All co-operative societies in a District/Zone fall under the purview of a district level co-operative society (District Union or Zonal Union). All District/Zonal Unions report to the apex body of the SANASA movement which is the SANASA Federation.

SDB bank in SANASA Ecosystem

With its roots in the SANASA movement, SDB bank is the apex bank for the entire co-operative sector comprising Co-operative Societies, Multi-purpose Co-operative Societies and Primary Thrift and Credit Co-operative Societies. Primary Co-operative Societies are one of the three distinct customer segments the Bank provides its services to. Monies that SDB bank lends to the co-operative societies are on-lent to their members while excess liquidity in co-operative societies is deposited in SDB bank. While co-operative societies take the responsibility for credit evaluation, post sanction monitoring and recovery in relation to the money on-lent to their members, it is these co-operative societies themselves that are responsible for paying back their borrowings to the SDB bank. In addition, SDB bank funds specific projects and industrial ventures of co-operative societies. Being a Licensed Specialised Bank, SDB bank also enables the societies to access low-cost re-financing facilities available from the Central Bank of Sri Lanka.

As at 31 December 2019, 6% of the total loan portfolio amounting to LKR 5 Bn. with an extremely low non-performing loan ratio of 1% and 31% of the deposit base amounting to LKR 21 Bn. were moved to and from these societies. The Bank has been able to play a vital role in driving financial inclusion and socio-economic progress among Sri Lanka's grassroots-level communities through its services of lending to and accepting deposits from these co-operative societies.

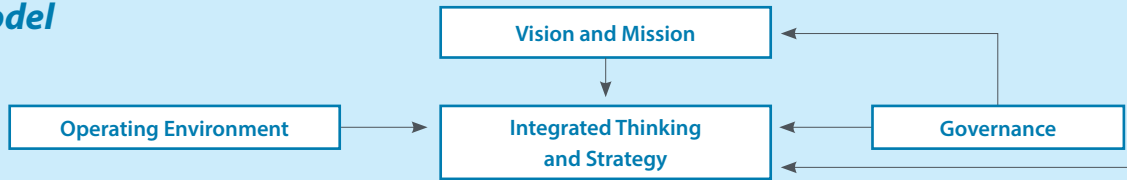
Promoting women entrepreneurship

With most of the members of the primary co-operative societies comprising females, SDB bank is uniquely positioned to promote women entrepreneurship in the country and in fact plays an important intermediary role. A majority of SDB bank's agreements with most DFIs include a financial covenant that a proportion, varying from 20-30%, of funds provided should be used to support women entrepreneurs.

Sources of revenue

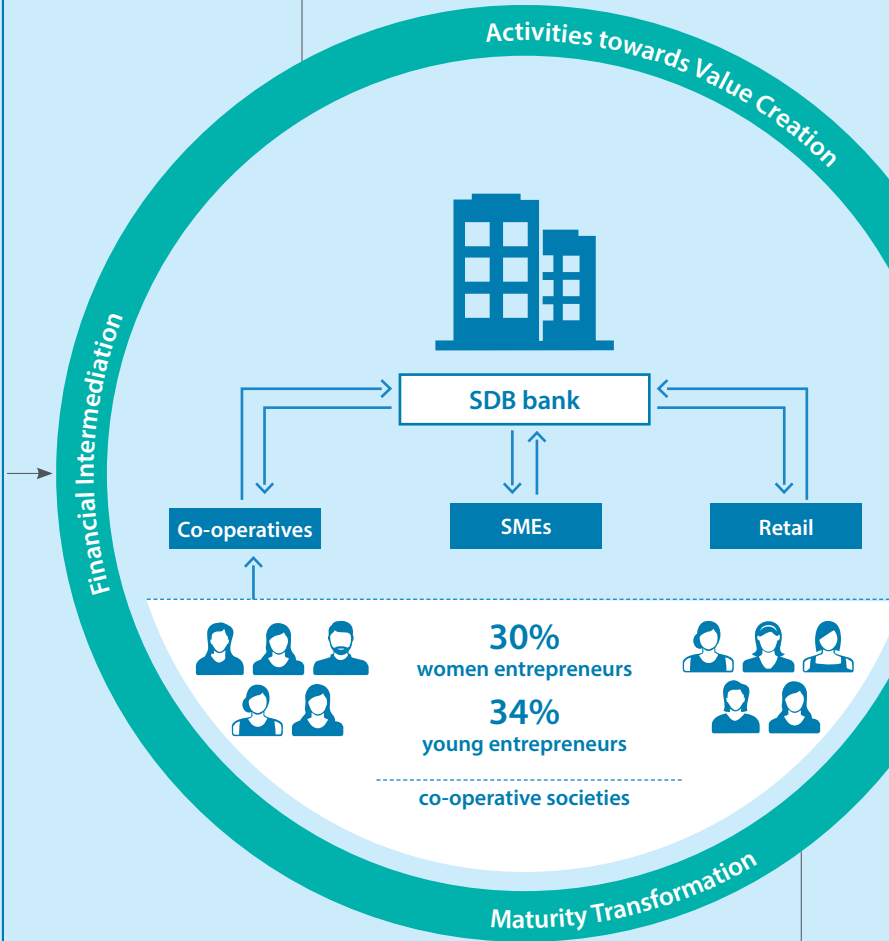
The Bank has reported interest and other income of LKR 15.5 Bn. for the reporting year, up from LKR 13.6 Bn. in 2018. Interest income from loans and advances represents about 89% of the total income, up from 88% in 2018. The balance 11% arose from Treasury income and fee and commission income.

Our Business Model



CAPITAL INPUTS

- Financial resources:**
 - Total assets
 - Subordinated liabilities
 - Other borrowed funds
 - Customer deposits
 - Financial performance
 - Capital base
- Institutional strength:**
 - Corporate culture and values
 - Organisational knowledge
 - Systems, processes and IT
 - Business ethics and integrity
- Manufactured resources:**
 - Property, plant and equipment
 - Intangible assets
 - Branch network
 - ATM network
 - Digital banking initiatives
- Customer ambassadors:**
 - Number of customers
 - Average length of a relationship
 - Average size of a relationship
 - Cross-sell ratio
 - Customer satisfaction ratio
 - Market share in deposits
 - Customer segments
 - Product portfolio
- Passionate people:**
 - Number of employees
 - Number of new recruits
 - Cumulative service period
 - Institutionalised knowledge
 - Skills and competencies
 - Commitment and innovativeness
- Confident investors:**
 - Shareholders' funds
 - Market capitalisation
 - Net asset value per share
 - Earnings per share
- Robust partnerships:**
 - Suppliers and service providers
 - Number of DFIs associated with
 - Total funding from DFIs
 - Average length of relationships with DFIs
 - Other collaborations
 - Co-creations
- Social and environmental aspects:**
 - Alignment with SGDs
 - Energy consumption
 - Social work



As we strive to create value in the short to long term, while understanding and meeting stakeholder expectations, we continue to monitor and evaluate the results chain (Inputs, Activities, Outputs and Outcomes) and make all necessary adjustments to our strategy in order to stay on course.



Capitals

In addition to the three primary customer segments described above, a number of other stakeholders provides 'inputs' for the Bank to undertake its business activities and sustain its value creation and we identify all of them as "capitals" in the integrated reporting parlance. These include:

- Financial resources
- Institutional strength
- Manufactured resources
- Customer ambassadors
- Passionate people
- Confident investors
- Robust partnerships
- Social and environmental aspects

While these capitals provide the "raw materials" required for our value creation process, the outcome of the process – positive as well as negative – too is manifested in these capitals.

Gearing and risk

Financial intermediation requires and enables the Bank to operate with higher business volumes in comparison with the available capital. The underlying gearing and the maturity transformation expose the Bank to various risks such as credit, market, and operational. This is in addition to the various risks arising from certain emerging global developments that are likely to threaten the banking business model such as new technology, demographic changes leading to behavioural changes in certain stakeholder categories, growing concerns on sustainability etc. The Bank has deployed a robust risk management framework to manage all such risks underlying our business model. (refer pages 72 to 75 for more details on how we manage risks).

Operating Environment



Global performance

During the year under review, global growth decelerated to its weakest pace since the financial crisis of 2008. The uncertainty arising from trade barriers dampened global business sentiment and activity. In advanced economies and China, existing cyclical and structural slowdowns added to the pressure while country-related weaknesses in large emerging markets such as Brazil, India, Mexico, and Russia contributed to the downturn. Contributing further to this grim picture were geopolitical tensions in countries such as Iran and social unrest in others such as Venezuela, Libya, and Yemen.

Global outlook

With global growth projected to rise to 3.3% in 2020 and 3.4% in 2021, there was cautious optimism about the fact that manufacturing and international trade would halt their downward trajectory. The global outbreak, however, is already disrupting supply chains across the map and shutting down travel, putting further stress on an already overburdened world economy. This pressure is in addition to predictions of sluggish growth in the “Group of Four” – systemically important economies which comprise nearly half of the global GDP, namely: United States, China, the Euro area, and Japan.

COVID-19-related disruption to economic activity is expected to be severe and to sink the world economy into a global recession. With person-to-person contact being restricted, a demand collapse is expected that will take activity sharply lower in the second quarter before a recovery begins later in the year – assuming that the outbreak is brought under control by mid year. Risk-aversion is on the rise and views on economic activity, earnings, and credit quality are already in sharp decline. The Association of German Banks began lobbying for a “more flexible handling” of risk provisions under IFRS 9, warning that the existing accounting rules could “massively amplify” the looming crisis.

Focus on the coronavirus has overshadowed issues such as tensions between the United States and Iran, but should conflict erupt in the Middle East it would disrupt oil supply and weaken market confidence, severely impacting investment and growth. The effects of climate change cannot be ignored either. At the launch of the UN's assessment of the global climate in 2019, the year was described as record-breaking for heat with rising hunger, displacement and loss of life owing to extreme temperatures and floods around the world. Scientists even noted that the threat from climate change was greater than that from the coronavirus. Faith in governments and financial institutions as they grapple with these issues will impact the hoped-for global rebound so it is particularly important that countries across the world, particularly in emerging markets, manage the knock-on impact of these issues with great prudence.

Local performance

The Sri Lankan economy began making a slow recovery following a series of setbacks – the unexpected terror attack in April preceded by a political crisis in the third quarter of 2018. Despite significant gains from macro reform measures in fiscal, monetary and exchange rate policy management from mid-2016 the overall positioning of the economy in 2019 was weak, with lacklustre GDP growth of around 3% and high foreign debt settlements.

A range of tax concessions was introduced in November 2019 to increase disposable income, which accounts for roughly 70% of the GDP (2018), and to stimulate aggregate demand and consumption in the country. They included reductions to the Value Added Tax (VAT) and upward revisions to the VAT registration threshold, abolition of Economic Service Charge (ESC), Nation Building Tax (NBT), Pay As You Earn (PAYE) tax, Withholding Tax (WHT) on interest, rent, service fees, dividend, widening of Income Tax slabs of individuals and reduction in Corporate Income Tax rates. To revive the construction, tourism and SME sectors incentives and moratoriums were also extended. These measures were taken to realise the new regime's goal to achieve a per capita income of USD 6,500 by 2025 and an economic growth rate of 6.5% per annum across 2020-2025 while maintaining macroeconomic stability.

Local outlook

The outlook for 2020 and beyond will need to be reassessed depending on the economic agenda of the newly-elected government, but current estimations – but current estimations are pessimistic. Forecasts for growth in 2020 ranged between 4.5% (CBSL) and 3.3% (World Bank), while Fitch Ratings and the World Bank predicted growth of 3.7% for 2021. Plans to boost short-term growth include fiscal stimulus measures, higher agricultural outputs, recovering investments, exports, and tourism, along with strong remittances.

Expecting the management of debt dynamics over the next few years to be tough for Sri Lanka, Fitch Ratings has revised the Outlook on the country's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable, while affirming the IDR at "B" on 18 December 2019. S&P Global Ratings also downgraded its outlook on Sri Lanka's credit rating from stable to negative, affirming "B" long-term and "B" short-term foreign and local currency credit ratings for Sri Lanka. These downward revisions were strongly disputed by the CBSL. The latter posits the lack of recognition given to mechanisms aimed at compensating for revenue loss from the tax cuts and the positive impact of these stimulus measures on the macroeconomic environment as reasons for cautious optimism.

These early COVID-19 projections notwithstanding, overall, we can expect a general decline in growth in terms of business volumes. Regulators and government will need to intervene, offering relief packages and moratoriums to borrowers and imposing restrictions on foreign exchange. Deteriorating asset quality, declining cash inflows from loan repayments, rising impairment provisions and higher deposit withdrawals can also be expected. Depleting capital, rising operating costs due to enhanced recovery efforts, lower margins and lower profitability will significantly impact businesses and, in turn, the economy.

Banking sector performance

Cautious optimism was also the sentiment for the banking sector with 2019's subdued performance showing signs of an upward trajectory towards the fourth quarter. The Government's commitment to boosting SMEs was strengthened by the relief package launched in January 2020. SMEs included in the scheme were offered a moratorium on capital repayments on all eligible Sri Lankan rupee loans until the end of 2020. Other efforts to support this sector included concessionary short-term working capital loans, interest payment waivers, and suspension of legal action against delinquent accounts. Depressed loan growth in 2019 led to sufficient liquidity in the banking system, dispelling concerns that a delay in capital repayments would lead to shortfalls. To encourage start-ups, banks are reconsidering less risk-averse credit disbursement policies at the request of CBSL.

Should the evolving COVID-19 outbreak impact Sri Lanka, as seems inevitable, it will on the one hand reduce the demand for credit, while on the other, affect the repayment capacities of existing borrowers. This will lead to a significant decline in credit quality. In line with provisions in IFRS 9, these developments will be viewed as "material changes in circumstances." Banks must recognise this early and make provisions for the entire life span of the loans under the expected credit loss model. Rising provisions will diminish available capital, requiring capital infusions. If this does not come to pass, banks will be forced to curtail their growth plans when credit demand begins to rise once more.

Strategic Direction

The Bank's business model revolves around financial intermediation and maturity transformation. It is designed to ensure that we are geared to make the most of future opportunities while mitigating risks. Financial intermediation necessitates and allows the Bank to operate with higher business volumes in comparison with the available capital. The underlying gearing and maturity transformation expose the Bank to various risks such as credit, market, and operational in addition to global, local, and industry trends. We have deployed a robust risk management framework to manage all such risks underlying our business model.

Our strategic direction provides focus and structure for internal responsibilities. It also gives employees a common purpose towards which to drive their activities.

Aligning with the Sustainable Development Goals

As a responsible corporate citizen with a strong rural presence in Sri Lanka we are able to leverage our strategic direction and core operations towards the socio-economic progress of the communities within which we operate. By aligning them in this manner, we also contribute towards the UN Sustainable Development Goals (SDGs). (For more information on activities conducted during the year under review refer The Commitment to Society and Environment on pages 69 and 70.)

By steering the business in alignment with our transformation agenda and the SDGs, we are better able to meet our development mission sustainably while lessening our impact on the environment.

SDG 2 – Zero hunger



We continued to focus on the under-banked and unbanked segments in the agriculture sector, supporting value chains and partnering to offer our customers improved opportunities to further their enterprises.

SDG 4 – Quality education



Our ongoing CSR initiative, SDB *Lakdaru* Scholarship Seminars, has provided academic support for children in rural communities preparing to take the Grade 5 scholarship examinations. During the reporting year, 11 programmes were carried out in Sinhala and Tamil throughout the country with the participation of 4,445 students.

SDG 5 – Gender equality and women empowerment



Empowering women in a bid to bridge the gender gap is a key aspect of our transformation agenda. "SDB *Uththamavi*" is an investment and lending product that provides women entrepreneurs with attractive rates. During the reporting year bank gave financial support for entrepreneurial activities of women. SDB is an equal opportunity employer with females comprising 48% of the total permanent workforce.

SDG 7 – Affordable and clean energy



While we focus on improving financial literacy and financial inclusion to those who are excluded from mainstream financial services we also encourage them to opt for clean forms of energy. We do so by making such options more affordable and attractive to them through our green leasing products.

Transformation agenda

Our 2017-2020 transformation agenda consists of the following key strategies:

Key strategies

Rebalancing the Bank's advances portfolio to give equal emphasis to the SME, co-operative sectors and retail segments

Guiding the Bank back to its founding purpose by focusing and strengthening its activities in development financing

Equipping employees with skills required to propel the Bank's transformation agenda

Improving process efficiencies by centralising all credit approvals and introducing a Loan Originating System to improve loan turn around times and ensure the consistent application of the Bank's credit policy

Strengthening SDB bank's digital proposition with the development of the mobile banking application and digital payment platforms

Embedding sustainability considerations into its lending proposition

Developing a non-financial strategy aimed at enhancing financial literacy, customer education, and the empowerment of women

SDG 8 – Economic growth



By contributing towards economic growth we also indirectly contribute towards meeting the SDGs of zero hunger and alleviating poverty. This is made possible through our close association with the rural sector and their activities in investment and lending in the micro-economic segment of the market.

SDG 10 – Reduced inequality



We contribute to this Goal by lending to co-operative societies whose role is to serve the country's grassroots communities. We also actively participate in distributing Government funds, at concessionary rates, as a way of contributing towards rural development and poverty alleviation.

SDG 12 – Sustainable consumption and production



We are committed to consumption practices that contribute towards reducing, recycling, and reusing resources. This has cut costs in and usage of paper, fuel, and energy. Through these initiatives we have also been able to reduce electronic waste.

SDG 15 – Life on land



Our contributions towards protecting, restoring and promoting sustainable use of terrestrial ecosystems, halting and reversing land degradation, and halting bio diversity loss has included the planting of trees and the cleaning up of litter.

Stakeholder Engagement

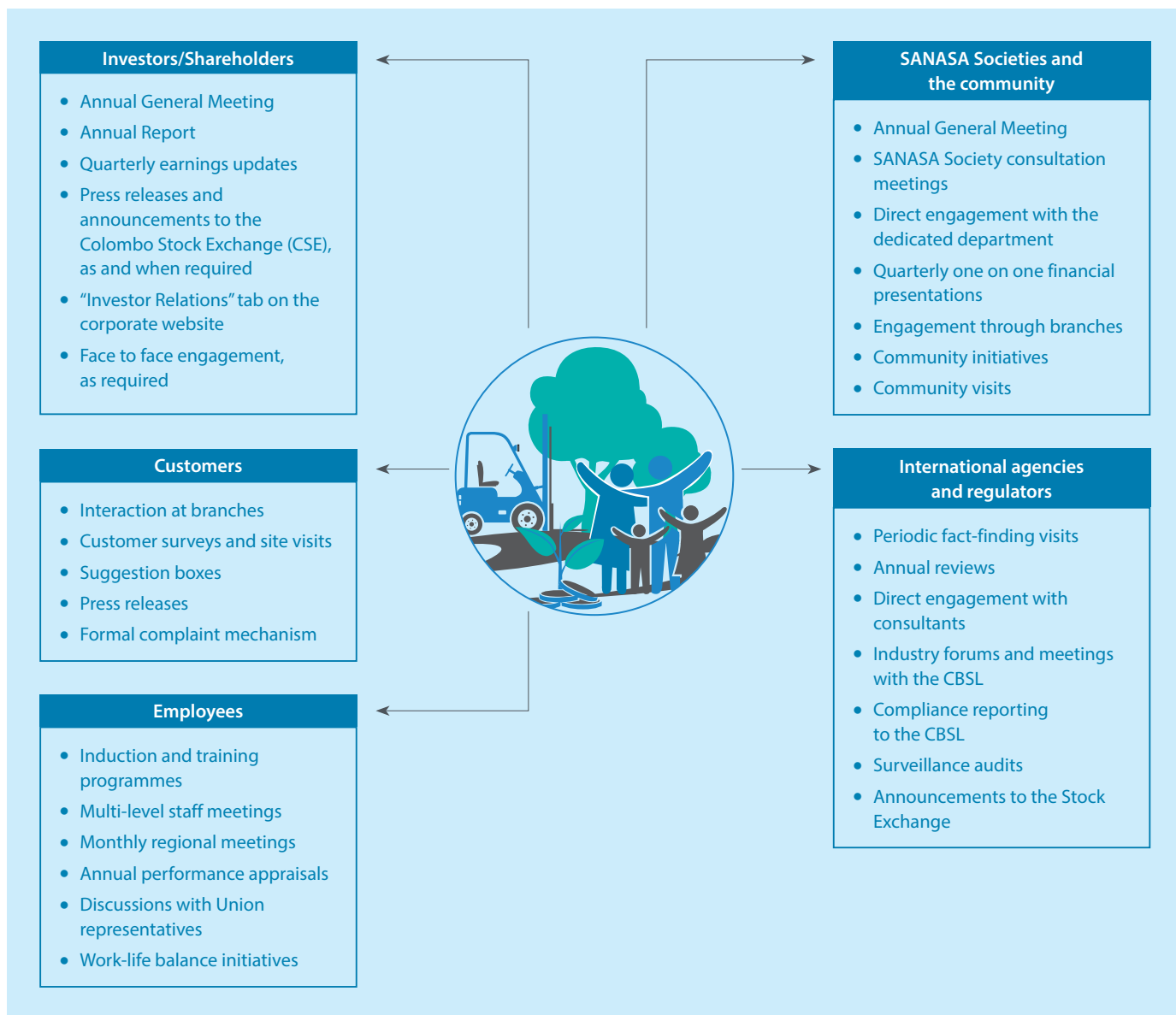
With the environment within which we operate constantly changing, often in unanticipated ways, maintaining a sound dialogue with all our stakeholders is central to formulating a strategy that is future fit. Global, local, and industry trends impact how we deliver value to our stakeholders and in turn derive value from them. At all times we strive to achieve such value creation both sustainably and in the short, medium, and long term.

We define stakeholders as an individual or a group that can be significantly impacted by our actions, products, or services. We remain acutely conscious that our stakeholders' perceptions and behaviour can significantly impact our licence to operate and meet strategic goals.

We use both formal and informal forms of engagement with stakeholders to formulate the Bank's strategy. Their concerns are key considerations in delivering the core purpose of SDB bank.

Stakeholders we engage with are the individuals and entities who can reasonably be expected to be impacted by the Bank's activities, products, services, and financial performance. We also take into consideration the level of impact a stakeholder might reasonably be expected to have on the Bank's ability to successfully implement its strategies.

Mechanisms we use to engage with stakeholders include:



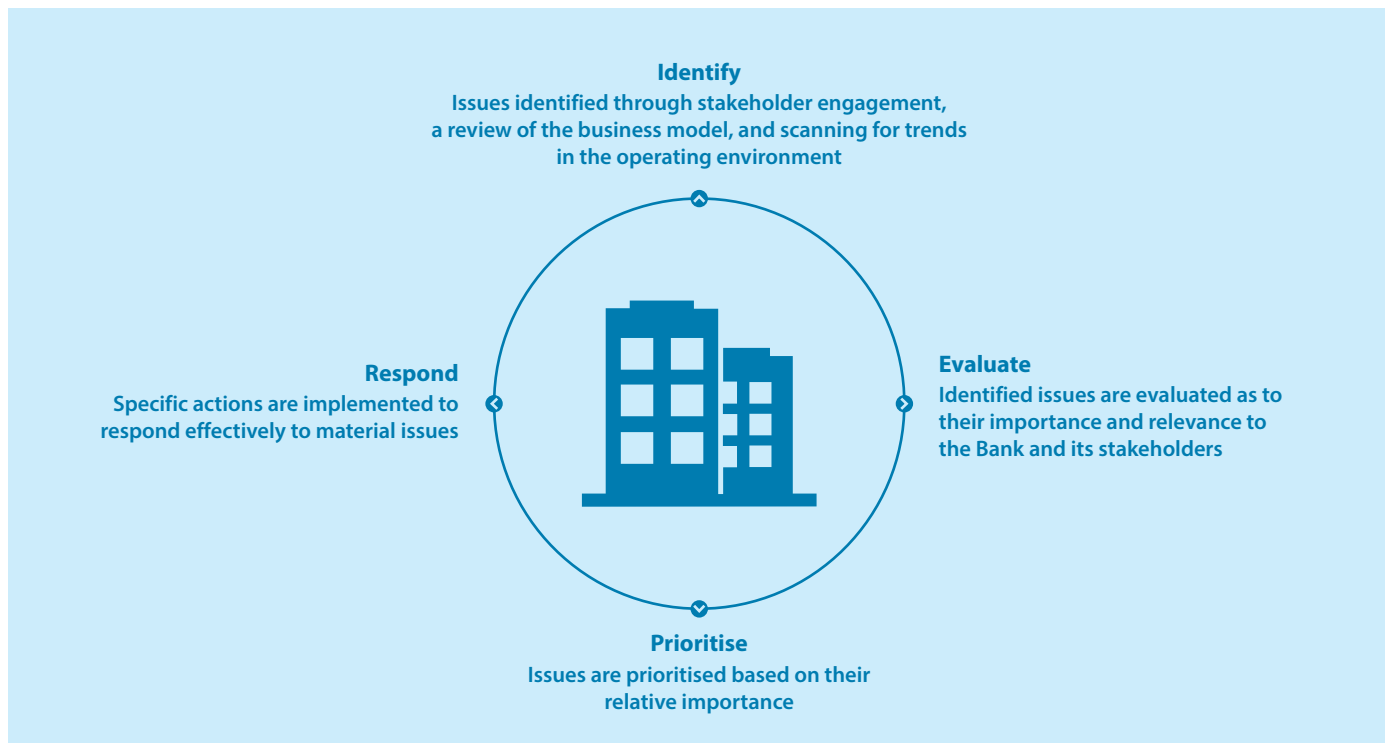
Materiality

Achieving our goals and remaining poised to capitalise on what opportunities and risks the future may bring shapes our strategy for growth today. With the fast-paced manner in which our operating environment keeps changing our ability to devise a strategy that is future focused becomes ever more critically important. Our value creation strategy continues to focus on delivering value to all our stakeholders just as we, in turn, derive value from them.

This Integrated Annual Report comprises a discussion around issues and considerations that could have the most impact on the Bank's ability to create value and those that are most critical to SDB bank and its stakeholders.

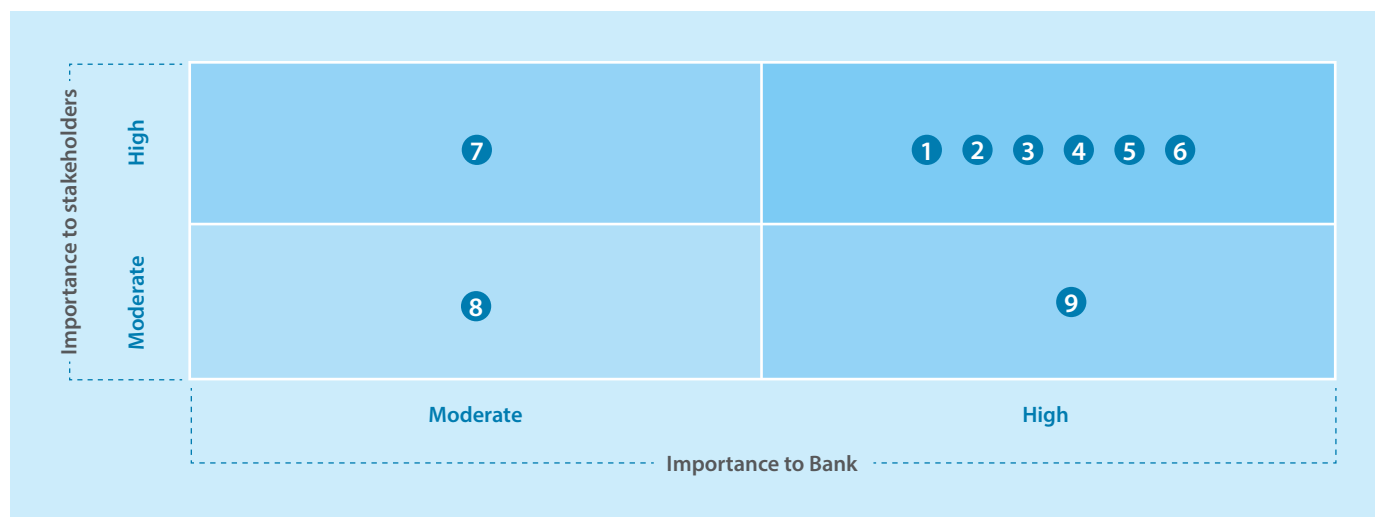
The topics were identified by the Management of the Bank and have been ratified by the Chief Executive Officer. These topics are reviewed continuously to assess their relevance and materiality.

The Bank's process for determining material content is an ongoing cycle as shown below:



With the aim of widening the scope of its materiality analysis beyond the topics proposed by the GRI guidelines, every year, the Bank seeks to include topics that are relevant to the banking industry, the Bank's value creation model and the operating landscape.

The sensitivity analysis depicted in the table below illustrates the relevance and relative importance of the topics selected both to the Bank and to its stakeholders.



Material topic	Corresponding GRI topic	Why is it material and topic boundary
1 Earnings growth and profitability	Economic performance	Achieving sustainable growth in earnings is vital to drive shareholder value. The topic boundary is primarily internal, however, the Bank's growth and profitability have a direct impact on its other external stakeholders
2 Efficient processes		Improving the efficiency of processes is essential to achieving sustainable profitability and enhancing customer experience. While the effort is internal, the impact of this topic is both internal and external
3 Customer Service		Enhancing customer experience and contributing to building a loyal customer base. The topic boundary is both internal and external
4 Inclusive lending	Indirect economic impact	Meeting one of the Bank's founding objectives and contributes towards poverty alleviation. The impact of this topic is external and affects the customers and communities the Bank operates in
5 Employee value proposition	Employment diversity and equal opportunity	Employees are integral to achieving the Bank's strategic objectives. Retention of employees is crucial to long term value creation. The topic boundary is internal
6 Employee skills development	Training and education	"Quantum Leap" is the programme designed to develop skills required to drive the Bank's transformation agenda. Changing attitudes and nurturing a performance driven culture through skills development is a priority for the Bank. The boundary of the topic is internal
7 Responsible lending	Customer privacy, marketing and labelling	As a responsible corporate citizen, the Bank is committed to lending practices which are fair and responsible. This is considered vital to the sustainable creation of shared value. The topic boundary is external and extends to the Bank's customers
8 Preserving the environment	Raw materials, Energy, Water, Effluents and Waste emissions	As a financial services provider, the Bank's impact on the external environment is limited. However, it is the policy of the Bank to use natural resources efficiently and minimise its environmental footprint. The topic boundary is internal and external
9 Corporate Social Responsibility	Local communities	An important aspect of value creation by the Bank is its contribution to the well being and socio-economic progress of the communities it interacts with. The topic boundary is external

Banking on Value Creation

- 042 The Achievement of Financial Goals
- 046 The Strength of the Institution
- 047 The Quality of Manufactured Resources
- 048 The Customer as Ambassador
- 054 The Passion of our People
- 058 The Confidence of Investors
- 067 The Power of our Partnerships
- 069 The Commitment to Society and Environment

The Achievement of Financial Goals

The year 2019 was marked as an exigent year for banking industry. Demand for credit, non-performing loans, business volume, moratorium and interest rate caps were the key variables impacted on and which made performance during the year challenging for the industry as a whole. Gross Domestic Product (GDP) growth rate of the country was lower in 2019 than anticipated due to the political and policy uncertainty caused by terror attacks on Easter Sunday. Consequently, Sri Lankan economy showed lower performance in first nine months of 2019, with a growth rate of 2.7%, compared with 3.5% in 2018.

Despite the challenges, SDB bank utilised its capabilities and potentials to grow in a way that puts the customer at the centre by enhancing with customer experiences through service quality and digital improvements, while maintaining strong internal controls and risk management. In this context, the Bank continued to create value through its unique value creation business model, in which stakeholder interest is the key brace of focus and it is the success story behind the Bank's financial performance.

However, our performance was also strongly influenced by the macroeconomic, competitive and regulatory environments and other material matters identified on pages 34 and 35. Outcomes were also shaped based on how we responded to the market conditions through our strategic actions, our people and our ability to deliver. Together with our capitals, these factors contributed substantively to the Bank's results. To mitigate the potential risks emanating from the material matters and unlock opportunities, our strategic focus areas, as described on pages 36 and 37, support delivery of our medium-to-long-term targets.

Detailed analysis of the financial performance along with the key indicators is set out below and this analysis is based on the financial statements prepared in accordance with the Sri Lanka Financial Reporting Standards.

Financial performance

Despite the turbulent environment prevailed in 2019, SDB bank continues to grow its business volume. Total assets of the Bank grew by 11% year-on-year to LKR 107.78 Bn. with growth in loan book (net) by 11% to LKR 85.8 Bn. The loan book picked up in 2019 due to the reasons of strengthening the recoveries, higher business volume and enhancing all our primary and ancillary processes while maintaining and improving risk management and internal controls. Deposits grew by 7% year-on-year to LKR 72.4 Bn. Equity of the Bank stood at LKR 7.67 Bn. as at 31 December 2019. The Bank raised LKR 3.2 Bn. by way of BASEL III compliant – Tier 2 subordinated term debts during the year to strengthen Tier 2 Capital.

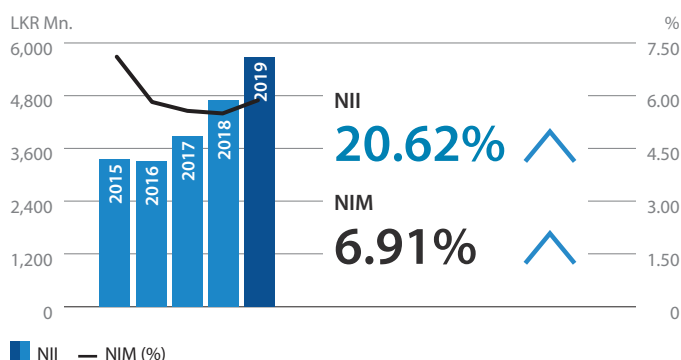
The Bank reported a total comprehensive income of LKR 220.25 Mn. for the year 2019 which reflects a decline of 31% over the previous year, owing to impairment provision and debt repayment levy. Nevertheless, the Bank's total operating profit before impairment and taxes grew by 32% to LKR 2.16 Bn. in 2019 compared to LKR 1.64 Bn. reported in 2018.

Income statement analysis

Net interest income (NII)

Net interest income (NII) recorded a growth of 21% year-on-year to LKR 5.69 Bn. from LKR 4.72 Bn. in 2018. The growth was primarily attributable to balance sheet growth of 11% in loans and advances, which is lower than the loan growth recorded in 2018. The interest income grew by 15% to LKR 15 Bn. while the total interest expenses increased by 11% to LKR 9.3 Bn. due to the growth in deposits and borrowings during the year. As a result, the net interest margin (NIM) grew marginally to 5.88% from 5.50% in 2019. The portfolio mix between fixed and floating rate loans was another factor for the Bank to maintain healthy NII and NIM as AWPLR decreased to 9.94% by end of 2019 from 11.92% at the beginning of the year.

NII and NIM five year trend



Non-interest income

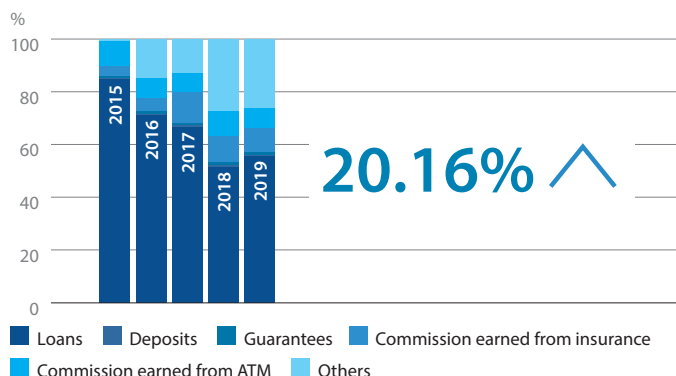
Non-interest income comprises net fee and commission income, net trading income and other operating income. The net fee and commission income are closely linked to transactional banking volumes, which are a function of economic activity and competition for banking services. Net trading income is a function of trading volumes and market volatility which affects trading spreads. Other operating income consists of other banking activity-related revenue, including gains from sale of property, plant and equipment, dividend income and income derived from the Bank assurance agreements.

Net fee and commission income grew by 20% to reach LKR 231 Mn. from LKR 192 Mn. The growth in net fee and commission income was mainly driven due to growth in loan book, as loan processing fee income recorded a growth of 30% to LKR 128 Mn. for the year. Fee and commission income recognised as an emerging source which ended with 3.8% contribution to the total operating indicating potential for future expansion. During the financial year, the Bank made a significant investment in the digital transformation to improve access, navigation and usability for all of our customers across our businesses. The strong expansion in debit cards base and Upay app will lead to customer migration to digital channels and it will further strengthen the fee-based income of SDB bank.

Net gains/losses from trading amounted to a profit of LKR 1.26 Mn., reflecting gain on Government Securities held at end of the year. Gain from financial instruments at fair value through profit or loss narrowed by 59% to LKR 114.9 Mn. Other operating income reflected an increase of 337% compared to the previous year due to the increase in gain on sale of property, plant and equipment and account maintenance fee

income by LKR 9.2 Mn. and LKR 59.3 Mn. respectively, in absolute terms. However, total non-interest income declined by 11% to LKR 438.3 Mn., due to decline of gain from financial instruments at fair value through profit or loss.

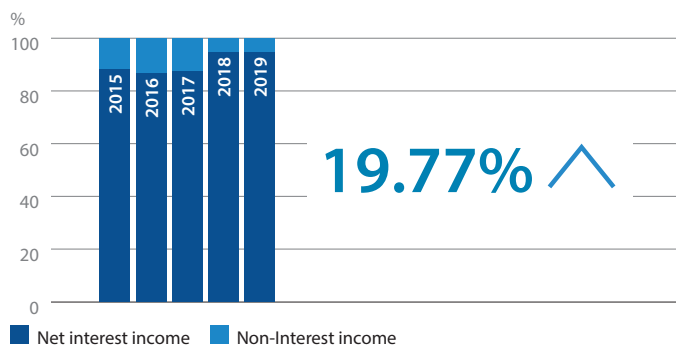
Composition of net fee and commission



Total operating income

Total operating income grew by 18% to LKR 6.14 Bn. a fruitful achievement to an extent under the given adverse operating conditions. Net-interest income and non-interest income contributed 93% and 7% respectively to operating income and decline in non-interest income was offset by the growth in net-interest income during the year.

Composition of total operating income



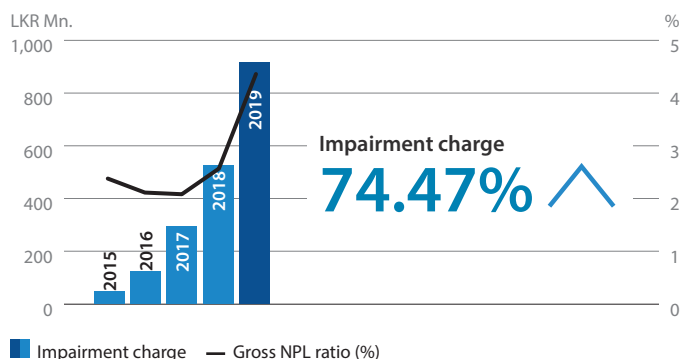
Impairment for loans and other losses

The strained economic conditions that prevailed throughout the year 2019 and Easter Sunday attack continued to affect many businesses in the country. As a result, banking sector witnessed significant increase in customer defaults and delayed repayments. Application of SLFRS 9 and stress arising from drop in credit quality due to delayed repayments increased impairment charges across the banking sector. Consequently, impairment charge for the year increased by 74% to LKR 917 Mn. compared to LKR 525 Mn. in 2018.

Due to deterioration of credit quality, both the individual and collective impairment increased during the financial year. The gross NPL ratio was 4.38% (2018: 2.56%), which is slightly below the industry average levels. To address this issue, the Bank continued to take strategic steps such as rescheduling and restructuring of existing credit facilities to suit the

customer repayment capacity together with improvements to the pre and post credit evaluation protocols.

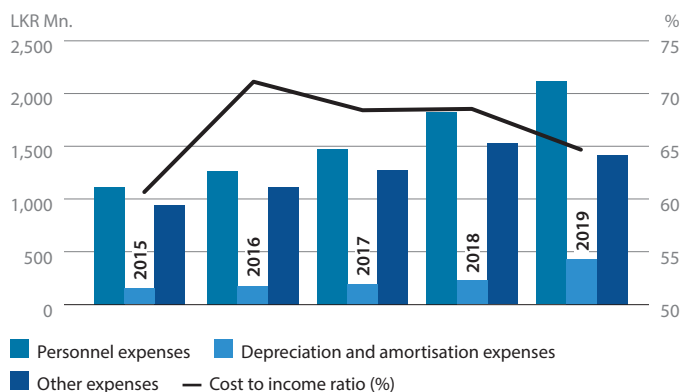
Impairment charge and gross NPL ratio



Operating expenses

Bank's total operating expenses is comprise with personnel expenses, depreciation and amortisation and other expenses inclusive of office administration and establishment expenses. Total operating expenses demonstrated with 11% increment over the last year, this was led by a 16% increase in personnel expenses due to higher personnel cost triggered by second tranche of periodic salary revision made in 2019 and an increased depreciation charge following the implementation of SLFRS 16 and additions to the property, plant and equipment. Total percentage growth in operating expenses remained below the growth in total operating income. As a result, the Bank's cost to income ratio decreased by 390 bps from 68.61% reported in last year to 64.71% in 2019. It is important to note that the Bank managed to restrict its total operating expenses to well below the budget allocation for 2019.

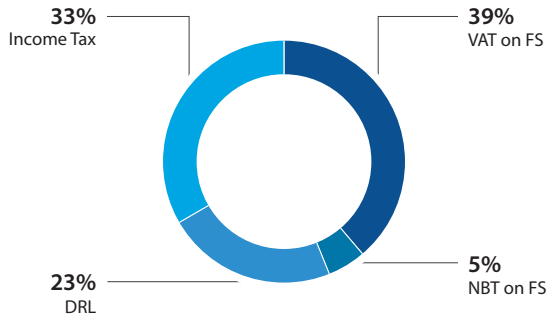
Operating expenses and cost to income ratio



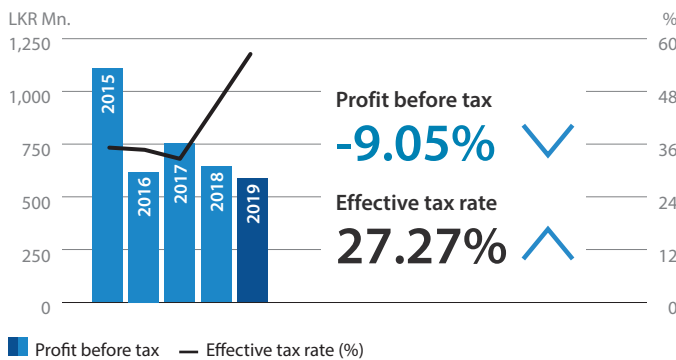
Taxation

The Bank's total tax contribution comprising VAT on financial services, NBT on financial services, Debt Repayment Levy and income tax, increased by 32% to LKR 996 Mn. during the year. The increase stemmed primarily from the Debt Repayment Levy which was imposed with effect from 1 October 2018. The impact for the year was LKR 226 Mn. compared to LKR 53 Mn. for 2018. Meanwhile Taxes on Financial Services and Income Tax increased by 5% and 16%, respectively.

Composition of tax expense



Profit before tax vs effective tax rate



Profitability

Profit before tax decreased to LKR 585 Mn. for the year, narrowed by 9% from LKR 644 Mn. reported in 2018. Apart from the impairment charge, significant increase in taxes on financial services, especially the debt repayment levy resulted in profits declining at pre-tax level. Profit after tax also declined by 29% from LKR 356 Mn. to LKR 253 Mn.

Meanwhile, the Bank's return on assets and return on equity declined marginally to a respective 0.57% and 3.35%, from 0.72% and 4.83% respectively in 2018.

Other comprehensive income/expenses (OCI)

Other comprehensive expenses amounted to LKR 33.15 Mn. during the year, compared to the expense of LKR 36.5 Mn. in 2018. Therefore, there is a slight reduction by 9%.

After charging other comprehensive expenses, total comprehensive income for the year was LKR 220.25Mn. compared to LKR 320.45 Mn. in 2018.

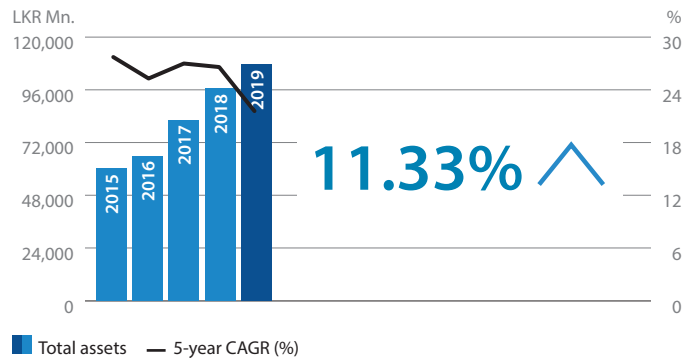
Financial position analysis

Total assets

The Bank achieved a major milestone during the year, with the total asset base crossing the LKR 100 Bn. mark to end the year at LKR 107.8 Bn. Total assets grew by 11% during the year, driven by growth in loans and advances. Further, the cash and cash equivalents and placements with banks recorded a drop compared with 2018.

On the other hand, investment in financial assets recognised through profit or loss and the investment in financial assets classified under amortised cost have increased. Right-of-use assets reported in the Statement of Financial Position is due to the implementation of Sri Lanka Accounting Standard – SLFRS 16 "Leases". The corresponding liability is booked under other liabilities. Due to this adjustment, both assets and liabilities of the Bank showed an increase of LKR 651 Mn. in 2019.

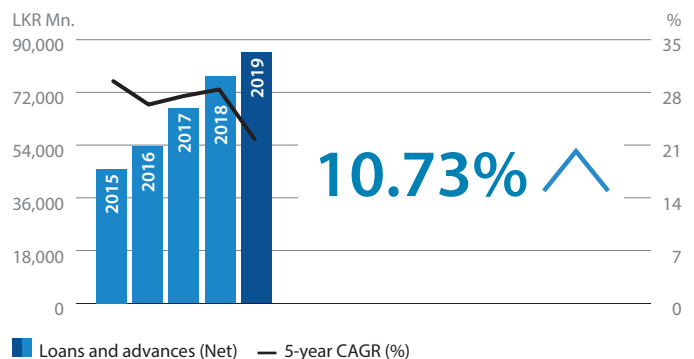
Total assets and 5-year CAGR



Loans and advances

Loans and advances represent the largest asset class on the Bank's balance sheet, which accounted for 80% of the total assets. It provides the bank's biggest source of revenue in the form of interest income, and creates cross-selling opportunities to earn transactional fees and insurance-related revenues. Growing loans and advances within the Bank's accepted risk levels is therefore essential to growing revenue. The net loan portfolio which stood at LKR 77.5 Bn. in 2018, grew by 11% to reach LKR 85.8 Bn. as at 31 December 2019.

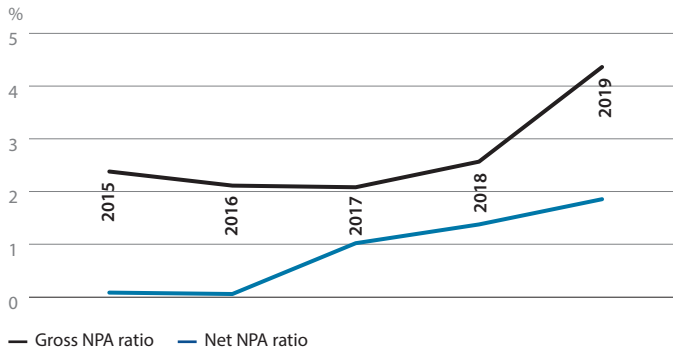
Total loans and advances (net) and 5-year CAGR



Asset quality

Deterioration in asset quality started in the latter part of 2018 continued throughout 2019. As a result, the Bank experienced an increase in its non-performing loans portfolio. However, Bank's NPA ratio remained below industry for much of 2019 and the robust risk management framework and the strengthened recovery initiatives helped the Bank to contain the increase in the gross NPL ratios to 4.38% as at December 2019 compared to the gross NPL ratios of 2.56%, a year ago.

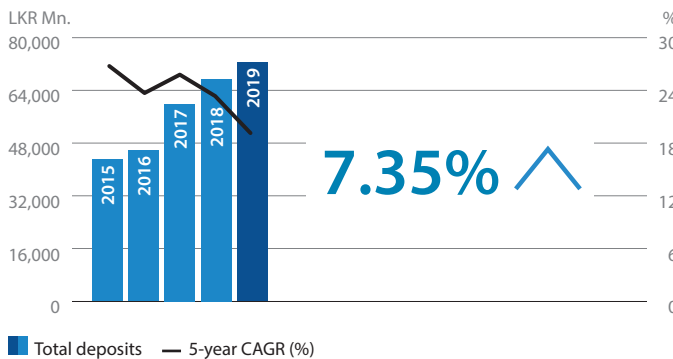
Gross NPA ratio vs Net NPA ratio



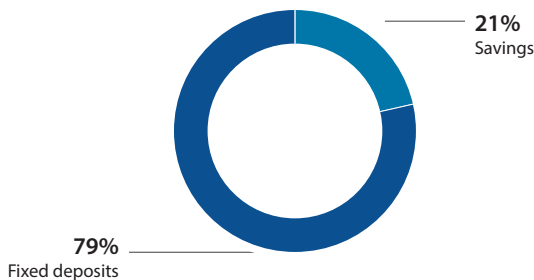
Total liabilities

Bank's total liabilities growth of 12% was driven by deposit growth, subordinated debt and other borrowings. Customer deposits grew by 7% to LKR 72.4 Bn. which accounts for 72% of total liabilities. The Bank raised LKR 3.2 Bn. by way of a Basel III compliant – Tier 2 subordinated debt during the year to strengthen Tier 2 Capital. Bank continued its approach to tap local, long to medium-term borrowing opportunities. This has led to an increase of amounts due to banks by 32% during the financial year 2019. Overall, liability growth has been managed prudently to build a strong balance sheet that will support the future growth aspirations of the Bank.

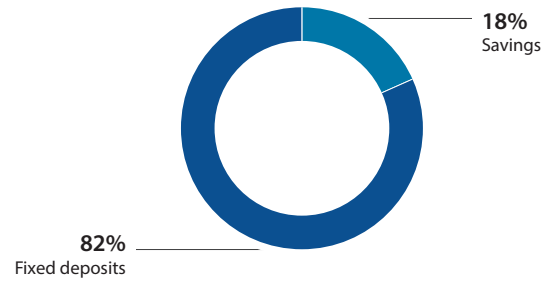
Total deposits



Deposit mix for year 2019



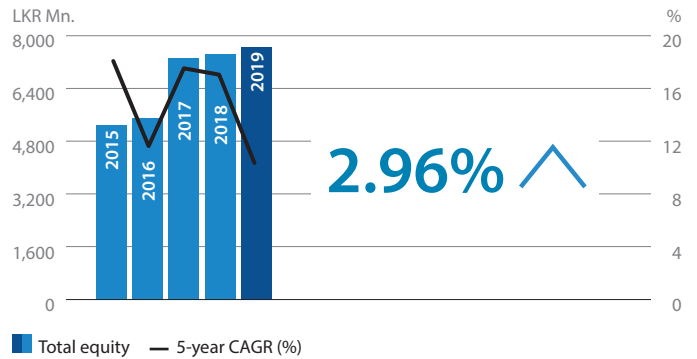
Deposit mix for year 2018



Equity and compliance with capital requirements

In 2019 the Bank remained proactive in its effort to strengthen the capital base in compliance with Basel III capital requirements. The Bank raised LKR 3.2 Bn. by way of a Basel III compliant – Tier 2 subordinated debt in June and December 2019. As a result, the Bank's Tier 1 Capital, Total Tier 1 Capital and Total Capital Adequacy Ratios as at December 2019 stood at 9.43%, 9.43% and 14.8% respectively. These ratios stood above the minimum ratios prescribed by Basel III capital requirements.

Total equity



Liquidity

The Bank maintained its liquidity position within the approved risk appetite and tolerance limits. Appropriate liquidity buffers were held in line with regulatory, prudential and internal stress testing requirements, taking into account the market conditions. Throughout the year the Bank maintained its statutory Liquid Asset Ratio well above the minimum threshold of 20% prescribed by CBSL. Further, the Bank maintained an average Liquidity Coverage Ratio of 123.7% and Net Stable Funding Ratio of 130% which was comfortably in excess of the regulatory minimum requirement of 100%.

Dividends

The Banking industry faced many challenges during the year; both from business and regulatory fronts. The minimum capital requirements became more stringent with the adoption of Basel III. Other factors which affected were the impact on the adoption of the new accounting standards and the introduction of the new tax laws. The Board of Directors after considering all of the above has approved a dividend of LKR 7.00 per share for the financial year 2019 which will be paid in the form of a cash dividend of LKR 2.00 and the balance LKR. 5.00 in the form of scrip dividend subject to the approval of the shareholders at the Annual General Meeting to be held on 15 July 2020.

The Strength of the Institution

Our institutional capital spans a range of tangible and intangible elements that we use in the course of business. These include organisational knowledge, corporate culture and values, business ethics and integrity, and systems and processes. As a development bank SDB bank must operate impartially and without political influence to address gaps in the market – especially in areas where the private sector is absent. Our institutional capital becomes invaluable in meeting this mandate. It defines who we are and how we operate.

SDB bank's strength also lies in the synergies it derives from the SANASA Federation. As indicated on page 30, this ecosystem allows us to capitalise on the strengths of our sister companies in helping grassroots communities to improve their livelihoods and lifestyles.

Organisational knowledge

Over the past 100 years our focus has remained unwaveringly on creating an ecosystem that uplifts lives – using the people's money for the people. Our incorporation in 1997, witnessed the Bank adopting more stringent ethical standards in the conduct of its business internally and in dealing with customers, other stakeholders, and the banking industry which has resulted in a trove of organisational and industry knowledge. It is this knowledge that has allowed us to tailor products and services that are ideally suited to our key customer groups – retail, SME and co-operatives.

Our comprehensive 2017-2020 Strategic Plan epitomises our organisational knowledge. Supported by organisational realignment it has transformed SDB bank into Sri Lanka's apex co-operative Bank with the aim of achieving commercial banking status in the medium term.

Corporate culture and values

To fulfil our mandate of objectively and impartially empowering people in grassroots communities we have carefully cultivated an enabling corporate culture. Our values are the building blocks of the SDB bank culture. Integrity is paramount as we demand – and receive – the highest ethical standards of all employees at every level. This is vital as we focus on being inclusive – careful not to discriminate based on any parameter such as ethnicity, religion, gender, language, social status or age. To ensure that our customers receive the best solutions for the many issues that they face in trying to improve their prospects we have also created a culture where innovation is encouraged and nurtured.

Our culture and values are embedded in every aspect of its operations.

Business ethics and integrity

At SDB bank we back up corporate culture and values with a robust governance framework which encapsulates the Bank's policies. The framework ensures that the Bank is in compliance with all regulatory and statutory requirements. All employees are made aware of all Bank policies as the latter set the tone for employee behaviour and practice.

Partnerships with international investors such as SBI FMO Emerging Asia Financial Sector Fund Pte., Ltd., International Finance Corporation and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO), Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V. and Belgian Investment Company for Developing Countries NV/SA-BIO confirm SDB bank's sound record of good governance and the trust that the international investor community has placed in the Bank.

Systems and processes

During the year under review we initiated a range of internal process improvements which focused on preparing employees for the launch of a range of digital products and services. This study resulted in increased efficiency and productivity especially in our administrative operations. With our internal customers taking the lead in migrating completely to digital banking, we encouraged a number of employees to switch to mobile and internet banking where feasible.

Innovation goes hand in hand with development at SDB bank. The recently introduced information dashboard provides real time data for the Bank's Management and branch employees enabling improved information management. This means that our Management and branch employees are able to make informed decisions at all times.

The Quality of Manufactured Resources

The Bank's Information Technology (IT) systems are reviewed and upgraded periodically to ensure a safe, secure and stable environment for its customers and employees. We are also now able to collect deposits from customers in any location and issue receipts immediately by using mobile devices. Following the automation of the loan process for greater expedience and customer convenience we introduced a number of new digital initiatives during the year under review.

UPay digital payment app

To enhance customer convenience and experience, we acquired UPay, a multifaceted digital payment platform through which customers can make secure bill payments, channel doctors, and top up mobiles among other transactions. By registering multiple bank accounts and multiple cards to this app, customers simply link their bank accounts and credit/debit cards to the app which allows them to automate, track and manage all recurring payments to vendors and service providers. The app allows them to seamlessly purchase products or services without having to physically handover cash or swipe a card.

This payment app marks a new chapter in the Bank's digital journey as well as that of its customers. We are proud to be actively involved in driving grassroots communities towards a cashless society, directly contributing to the country's development. We also believe that digital innovations of this nature are important in reaching out to the underbanked population, a goal that's embedded at the very heart of SDB bank. This app also prepares us to meet the oncoming FinTech storm head on.

HOW DOES IT WORK?

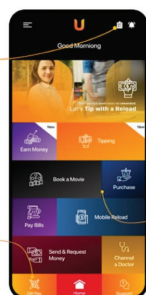
Make the payment process easier and less complicated. Now customers can make payments anywhere at anytime with their mobile devices through UPay

HISTORY

View your full transaction history

QUICK ACTION PANEL

Easily access your favourite menu shortcuts



SMART PAY

A quick way to pay your utility bills by just typing in the service provider's name.

<https://www.upay.lk/#about>

Business internet banking solution

Our Business Internet Banking solution is designed to facilitate corporate customers. This customer segment consists of firms, companies, trusts, partnerships, proprietorship concerns and others. Our internet banking platform provides them with a simple dashboard to keep track of their transactions. It also allows multiple users to manage the account. This allows designated officers in an organisation or group company to keep track of its financial position and transaction history while carrying out day-to-day banking activities including cash transactions, government payments, salary uploads and bulk transfers.

We also provide online assistance to these customers, with many of them attempting online banking for the first time through this

platform. Internet banking provides them with 24/7 access to their bank accounts, flexible reporting and an alternative solution to conventional document processing. It is a convenient, comprehensive and highly secure corporate banking solution providing them with instant validation of incoming payments and real-time alerts of transactions. This service is also mobile-ready, meaning that it is able to take users to the next level of convenience.

Mobile banking solution

In a bid to heighten customer convenience and broaden their digital banking experience, we created a mobile banking app that is simple, fast and secure. Combining in-house technological know-how and our in-depth knowledge of the people we serve, we designed the app to provide a seamless, intuitive experience. The app allows customers to carry out a number of essential transactions, such as obtaining information related to their accounts, loans and fixed deposits, from the palm of their hand. It simplifies complicated and tedious banking transactions.

A significant milestone in the Bank's fast-tracked digitalisation programme, the mobile banking app will change the way our customers bank. As recorded by the Department of Census and Statistics while more than one in five households in Sri Lanka own a computer or laptop, two out of every five people between the ages of 5 and 69 are digitally literate – able to use smartphones and/or tablets. As with many other developing countries in the region digital appreciation remains high in Sri Lanka though the availability of technology remains low. Contributing towards nation building, SDB bank is utilising technology to change the way people bank for the better.

The SDB mobile app allows transactions with own or third party bank accounts, real time interbank money transfers and the ability to check account/loan transaction history among others. Customers can obtain a detailed analysis of their transactions and make recurring fund transfers to other banks while creating and saving a payee through "Create Payee". Our mobile app complies with high security standards in mobile banking.

While we currently cater to the most essential of customer requirements we will shortly introduce more features to provide a 360 degree experience for our customers.

In addition to the UPay, SDB Business Internet Banking and SDB Mobile app we provide two other digital products namely SDB Debit card and SDB SMS banking.

Property

SDB bank maintains a profitable mix of owned and rented buildings aided by the Federation's SANASA Engineering. Reflecting our keen focus on digital banking during the year under review, no new branches were opened. Our customers continued to enjoy access to our 94-strong branch network and nearly 5,000 ATM points through LankaPay. Our combined physical and digital presence takes us that much closer to the end consumer. Our direct connection with over 8,500 co-operatives will be a key factor in allowing us to make an internationally recognised mark in this sector.

The Customer as Ambassador

For most banks, the term customer service means being at least two steps ahead of the customer. In other words, being geared to be where the customer is, the moment they need financial services.

What's unique about SDB bank is that our customers are yet some way behind this demographic. A majority of them are bound by physical boundaries, eking out a living from day-to-day. What we do is to inspire, educate, support and nurture them until they too are able to break free and capitalise on the potential that wider horizons bring. In addition, a strong well-financed SME-base that is "banked" contributes towards nation building. They will be able to expand regionally and internationally, while supporting broader national economic stability and growth.

To achieve this goal we focus on three distinct groups:

1. SMEs – micro, small, and medium sized enterprises
2. Retail – providing financial services to the masses
3. Co-operatives – small clusters of individuals who collaborate with co-operative societies in grassroots communities working together to improve their lives and livelihoods

Improving the lives of our customers means using every resource at our disposal, including inspiring our customers to act as ambassadors, converting more of their peers in rural, grassroots communities to take on an entrepreneurial outlook and in doing so contribute towards the country's economy.

The SME segment

This customer base comprises 33% of our loan book and 20% of our deposits. During the year under review our key focus was on raising business volumes in this segment from 24% in 2018 to 27% – a feat that we achieved by focusing primarily on agri-finance, particularly minor export crops such as fruits, vegetables and horticulture.

While there is high demand for horticultural products – cut flowers and foliage, our studies revealed that the key issue faced by many other SMEs in this segment was the lack of stable value chains. Although they were able to produce good crops, they depended on an unpredictable supply of middle men to take their products to the consumer. Too often this resulted in these smallholders having to stand by helplessly as their hard-earned crops rotted.

Together with other SANASA stakeholders, we decided to focus on improving value chains for five key groups in this segment over the next two years. We focused on growers of pepper and traditional rice during the year under review. We also partnered with big brands such as John Keells Holdings PLC and Brown & Company PLC to provide these SMEs with easier leasing access to tractors and harvesters. 2020 and beyond will see SDB bank focusing more closely on banana growers. SMEs in the tourism and IT sectors will also be in our radar over the next two years.

With 52% of Sri Lanka's population and 33.3% of SMEs being women, we continued to focus on uplifting female entrepreneurs during the year under review. We provided both technical training and financial literacy programmes to help them improve their businesses.

Our financial literacy programmes focused on the following four sections:

1. Savings
2. Loans
3. Entrepreneurship
4. Digital banking

During the year under review we conducted 43 such seminars for over 4,000 participants. Some of these programmes were conducted in partnership with private sector organisations such as John Keells Holdings PLC. (For more details see The Commitment to Society and Environment on pages 69 and 70.)

We offer many products and services that are geared to serve this customer segment. For instance our employees take POS machines right to the doors of these businesses to inculcate the savings habit.

The retail segment

Retail customers comprise 61% of our loan book and 49% of our deposits. This customer base consists of five distinct divisions. Such categorisation allows us to provide customer service that is tailored to the needs of each of the following segments.

1. Minors
2. Women
3. Youth
4. Senior citizens
5. Veterans

Minors

Inculcating a saving habit among the young has been one of our long-term goals. Over the years we have conducted a number of programmes and competitions to encourage thrifty thinking.

We also conducted 11 seminars for 4,445 grade five scholarship students during the year under review. To ensure that they receive adequate support, we also conducted awareness programmes for their parents and teachers – particularly on the subject of child psychology and how not to put extra pressure on youngsters facing their first public examination.

Our *Lakdaru* children's savings account encourages children to save for important events in their future.

Women

Supporting female entrepreneurs, particularly in the 35-50 age group, has long been one of our key focus areas. Many face perennial problems such as lack of collateral and businesses registered in a male relative's name instead of their own. Education is the key to this segment's success. While many may not have had much schooling, they have a rich social life within their communities and are able to rally like-minded women in the co-operative and SME segments.

Products such as *Athamaruwa*, which offers a three month over-the-counter gold loan (as opposed to the one-year period for regular pawning), was launched during the year to support women in the low income segment.

Financial literacy contributes towards financial inclusion, and it is this two-pronged approach that we take to help better the lives of women in grassroots communities. In turn, they enrich the SME segment of the country – the backbone of the economy – and contribute towards nation building.

Youth

We take pride in contributing towards national development by helping to ensure that the aspirations, hopes and dreams of a future generation are met through meticulous financial planning and management. Our programmes for Sri Lanka's younger generation of new thinkers and entrepreneurs complement their ambitions for success. We help this customer segment to develop and maintain a strong financial strategy through our SDB *Jawaya* youth savings account.

Senior citizens

We have a long history of catering to senior citizens and this is an area in which SDB bank has a real competitive advantage. 23% of the loan book and 19% of liability book are from this customer segment. Retired and often lonely, these customers look forward to their monthly visit to the branch to collect their pension. At SDB bank we go all out to make the day memorable for them.

Our branch employees make use of the opportunity to encourage this customer segment to think in an entrepreneurial manner. Many have skills and social connections that would benefit SMEs. Getting involved in entrepreneurial activities would also boost this segment's confidence and sense of self-worth while ensuring that they remained mentally and physically active.

We serve this segment best through SDB *Upahara*. Going forward we plan to organise free health checks for these customers, and increase their loyalty towards the brand.

Veterans

Thirty years of ethnic strife came to an end a decade ago but, as a country, we continue to salute the brave men and women who gave up their lives and limbs to safeguard the people. SDB bank has long been focusing its energies on ensuring that veterans and their families are not left behind as this hard won peace gives way to economic development.

When a veteran reaches retirement age his or her family's income drops steeply. The dip in income usually coincides with a time in their lives when funds are more essential than ever. We help our veterans to prepare for significant milestones in their lives and of course their own retirement through a range of financial literacy programmes and our *Uththamachara* product.

The co-operatives segment

This customer segment comprises 6% of our loan book and 31% of deposits. The Group's non-performing loans, however, are just 1% compared to 7% for SMEs and 3% for retail customers during the year under review. Such low NPL rates are attributed to the peer-pressure factor, with individuals in each cluster pressuring each other to keep up with their payments so that they can all capitalise from the financial benefits together.

Business volumes for this sector are currently at 17% – a number that we hope to grow to 33% over the near future. In preparation for this push we restructured the Co-operative Development Department at SDB bank to promote entrepreneurship among co-operatives.

Many co-operatives have ready cash, which they bank with SDB bank and then lend-on. The message we began to drive home, during the year under review, was that this is a missed opportunity. By fostering an entrepreneurial culture within the co-operatives, we hope to drive wealth creation and job creation among grassroots communities. While hospitality and food and beverage type services have flourished among certain entrepreneurial co-operatives, we focused on creating awareness about two other areas – medical and fitness. Laboratory services received a satisfactory level of success but gymnasiums did not receive the kind of take up that we had anticipated, driving us back to the drawing board to study better alternatives.

During the year under review, we also strengthened relationships with the co-operatives regulators, organising a forum where all the co-operatives commissioners congregated to enjoy productive dialogue on how to work together to meet common goals.

Welcoming everyone

While we focus on bringing our customers into the digital era we have also worked at ensuring that our branches are welcoming refuges from the chaotic pace of life. The new branding that was launched during the year under review contributed to cool, orderly interiors infused with our corporate colours. With every new building agreement, we renew we will be incorporating the new look and feel to ensure that our customers across the country come to associate us as a beacon in the community.

By the end of the year under review we had also installed 100 internet banking kiosks in co-operatives across the country. Our goal is to bring rural communities into the digital age by ensuring that they learn basic online banking skills.

Towards nation building

While our main goal is wealth creation, particularly for those in grassroots communities, we also contribute towards nation building through the many initiatives we have launched for our key customer groups.

Our Transformation Agenda is closely aligned with the United Nations Sustainable Development Goals. Sri Lanka initiated the Sustainable Development Act in 2017, which establishes the legal framework to implement the SDGs with improved institutional and policy coherence. Under this Act, the Sustainable Development Council has been established, which formulates related national policies and guides new development projects. This takes on added significance for SDB bank given that, for a majority of our clients, meeting SDGs such as Zero Hunger, Quality Education, and Reduced Inequalities are crucial to the betterment of lives. (A detailed outline of our contribution towards the SDGs can be found on pages 69 and 70.)

With the launch of a number of digital platforms during the year under review we are helping to convert grassroots communities into digital bankers while also providing them with greater convenience and access

to financial services. The launch of such innovative products and services has also allowed us to better streamline our operations and business.








New products launched during the year under review include:






1. UPay payment app
2. SDB Mobile banking app
3. Business Internet banking with CEFTS and SLIPS connectivity for SMEs
5. Connected to LankaPay ATM network

(For more information on our digital products see The Quality of Manufactured Resources on page 47.)







Delivering value to our customers

Retail products



Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> • Saving for the future • Insurance cover (including government hospitalisation) • 1% higher interest rate compared to regular savings 	<ul style="list-style-type: none"> • Developing savings habit • Scholarship seminars for 4,445 children • Seminars for parents on child psychology • Offering valuable, educational gifts for children
	<ul style="list-style-type: none"> • The best benefits in the market for savings • An investment plan to realise dreams • Loan up to LKR 1 Mn. for entrepreneurs • SDB mobile app facility and bill payments through UPay App 	<ul style="list-style-type: none"> • Provides avenue for financial independence with a helping hand always outstretched in support of the customer
	<ul style="list-style-type: none"> • Multiple convenient digital banking platforms • A special interest rate of up to 6% per annum • Incentives for account holders who maintain an account balance of LKR 100,000 for 24 months 	<ul style="list-style-type: none"> • Supporting the youth to develop and maintain strong financial strategies
	<ul style="list-style-type: none"> • Offered highest interest rates to customers • Unlimited withdrawal • Multiple convenient digital banking platforms 	<ul style="list-style-type: none"> • Fostering a culture of saving and financial management in Sri Lanka
	<ul style="list-style-type: none"> • Attractive higher rate of interest • Immediate cash back facility of up to 90% of deposits 	<ul style="list-style-type: none"> • Inculcating a savings habit
	<ul style="list-style-type: none"> • Attractive interest rate of 15% per annum for to LKR 1.5 Mn. for those over 60 years of age • A special interest rate for those over 55 years of age 	
	<ul style="list-style-type: none"> • Lump sum deposit ensures a guaranteed return despite interest rate fluctuations • Investment certificate can be encashed upon turning 18 years of age 	<ul style="list-style-type: none"> • Encouraging saving for a child's significant future aspirations such as higher education, business investments or a wedding

Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> • Higher interest rate compared to standard savings schemes • Payment date for monthly investment based on customer preference • Target amount and period of investment chosen by customer 	<ul style="list-style-type: none"> • Providing financial independence for women • Contributes towards a stress-free, financially secure future
	<ul style="list-style-type: none"> • Customised leasing packages with flexible repayment schemes at competitive rates • Attractive discounts on premature settlements • Leasing facilities for private and commercial vehicles 	<ul style="list-style-type: none"> • Enabling vehicle ownership
	<ul style="list-style-type: none"> • Longer repayment period • Flexible approach and fast approval • Attractive and competitive low interest rate 	<ul style="list-style-type: none"> • Encouraging and enabling home ownership
	<ul style="list-style-type: none"> • Top up facility – after repaying a part of the original Personal Loan • Choice of fixed or floating interest rates • Processed within a maximum of three working days 	<ul style="list-style-type: none"> • Providing funds for emergencies or meeting life goals
	<ul style="list-style-type: none"> • Purchasing options for gold jewellery, gold coins or gold biscuits at competitive interest rates 	<ul style="list-style-type: none"> • Encouraging investment in gold
	<ul style="list-style-type: none"> • For <i>Ranaviru</i> families of Army/Navy/Air Force/Police/STF who are Killed in Action (KIA), Missing in Action (MIA) and Disabled in Action (DIA) • Loans up to LKR 7 Mn. • Repayment period up to 10 years • Automatic loan protection cover for all applicants 	<ul style="list-style-type: none"> • 30 seminars aimed at improving financial literacy for 1,500 participants • Entrepreneurship development through <i>Uththamachara</i> loan facility, for combat veterans suffering from disabilities as well as <i>Ranaviru</i> families of diseased/missing military personnel, to support income generating ventures and activities.
	<ul style="list-style-type: none"> • A three-month gold loan facility • 0% interest rate per annum • Account holders can obtain an advance loan amount of 90% of the total gold value 	<ul style="list-style-type: none"> • Providing low-risk credit transactions for personal or business emergencies
	<ul style="list-style-type: none"> • For Government and CEB Pensioners • Loans up to LKR 3 Mn. without guarantors • Repayment period up to 10 years, and 75 years of age • Our extended support to transfer the pension remittance to the account quickly and conveniently. • A loan protection cover with lowest insurance charge • A competitive interest rate up to 6.5% p.a. for savings 	<ul style="list-style-type: none"> • Seminar for Government pensioners, veterans and <i>Ranaviru</i> families • Through the loan protection cover dependents are relieved from the debt in the event of the sudden death of the borrower • Solution for an aging population enabling them to re-join the work force
	<ul style="list-style-type: none"> • Maximum advance amount for a Sovereign (8g) 18K/24K of gold • Competitive low interest rates • Ensured accuracy of gold weight and value with the latest equipment • Benchmarked services that guarantee speed, privacy and the highest level of confidentiality 	<ul style="list-style-type: none"> • Secure and confidential monetary assistance in times of need through pawning of gold or gold jewellery for urgent cash on credit

SME products

Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> • Reasonable rate of interest with a suitable grace period • Loan values to suit business requirements with a flexible repayment schedule aligned with income pattern and payment capacity • Business guidance and consultancy services 	<ul style="list-style-type: none"> • Quick access to financing for SMEs that are launching a business or expanding an existing enterprise • Financial literacy and entrepreneurship workshops
	<ul style="list-style-type: none"> • Loan facilities up to LKR 1 Mn. with two guarantors • Repayment period of up to 5 years for capital financing and up to two years for working capital • For applicants who hold 50% or more ownership of a business 	<ul style="list-style-type: none"> • Loan facilities for young male entrepreneurs which help meet diverse business financing needs and drive our local economy forward
	<ul style="list-style-type: none"> • For Government and CEB Pensioners • Loans up to LKR 3 Mn. without guarantors • Repayment period up to 10 years, and 75 years of age • Our extended support to transfer the pension remittance to the account quickly and conveniently. • A loan protection cover with lowest insurance charge • A competitive interest rate up to 6.5% p.a. for savings 	<ul style="list-style-type: none"> • Empowering senior citizens in their post-retirement pursuit of financial freedom and re-connecting them to the workforce • Entrepreneurship development through <i>Upahara</i> SME loan facility – designed to support new business ventures or the development of existing SMEs
	<ul style="list-style-type: none"> • Microfinance loans • SME loans • Personal loans of up to LKR 10 Mn. • Insurance benefits for those obtaining a loan 	<ul style="list-style-type: none"> • Financial independence
	<ul style="list-style-type: none"> • Customised leasing packages to suit commercial requirements with flexible repayment schemes at competitive rates • Attractive discounts on premature settlements • Easy accessibility to leasing facilities through island-wide branch network 	<ul style="list-style-type: none"> • Providing SMEs with the option to lease registered and unregistered vehicles, machinery and equipment to further their businesses
	<ul style="list-style-type: none"> • Highest interest rate of up to 10% for savings • Interest calculated on daily basis based on the day-end balances and credited monthly • Multiple convenient digital banking platforms 	<ul style="list-style-type: none"> • Encouraging enterprising and fast progressing businesses in Sri Lanka to save for the future

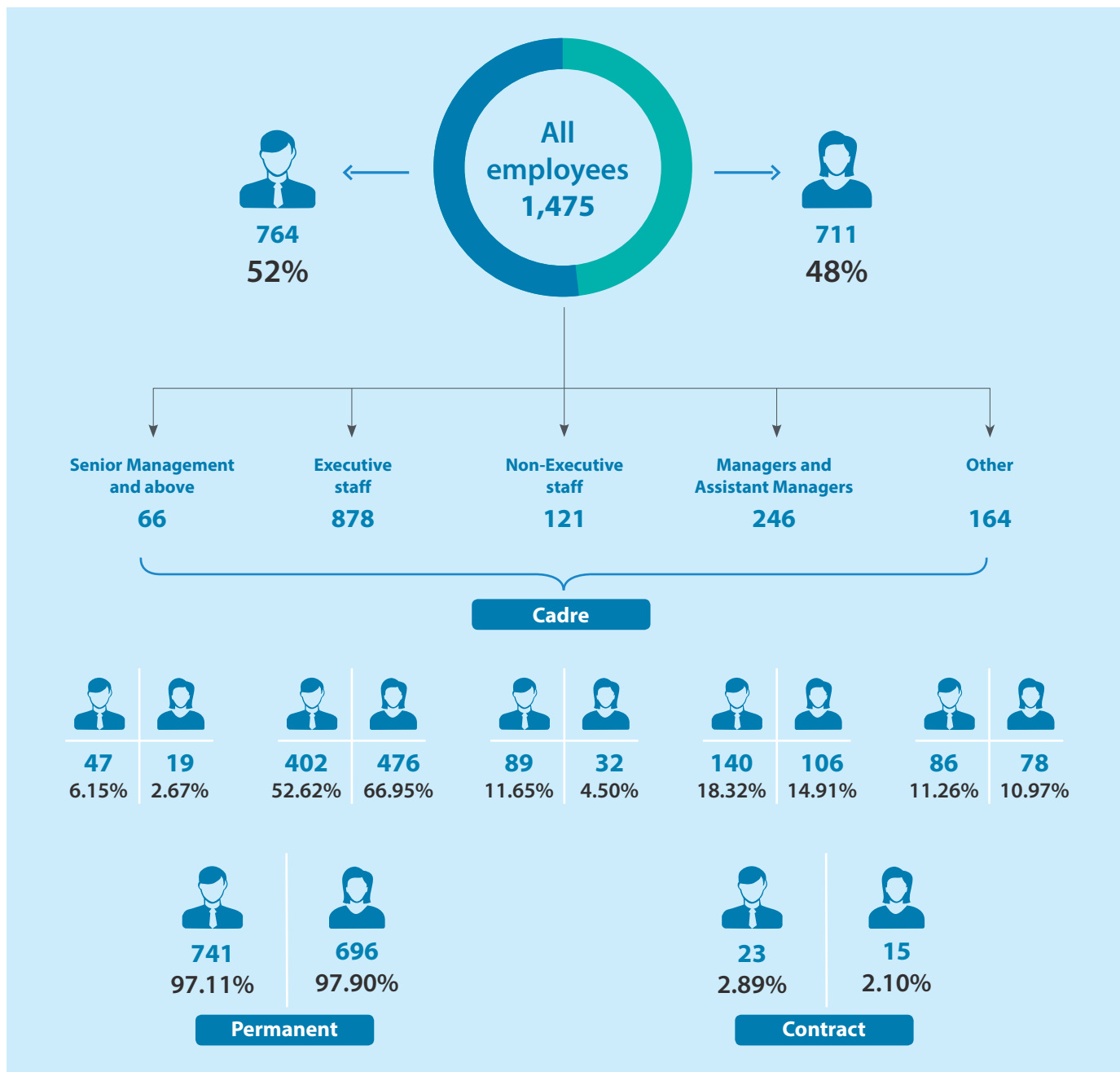
Co-operative products

Product Name	Financial inclusion and financial wealth	Financial literacy and social wealth
Loans for Society	<ul style="list-style-type: none"> Unsecured loans up to LKR 2 Mn. at prevailing interest rates Repayment period up to three years in monthly instalments, with a 3-month grace period. 	<ul style="list-style-type: none"> Supporting SANASA Primary Societies which lack sufficient funding to increase assets and in turn develop and support smaller, dependent societies
Loans for Members		
Agricultural loan	<ul style="list-style-type: none"> Repayment period of one year at prevailing interest rates, with a maximum of a 6-month grace period Repayment can be made monthly, or as a bullet repayment Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral 	<ul style="list-style-type: none"> Meeting demand for urgent working capital to improve growing crops, raising livestock, and improving operations of small to medium-scale plantations/farms
Equipment/Machinery loan	<ul style="list-style-type: none"> Repayment period of three years in monthly instalments at prevailing interest rates Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral 	<ul style="list-style-type: none"> Helping members to preserve the income of their business by spreading out the cost of equipment or machinery over a 3-year period
Export/Import loan	<ul style="list-style-type: none"> Repayment period of one year at prevailing interest rates, with a 3-month grace period Repayment can be made monthly, or as a bullet repayment Loan amount depends on the capacity of the society 	<ul style="list-style-type: none"> Empowering members through their respective co-operative/society Supporting members in their endeavour to contribute to the national economy
Tech loan	<ul style="list-style-type: none"> Repayment period of three years in monthly instalments at prevailing interest rates Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral 	<ul style="list-style-type: none"> Empowering members of co-operatives with the opportunity to invest in computers, laptops and other equipment, to join in the global digital revolution and not be left behind
 SDB Co-operative Top Saver	<ul style="list-style-type: none"> Highest interest rate of up to 10% for savings Interest calculated on daily basis based on the day-end balances and credited monthly Loan facilities against savings balances with ability to avail up to 80% of the deposit for a one year loan renewal period 	<ul style="list-style-type: none"> Encouraging enterprising and fast progressing businesses in Sri Lanka to save for milestones and a brighter future
SANASA Co-operative/NGO Savings		<ul style="list-style-type: none"> Helping accelerate the progress of the rural economy, the SANASA co-op/NGO savings account aims to connect rural co-operative societies and NGOs as significant contributors to the national economy, thereby nurturing financial equality and stability across Sri Lanka
Sahanya	<ul style="list-style-type: none"> Special interest rates Special bonus interest of 40% of the cumulative interest paid when required minimum balance of LKR 100,000 is maintained during a period of one year 60% cash back loan facilities 	<ul style="list-style-type: none"> Adds value to community causes and reduces financial service costs for societies
 SDB Samupa Saviya	<ul style="list-style-type: none"> Additional 0.25% interest for fixed deposits Coverage for entire co-operative segment (including society employees) 	<ul style="list-style-type: none"> Capacity building training programmes and thrift month financial literacy programmes were held for 3,000 persons across 500 societies

The Passion of Our People

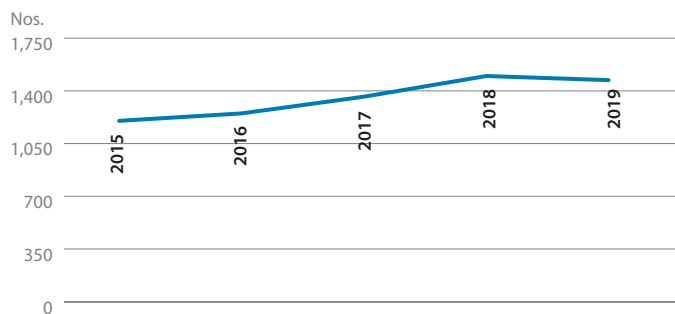
Our 1,475-strong employee cadre is the driving force that powers our value creation model. With a nearly equal 50-50 split in terms of gender across the Bank and over 97% being permanent employees, our people are as diverse as the customers they serve and solidly committed to changing the lives and lifestyles of our customers for the better. As we enter uncharted territory in which a large proportion of our customer demographic may be impacted by the COVID-19 outbreak, our people ensure that our customers receive the financial solutions they need and want. They continue to serve with commitment and compassion – ever ready to go the extra mile.

Keenly aware of how central they are to our success in delivering value to all other stakeholders, we continue to deliver value to our employees through training, development, benefits and experiences that make each individual more productive and helps each of them to contribute to the Bank's profitability and the collective wealth of society. Our Human Resources (HR) Department, oversees recruitment, assists with workforce planning and strategy, drives the employee engagement strategy, facilitates learning and development along with succession planning, looks after the employee welfare and contributes to management decision-making through reporting and analytics.



As at December 2019, the Bank had 1,475 employees. Growth in the number of employees is as follows:

Growth of employment – Total number of employees



Training and development

During the year under review we invested LKR 9.9 Mn. in training and development, providing employees with 2,798 hours of training across 173 sessions covering areas such as Operations, Compliance, Basel III, ICAAP, KYC, Integrated Risk Management, Marketing, Audit, IT and Secretarial.

Our forward momentum is fuelled by intangible elements such as the accumulated wealth of knowledge, talents, training, skills, judgement, and accrued experiences of our people.

The types of training opportunities we provide for our employees are threefold: internal and external training and international interactions. Our training and development strategy focuses on technical aspects and the development of soft skills – all with the goal of meeting the needs of our key market segments: SME, Retail, and Co-operative.

Technical training involves educating employees on how to identify the creditworthiness of businesses, potential areas of improvement, and prospects for income generation. Soft skills development includes how to empower customers and engender their long-term trust in the Bank. With the launch of our many digital initiatives 2020 will see us continuing to assist our people in becoming digital bankers themselves.

Employee engagement and culture

Our engagement with employees is continuous and conducted both formally and informally.

A new initiative begun during the year under review was the Great Place to Work programme in collaboration with Great Place to Work Sri Lanka. The programme aimed to further improve the bonds between management and employees. This initiative involved an employee survey that covered employee engagement, work satisfaction, and benefits. It also consisted of a culture audit, where we did a pulse check to assess how aligned employees were with the culture of the Bank. 90% of employees participated voluntarily in this survey. Having analysed the results of these surveys SDB bank is working on an employee engagement strategy which will be rolled out in 2020.

Informal engagement mechanisms include Management visits to branches, during which proactive discussions take place with employees who bring issues to attention and make suggestions for improvement. As these alerts are brought to the Management's attention by frontline employees who deal with customers on a daily basis the former remains appreciative and committed to taking action.

Apart from similar informal engagement methods we also utilise the following formal employee communication mechanisms:

- Bank circulars
- Emails
- Staff notice board
- Managers' forums

Employee communication is another area that we will be looking to improve with initiatives already begun in this area during 2020.

We organise formal and informal employee events on a regional basis to improve engagement levels and cross-functional relationships. These events often combine environmental or social volunteering which serve the dual purpose of helping SDB bank to give back to the communities and environment within which it operates while also providing avenues for employees to engage informally with each other and the grassroots communities they serve. In turn such Corporate Social Responsibility projects contribute to our employees' own feelings of self confidence and self worth.

Some key events of this nature conducted during the year under review include:

- Christmas carols and decor competition
- Regional town hall meetings with the Corporate Management
- Speech craft programme
- LIFELINE – a programme to improve the quality of life
- "BETTER U" – staff development programme

In addition, to strengthen institutional knowledge and employee engagement simultaneously, the Bank organised the Battle of the Masterminds. This enjoyable series of quizzes, which culminated in June, encouraged employees to brush up on their knowledge of our business model, products and services, risk, compliance, audit, bank circulars, and current affairs in a fun environment.

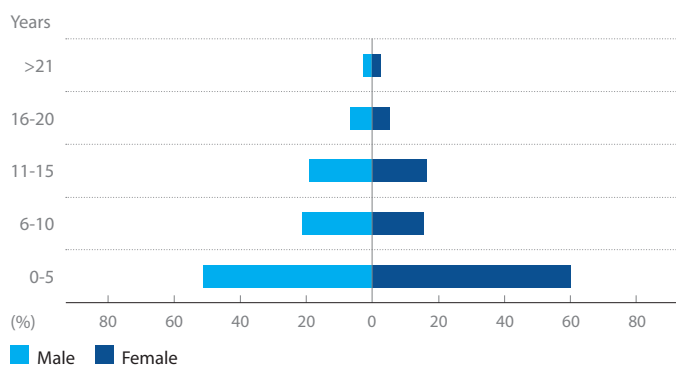
Employee recruitment and retention

While we rely on an experienced, skilled, and dedicated team of employees at all levels, our perennial problem has always been attracting employees for higher-level positions as SDB bank's position as one of the best micro-finance organisations in the country is not known to many. With current employees standing as examples and guardians of an enabling and empowering culture, the awards we have won, and the high-level employees that the Bank has attracted recently, the truth about SDB bank is becoming better known. We are now beginning to attract many high-quality candidates for higher levels. Attracting potential employees for other positions has never been a challenge.

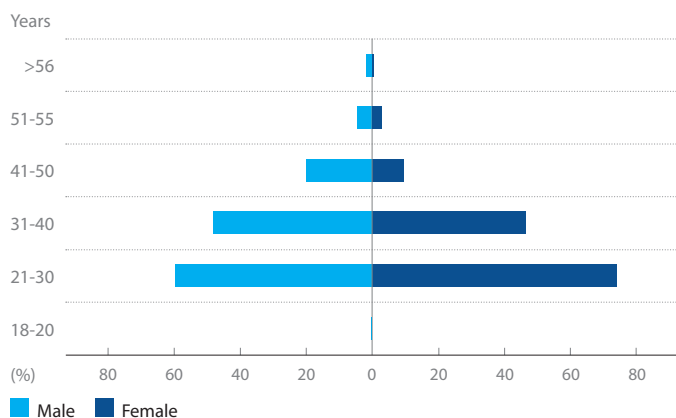
We remain appreciative and supportive of our existing employee cadre – a true asset and the secret to our success. Although we are seen as a small organisation, our employee packages are above market average. Our employee retention levels remain relatively strong having continuous employment with the Bank.

We take care to balance the retention and development of internal talent with a healthy infusion of external talent to ensure that our employee cadre remains diverse, holding a range of different perspectives and viewpoints which reflect those of our customers and contribute to the innovation for which SDB bank is becoming known.

Staff years of service by gender



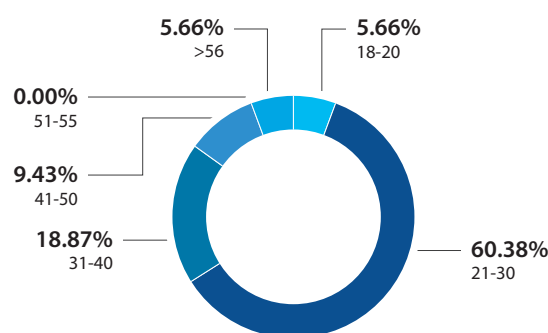
Age-wise pyramid of staff by gender



Employee turnover by grade and gender

Grade	Total number of employees	Male	Male %	Female	Female %
Senior Management and above	3	1	0.07	2	0.14
Executive staff	15	4	0.27	11	0.75
Non-executive staff	15	11	0.75	4	0.27
Managers and assistant managers	9	6	0.41	3	0.20
Other	11	9	0.61	2	0.14
Total	53	31	2.10	22	1.49

Employee turnover by age



Performance management

Performance evaluations of employees have hitherto taken place annually and are measured against three dimensions of employment:

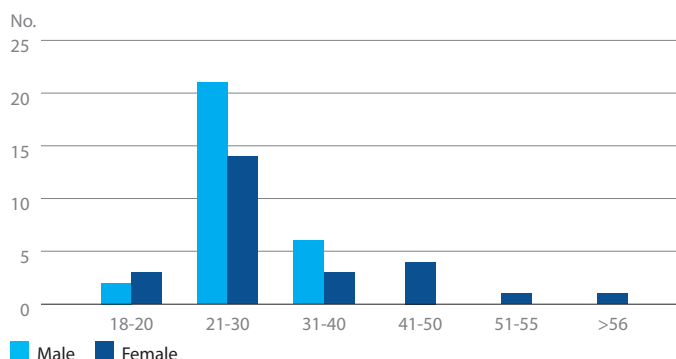
- Business targets or key performance indicators
- Behavioural attributes
- Value propositions

The biannual performance reviews introduced in 2018, which linked performance with incentives, training and career advancement has proved to be good for driving employee engagement. This will be an area that we will be looking to improve further in 2020 and beyond.

SDB bank is an equal opportunities employer, treating all its people and prospective employees with impartiality, irrespective of gender, age, race, or religion. This applies across all our processes from recruitment to career development and progression.

We have also created provided profiles for key management roles so that we are able to groom employees to meet the expectations that the role requires. Each employee will now also be screened by Head of HR. For managerial level positions and above the CEO will also assess them to ensure that all levels, all new hires with potential to be groomed for leadership positions. This will ensure that we are focused on the long term.

Employee recruitment by age and gender



Benefits provided to employees

We recruit people whose culture and values match ours and we offer them competitive terms of employment. This leads to improved retention rates.

Every year we enhance our employee benefits. A sample of other benefits that we offer our employees includes:

- 21 days of annual leave
- Comprehensive medical insurance
- Employer's contribution to EPF 14% (where minimum requirement is 12%)
- Medical leave of 14 days
- Unutilised annual leave of up to 7 days which can be carried forward
- Membership in the Welfare Society
- Special leave for critical illnesses
- Female employees with infants allowed feeding breaks during the first year
- Educational support: Honorarium payments for completion of banking exams and reimbursement of professional membership subscriptions
- Two years no pay leave for those who are pursuing their higher education abroad, subject to a signed bond between the employee and the employer
- Non-salary benefits introduced in 2019

Our welfare club too organises a number of initiatives which contributes towards employee engagement and retention.

Industrial relations

Freedom of association – which covers three aspects: namely an employee's right to join or leave groups voluntarily, the group's right to take action collectively in the interests of its members, and the association's right to accept or decline membership based on certain criteria is an aspect that the Bank has long recognised and respected.

As an organisation bank has taken every endeavour to maintain the industrial peace in the Bank.

Future outlook

The Bank has adopted a transformation agenda for 2017-2020 which necessitates changes across many areas of its operations, including its human capital. This is an ambitious three-year employee strategy which is focused on developing our people to meet the needs of the future.

One of the key focus areas of this programme relates to revenue generation through the development of Customer Value Propositions and optimisation in branches. The focus on improving performance assessments of employees and implementing a robust performance tracking system is expected to bring about a change in the attitudes, culture, and employee practices.

In the near future we will be looking to improve employee development, tailoring development programmes to suit the various roles at all levels. 2020 will see us putting our new training and development plans into action. Coaching, mentoring and counselling will also be introduced. These actions will go a long way towards ensuring that employees at all levels pull together to meet the Bank's goals.

The Confidence of Investors

Investors are increasingly becoming interested in the future potential of SDB bank, rather than its past performance. As a result, non-financial information – information not captured in the balance sheets – is becoming more and more relevant for ascertaining the Bank’s future potential. Accordingly, we have enhanced our disclosures of non-financial information in this integrated annual report which will provide clarity on the Bank’s path into the future and contribute towards investor confidence.

Consisting of dialogue between SDB bank and the financial markets, investor relations comprises information that helps the investment community make judgements about the Bank’s market value vis-a-vis its potential and sustainability. The feedback received from investors and the market also provides valuable insight to the Bank in strategic decision-making.

We ensure active investor engagement so that the market is able to make sound decisions on their current and probable future shareholdings and investments in other securities.

The Annual General Meeting is SDB bank’s primary platform for communicating the Bank’s performance. The Annual Report gives detailed, yet succinct information on its activities, use of its different forms of capital and its responsible social capital involvement. In addition, the Bank has one-on-one interactions with significant investors and releases other publications through the Colombo Stock Exchange.

Using these communications channels, we help investors to gain a balanced view of our operating results, financial position, liquidity and cash flow through the Financial statements. In addition, available disclosures help investors get a reasonable understanding of the Bank’s strategic direction, governance, risk management, and the future business prospects.

By sharing these many facets of information, we expect current and potential investors to gain a better understanding of the value of the Bank and to build and strengthen their relationship with SDB bank.

Accountability, transparency, and good governance remain at the forefront of our operations and the emphasis placed on these aspects in our communications with our investors give them the confidence that the operations are being conducted in line with best practices from around the world.

Our investor relations programme is designed to achieve the following:

- A competitive price for the Bank’s shares;
- A healthy level of transactions of the Bank’s shares on the stock exchange;
- Easier and cheaper access to capital in the future; and
- Reduced volatility in the share price through maintaining a loyal group of investors.

At SDB bank, we believe that successful investor relations are achieved through regular exchange of information with the market. As a result, such interactions remain integral to our communication strategy.

SDB bank securities

Types

- Quoted ordinary shares
- Debentures

Listing details

Quoted ordinary shares

Listed exchange : Colombo Stock Exchange (CSE) Main Board

Sector : Banks, Finance and Insurance

Quoted date : 31 May 2012

Code-ISIN : LK0412N00003

Stock symbol : SDB.N000

Debentures

Type	Code	ISIN	Par value LKR	Coupon rate (Per annum) %	Credit rating
B	SDB-BD- 31/12/20-C2337-10	LK0412D23394	100	10.00	A+(SO)
D	SDB-BD- 31/12/20-C2339-10.30	LK0412D23378	100	10.30	A-(SO)

Credit ratings

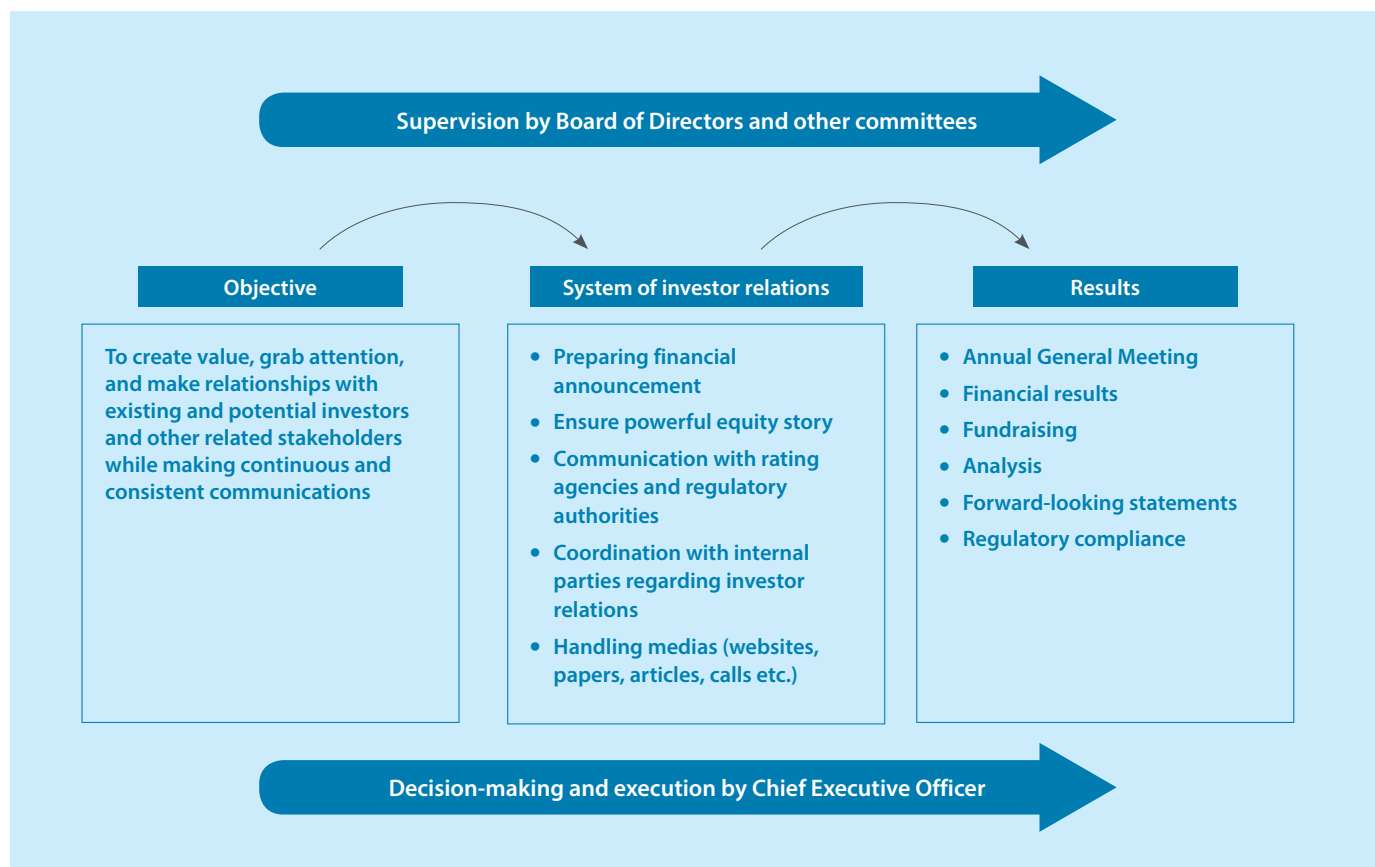
The Bank has obtained credit ratings from Fitch Ratings Lanka Ltd., and ICRA Lanka Limited. The ratings take into consideration the Bank’s performance, asset quality, capitalisation, liquidity and market position among others.

Rating entity	Rating
Fitch Ratings Lanka Ltd.	BB+(lka) with Stable outlook
ICRA Lanka Limited	(SL)BBB- with Stable outlook

Useful links for investors

Information	Link (website)
SDB Bank	www.sdb.lk
Colombo Stock Exchange	www.cse.lk
Central Bank of Sri Lanka	www.cbsl.gov.lk
Fitch Ratings Lanka Ltd.	www.fitchratings.com
ICRA Lanka Limited	www.icralanka.com

How we create value



Shares and shareholders' analysis

Share ownership composition

Share range	31 December 2019				31 December 2018			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1 – 1,000	35,813	95.49	4,358,723	7.74	36,003	95.63	4,404,185	7.82
1,001 – 10,000	1,312	3.49	3,684,299	6.54	1,286	3.42	3,556,285	6.32
10,001 – 100,000	341	0.91	10,200,329	18.12	313	0.83	9,447,858	16.78
100,001 – 1,000,000	32	0.09	7,634,895	13.56	38	0.10	8,607,818	15.29
1,000,001 – and above	8	0.02	30,430,006	54.04	8	0.02	30,292,106	53.79
	37,506	100.00	56,308,252	100.00	37,648	100.00	56,308,252	100.00

Analysis of shareholders

Resident/Non-resident

	31 December 2019				31 December 2018			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Resident	37,491	99.96	43,684,393	77.58	37,632	99.958	43,693,059	77.596
Non-resident	15	0.04	12,623,859	22.42	16	0.042	12,615,193	22.404
Total	37,506	100.00	56,308,252	100.00	37,648	100.00	56,308,252	100.00

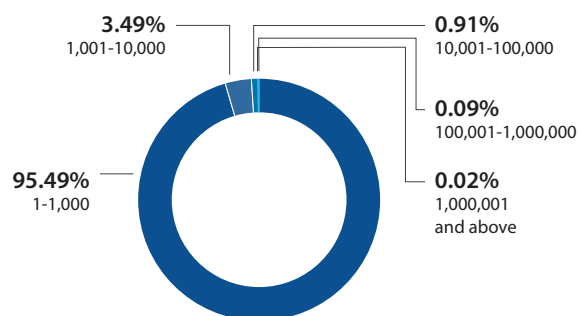
Individual/Institutional

	31 December 2019				31 December 2018			
	Number of Shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Individual	33,901	90.39	9,735,164	17.29	34,060	90.47	16,516,455	29.33
Institutional	3,605	9.61	46,573,088	82.71	3,588	9.53	39,791,797	70.67
Total	37,506	100	56,308,252	100	37,648	100	56,308,252	100

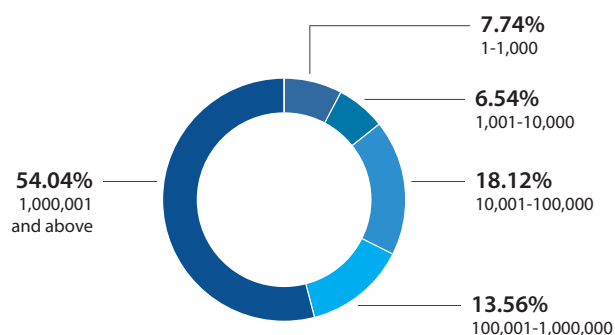
Institutional subanalysis

	31 December 2019				31 December 2018			
	Number of Shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Foreign	4	0.011	12,308,428	21.87	4	0.010	12,289,797	21.83
Local and other institutions	46	0.122	18,681,731	33.18	50	0.133	11,847,519	21.04
SANASA Federation								
Acc 1	1	0.002	720,024	1.27	1	0.002	720,024	1.27
Acc 2			28,439	0.05			28,439	0.05
SANASA societies	3,394	9.049	8,176,835	14.52	3,372	8.957	7,047,079	12.52
SANASA unions	34	0.091	1,241,252	2.20	35	0.093	1,242,645	2.21
MPCCS	21	0.056	156,595	0.28	21	0.056	156,595	0.28
Trust companies	105	0.279	5,259,784	9.34	105	0.279	6,459,699	11.47
Total	3,605	9.610	46,573,088	82.71	3,588	9.530	39,791,797	70.67

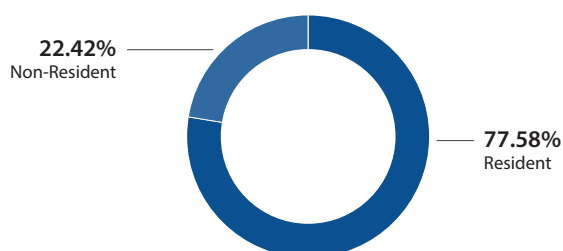
Share ownership composition by number of shareholders



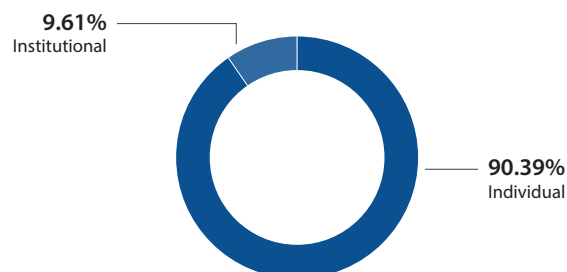
Share ownership composition by number of shares



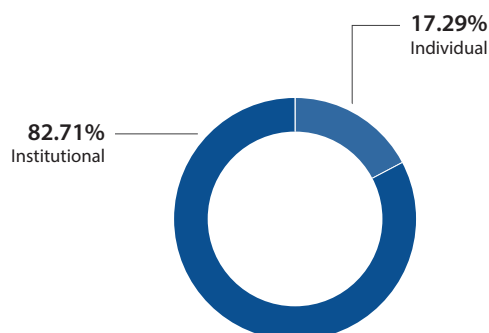
Resident/Non-resident shareholding by number of shares



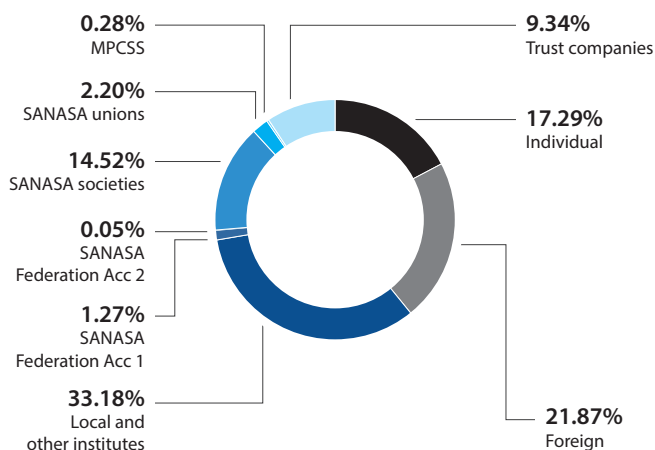
Individual/Institutional shareholding by number of shareholders



Individual/Institutional shareholding by number of shares



Individual shareholding and Institutional sub analysis shareholding by number of shares



Top twenty shareholders

No.	Name of the shareholder	31 December 2019		31 December 2018	
		Number of shares	%	Number of shares	%
1.	Ayenka Holdings (Pvt) Ltd.	7,028,043	12.48	6,779,840	12.04
2.	Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd.*	6,952,168	12.34	6,936,510	12.32
3.	SBI Emerging Asia Financial Sector Fund PTE. LTD	5,045,636	8.96	5,045,636	8.96
4.	CB NY S/A International Finance Corporation	4,991,644	8.86	4,991,644	8.86
5.	Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V.	2,242,504	3.98	2,242,504	3.98
6.	People's Leasing & Finance PLC	2,094,012	3.72	2,094,012	3.72
7.	Kegalle SANASA Shareholders Trust Company Limited	1,039,330	1.85	1,039,330	1.85
8.	SANASA General Insurance Company Limited	1,036,669	1.84	1,162,630	2.06
9.	SANASA Life Insurance Company Ltd. (Life)	910,708	1.62	910,708	1.62
10.	Sampath Bank PLC/Dr T Senthilverl	871,885	1.55	871,885	1.55
11.	SANASA Federation Ltd.	720,024	1.28	720,024	1.28
12.	Polgahawela SANASA Societies Union Ltd.	387,314	0.69	387,314	0.69
13.	Hambanthota DTCCS Union Ltd.	384,257	0.68	384,257	0.68
14.	Dr T Senthilverl	373,598	0.66	373,598	0.66
15.	Mr D P Pieris	257,067	0.46	257,067	0.46
16.	Kotikawatta Thrift and Credit Co-operative Society Limited	253,896	0.45	-	-
17.	Polgahawela SANASA Shareholders Trust Company Ltd.	240,836	0.43	238,667	0.42
18.	Sampath Bank PLC/Mr Arunasalam Sithampalam	224,333	0.40	224,333	0.40
19.	Dr S Yaddehige	205,653	0.37	205,653	0.37
20.	Kamburupitiya City SANASA Society Ltd.	181,209	0.32	181,209	0.32
	Total	35,440,786	62.94	35,046,821	62.24

*Shares held by Seylan Bank PLC/Dr Thirugnanasambandar Senthilverl has been transferred to the Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd. on 17 June 2019.

	31 December 2019		31 December 2018	
	Number of shares	%	Number of shares	%
Total number of shares registered	48,763,197	86.60	48,686,639	86.46
Total number of shares unregistered	7,545,055	13.40	7,621,613	13.54
Total number of shares issued	56,308,252	100	56,308,252	100
Shares held by Directors and CEO	199,450	0.35	75,243	0.13
Shares held by institutions	46,573,088	82.71	39,791,797	70.67
Balance held by others	9,535,714	16.94	16,441,212	29.20
Total number of shares issued	56,308,252	100	56,308,252	100
Shares held by public	56,107,533	99.64	56,231,740	99.86
Shares held by Directors, CEO and related parties	200,719	0.36	76,512	0.14
Total number of shares issued	56,308,252	100.00	56,308,252	100.00

Market capitalisation and minimum public holding

	31 December 2019
Market capitalisation (LKR)	3,598,097,303
Public holding percentage	99.64
Float adjusted market capitalisation	3,585,271,359
Number of shareholders representing public holding	37,500
Required minimum public holding percentage under option 4 of Rule 7.13.1 (a) of the Listing Rules of the CSE (%)	10

The minimum public holding requirement of the Bank as at 31 December 2019 complied with under option 4 of Rule 7.13.1 (a) of the Listing Rules of the CSE.

Directors' and CEO's shareholding

Name	31 December 2019		31 December 2018	
	Number of shares	%	Number of shares	%
Ms S Kiriwandeniya (Chairperson)	5,785	0.0103	5,785	0.0102
Mr P Subasinghe (Director)	69,341	0.1231	69,341	0.1231
Mr K G Wijerathne (Director)	117	0.0002	117	0.0002
Mr B R A Bandara (Director)	3,791	0.0067	-	-
Mr Thilak Piyadigama (CEO)	120,416	0.2139	-	-
Total	199,450	0.3542	75,243	0.1335

Share trading details

Market share trading

	2019	2018	2017	2016	2015
Number of transactions	1,197,205	885,657	981,977	1,056,849	1,506,790
Number of shares traded (Mn.)	9,855	6,001	8,468	7,196	9,415
Annual turnover (LKR Mn.)	171,407.96	200,068.84	220,591.24	176,935.45	253,251.01
Average daily turnover (LKR Mn.)	711.23	833.62	915.43	737.23	1,059.63

SDB bank share trading

	2019	2018	2017	2016	2015
Number of transactions	3,065	4,392	5,981	10,940	26,889
Number of shares traded	9,548,518	11,169,042	4,830,202	5,649,252	19,891,297
Value of shares traded (LKR Mn.)	579.51	1,199.97	500.47	725.61	2,667.29
Average daily turnover (LKR Mn.)	2.51	5.06	2.08	3.02	11.16

Market capitalisation details

CSE and banking industry market capitalisation

	2019	2018	2017	2016	2015
CSE market capitalisation (LKR Bn.)	2,851.31	2,839.44	2,899.29	2,745.00	2,938.00
S & P SL20 (31/12)	2,936.96	3,135.18	3,671.72	3,496.44	3,625.69
All share price index (31/12)	6,129.21	6,052.37	6,369.26	6,228.26	6,894.50
Banking, finance and insurance sector market capitalisation (LKR Bn.)	757.32	784.24	769.97	653.86	699.84

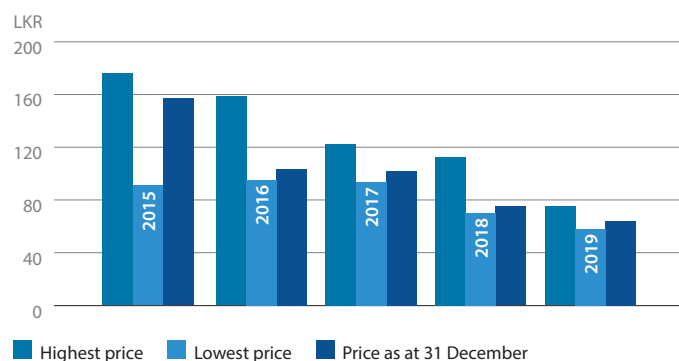
SDB bank market capitalisation

	2019	2018	2017	2016	2015
CSE market capitalisation (LKR Bn.)	2,851.31	2,839.44	2,899.29	2,745.00	2,938.00
SDB bank market capitalisation (LKR Bn.)	3.59	4.22	5.58	4.36	6.32
Increase/decrease in market capitalisation of SDB bank (%)	-15	-24	28	-31	84
SDB bank market capitalisation as a percentage of CSE market capitalisation (%)	0.13	0.15	0.19	0.16	0.22
Market capitalisation rank of SDB bank	117	91	83	96	78

Share price movement

	2019	2018	2017	2016	2015
Highest price (LKR)	75.00	112.90	122.50	158.80	176.00
Lowest price (LKR)	58.00	70.00	93.80	95.20	91.00
Price as at 31 December (LKR)	63.90	75.00	101.90	103.70	157.10

SDB bank share price movement trend



Dividends

A dividend is a distribution of reward, from a portion of the Bank's earnings, and is paid to the ordinary shareholders annually. The amount declared and paid each year varies in relation to the earnings of the Bank. It strikes a balance between a fair return to the shareholders for their investment and the business requirements to maintain the sustainability of the Bank.

Dividends are decided and managed by the Bank's Board of Directors and they are approved by the shareholders through the exercise of their voting rights.

Year	Profit for the year LKR Mn.	Total cash dividend paid/ to be paid LKR Mn.	Dividend per share LKR	Dividend payout ratio %	Dividend yield %
2015	720.57	109.16	10.00	55.86	6.37
2016	403.72	131.24	7.50	78.13	7.23
2017	507.82	136.94	6.00	60.79	5.89
2018	356.95	-	-	-	-
2019 (To be paid)	253.41	112.62	7.00	155.55	10.95

Value delivered to shareholders

CSE market

	2019	2018	2017	2016	2015
Market price-earnings ratio (PER) (Times)	10.83	9.65	10.60	12.37	17.98
Market price to book value (PBV) (Times)	1.14	1.18	1.31	1.42	1.99
Market dividend yield (DY) (%)	3.17	3.09	3.19	2.75	2.18

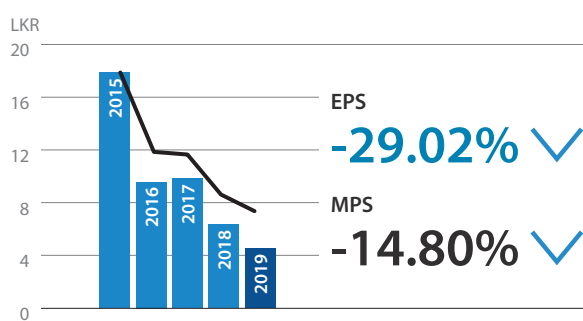
Banking industry

	2019	2018	2017	2016	2015
Market price-earnings ratio (PER) (Times)	5.57	5.38	6.61	7.04	11.02
Market price to book value (PBV) (Times)	0.84	0.92	1.07	1.15	1.44
Market dividend yield (DY) (%)	2.70	2.80	2.50	3.30	3.00

SDB bank

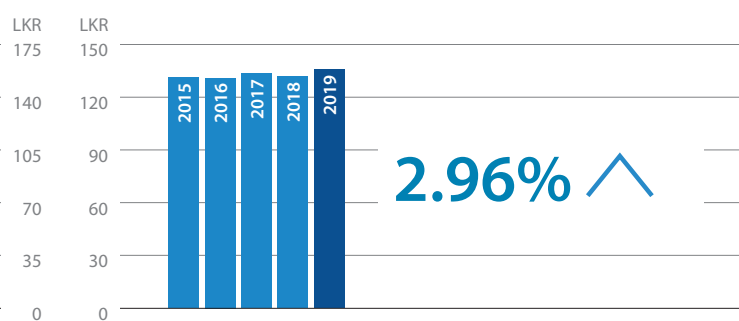
	2019	2018	2017	2016	2015
Net asset value per share (LKR)	136.20	132.28	133.83	131.22	131.62
Basic earnings per share (LKR)	4.50	6.34	9.87	9.60	17.90
Dividend per share (LKR)	7.00	-	6.00	7.50	10.00
Market price per share as at 31 December (LKR)	63.90	75.00	101.90	103.70	157.10
Price-earnings ratio (PER) (Times)	14.20	11.83	10.32	10.80	8.78
Price to book value (PBV) (Times)	0.47	0.57	0.76	0.79	1.19
Dividend yield (DY) (%)	10.95	-	5.89	7.23	6.37
Dividend payout (%)	155.55	-	60.79	78.13	55.86
Number of shares (Mn.)	56.31	56.31	54.78	42.06	40.25
Number of shareholders	37,506	37,648	38,283	39,374	40,283
Total equity (LKR Mn.)	7,668.98	7,448.73	7,331.16	5,519.28	5,297.35
Stated capital (LKR Mn.)	5,921.54	5,921.54	5,758.69	4,062.96	3,794.09
Debt to equity (Times)	12.77	11.83	10.09	10.75	10.12
Interest cover (Times)	1.06	1.08	1.11	1.13	1.34
Return on equity (%)	3.35	4.83	7.90	7.46	14.42
Earnings growth (%)	(9)	(14.41)	22	(43.97)	42.84
Quick assets ratio (%)	0.59	0.65	0.63	0.65	0.55

Earnings and market price per share



■ Earnings per share (LHS) — Market price per share (RHS)

Net assets per share



Other information for ordinary shareholders

Record of scrip issue

Year	New proportion	Old proportion	Number of shares listed	Date listed
2017	1	22.8533	2,279,147	12 June 2017
2018	-	-	-	-
2019	-	-	-	-

Record of rights issue (2014)

Code	Close price LKR	Highest price LKR	Lowest price LKR	Turnover LKR	Number of shares	Trades
SDB.R0000	15.00	24.00	10.70	31,153,089.00	2,191,458	1,717

Date of allotment	Number of shares provisionally allotted	Consideration per share LKR	Final allotment number of shares	Amount raised LKR	Proportion	Date issued
18 November 2014	12,587,661	80.00	12,587,661	1,007,012,880.00	1:2	30 December 2014

Utilisation of funds raised through rights issue

Objective Number	Objective as per circular	Amount allocated as per circular in LKR	Proposed date of utilisation as per circular	Amount allocated from proceeds in LKR	Percentage of total proceeds	Amounts utilised in LKR	Percentage of utilisation against allocation
1	To increase the Bank's capital base and to finance portfolio growth whilst strengthening the balance sheet	1,007,012,880	Nine months from the date of allotment	1,007,012,880	100	1,007,012,880	100

Value creation for debenture holders

Basic information of the debentures

	Type B	Type D
Tenure	5 years	5 years
Issue date	31.12. 2015	31.12. 2015
Maturity date	31.12. 2020	31.12. 2020
Frequency of interest payable	Semi-annual	Semi-annual
Market value	Not traded	Not traded

Other information of the debentures

	2019				2018			
	Balance as at 31 December	Coupon rate	Annual effective rate	Interest rate of comparable Government Securities	Balance as at 31 December	Coupon rate	Annual effective rate	Interest rate of comparable Government Securities
	LKR '000	%	%	%	LKR '000	%	%	%
Type B	422,906	10.00	10.25	9.72	422,906	10.00	10.25	11.58
Type D	591,128	10.30	10.57	9.72	591,128	10.30	10.57	11.58

Utilisation of funds raised through debenture issue

Objective Number	Objective as per prospectus	Amount allocated as per prospectus in LKR	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in LKR	Percentage of total proceeds	Amounts utilised in LKR	Percentage of utilisation against allocation
1	To raise medium term funds to manage assets and liability mismatch and to minimise the interest rate risk	-	-	-	-	-	100
2	To finance the budgeted lending portfolio (approximately 90% as loans and the balance as leasing) and to minimise the mismatch in funding exposure	964,560,000	In the ordinary course business within the next 12 months from the date of allotment	868,104,000 for loans and 96,456,000 for leasing	100	964,560,000	100

The Power of Our Partnerships

Just as the relationships we share with our business partners are mutually beneficial, we ensure that they remain professional, transparent, and fair at all times. Being deeply rooted in the rural community, we have a deep understanding of the needs of our customers and are able to proactively provide solutions for them while working as business partners.

Strategic partnerships

During the year under review, we successfully raised USD 10 Mn. from Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V. and USD 8 Mn. from the Belgian Investment Company for Developing Countries (BIO) through an issuance of unlisted subordinated five-year term debt with a non-viability conversion under Tier 2 Capital of the Bank. Both debts are subject to compliance with the conditions stipulated in the Banking Act Director No. 1 of 2016 on capital requirements under BASEL III guidelines published by the Central Bank and are due to be repaid in 2024.

To explore opportunities in the global co-operative arena we have relationships with International Cooperative Alliance (ICA), Asian Confederation of Credit Unions (ACCU), International Raiffeisen Union (IRU) and Centre for International Cooperation in Agricultural Banking (CICAB).

Since 1978, we have also been partnered by Rabo Bank of the Netherlands, The World Council of Credit Unions and other world co-operative associates for the roll-out of various development programmes. Internationally SANASA Federation is connected with all world co-operative federations and is a member of all international and regional co-operative bodies.

Partnerships to benefit customers

During the year under review, we entered into a partnership with DIMO, to offer special leasing facilities for Mahindra tractors. This partnership benefits the agricultural sector, particularly smallholder farmers in need of leasing tractors. Through this partnership we were able to offer customers a range of benefits including leasing facilities of up to 85% of the value of the tractor, which is not usually available in the market, and the flexibility to make payments either monthly or seasonally, which is very important for rural farmers.

We also signed a landmark agreement with the Central Bank of Sri Lanka (CBSL). The MOU entered into involves the Smallholder Agribusiness Partnership Programme (SAPP), an initiative to enhance production levels, productivity, quality, and value-addition of agricultural products. Set to further boost the country's agricultural sector, the project includes the joint efforts of CBSL, the Presidential Secretariat, International Fund for Agricultural Development (IFAD) and Smallholder Agribusiness Partnerships Programme (SAPP), along with SDB bank.

The above venture enhances other existing partnerships signed in late 2018 which had a positive impact on activities during the year under review. These include the memorandum of understanding with Brown & Company PLC to offer financing solutions for the brand new TAFE and Massey Ferguson four wheel tractors. We also signed an agreement with a leading pilgrimage tour operator, Lotus *Sancharakayo*, at their

request in order to organise pilgrimages to *Dambadiva* in India at a concessionary rate for retired government servants. The devotees are able to obtain the tour cost through the SDB bank *Upahara* Loan Scheme. These loans are offered without any guarantors for a minimal instalment amount. The customer has a repayment period up to 10 years until they reach the age of 75.

As leaders in our respective fields, there are many synergies that will arise from these partnerships – synergies that will benefit our customers and the organisations themselves.

We have also tied-up with the Ministry of Defence to bring greater benefits to women entrepreneurs and youth. Together our goal is to increase their participation in the workforce and facilitate their ability to contribute towards the economy of the country.

Procurement policy

In line with our Vision to be “A Leading Partner of National Development,” we have strong partnerships with local suppliers in order to further economic development in the areas and communities within which we operate. For this reason, wherever possible, we also partner with members of the SANASA Federation to procure the products and services that we need in order to fulfil our Mission.

As depicted below, our level of dependency on business partners varies from critical to ad hoc.

Critical operations

Business critical services remain a key focus to the Management of SDB bank.

- Utility services providers
- Travel and transport
- Software support
- Material suppliers

Providers of electricity, telecommunication, and software systems support ensure the smooth functioning of our business. As we have limited capacity to influence or switch such suppliers easily without incurring hefty costs in the case of most services, we take precautions to build long-standing relationships with them. This contributes towards ensuring that our expectations are met.

Ongoing support

Covering a wide variety of services that allow us to operate at an optimum, on a daily basis, these suppliers range from large corporates to SMEs and individuals.

- Maintenance
- Software suppliers
- Material suppliers
- Staff welfare
- Waste management
- Debt collection agencies

Some of the many sustainability challenges they face are identified below:

Business partners	Material aspects
Maintenance service providers	Labour practices
Health and safety of workers	Effluents and waste
Travel and transport providers	Emissions
Material suppliers	Responsible sourcing, human rights of workers
Waste management service providers	Effluents and waste

We maintain regular dialogue with these business partners about areas of concern, working towards resolving identified issues and encouraging the adoption of best practices.

Infrequent engagement

While we deal with the following business partners in an ad hoc or infrequent manner, nevertheless, we take pains to ensure that relationships remain strong as their services are of great importance to SDB bank.

- Premises providers
- Contractors
- Professional service providers

As with all supplier groups, we require compliance with all applicable regulations.

The Commitment to Society and Environment

We operate within a network of communities whose goodwill provides us with a legitimate licence to operate. In the same way, these same communities depend on us for the improvement of their lives and livelihoods. Just as we derive value from and deliver value to society, we are also a part of the value creation cycle that relates to the environment. Safeguarding our natural resources for future generations, while also encouraging and educating our stakeholders to do the same, ensures the long term sustainability of our operations.

Contributing towards the SDGs

We are proud to contribute towards the United Nations Sustainable Development Goals (SDGs) which were adopted by all 193 Member States of the United Nations in 2015. Now in its fifth year, this 15-year plan focuses on ending extreme poverty, fighting inequality and injustice, and protecting our planet. The 17 Sustainable Development Goals (SDGs), which clearly define the world we aspire to, applies to all nations, leaving no one behind.

After overcoming a 30-year domestic conflict, Sri Lanka has already begun transforming towards a sustainable and resilient society. The extreme poverty rate dropped to 0.8% in 2016, while the unemployment rate has been below 5% since 2010. Free education and health policies have resulted in high youth literacy rates of 98.7% and high life expectancy of 75 years. Based on its index of human development, Sri Lanka is a high achiever.

In terms of challenges, Sri Lanka is focused on improving the quality and relevance of education, providing medical treatment and care facilities for the ageing population, and fighting climate disasters – all of which will require further policy support, financial mobilisation and stronger partnerships.

Incorporating the SDGs into its national policy framework, Sri Lanka has taken several significant steps. The most important is the Sustainable Development Act in 2017, which establishes the legal framework to implement the SDGs with improved institutional and policy coherence. The Sustainable Development Council has been established under this Act to formulate related national policies and guide new development projects. Sri Lanka is leading many of its peers in efforts to include and mainstream the SDGs into its national plan and budget, proving that a country can begin tackling social well-being and environmental health even before it achieves economic affluence. [Source: <https://www.unescap.org/blog/sdg-implementation-and-budgeting-sri-lanka>]

During the year under review, SDB bank contributed towards the following SDGs:

1. End poverty



- Disbursed LKR 29 Bn. to SME segment including SMEs and micro-enterprises across the island.

2 Zero hunger



- MOU with John Keells Holdings PLC to offer special leasing facilities for Mahindra tractors for smallholders
- Financing and support for value chains in agriculture sector
- Smallholder Agribusiness Partnership Programme (SAPP), an initiative to enhance production levels, productivity, quality, and value-addition of agricultural products

4 Quality education



- 11 *Lakdaru* seminars for 4,445 Grade 5 scholarship students covering five provinces of the island
- Book donation to school in Kebithigollawa to improve knowledge and reading interest among rural communities
- Empowering Education programme in Mullaitivu
- Bronze sponsor and participant in Digital Experience Management Exchange organised by Sri Lanka Institute of Service Management
- Bronze sponsor of CIMA Business Leaders Summit 2019
- Bronze sponsor of the "40th National Conference of Chartered Accountants"
- Silver Sponsor of Junior National Law Conference 2019

5 Gender equality



- *Uththamavi* loan scheme for empowering women
- “*Uththamavi* Investment Account” designed especially for women to enjoy a higher interest rate and realise life’s objectives step by step. It paves the way for the account holder to realise the aspirations to own a house, and meet expenses. Conducted 42 *Uththamavi* workshops on financial literacy and entrepreneurship which were attended by 4,000 participants
- Sponsored ICSE 2019: International Conference on Women Entrepreneurship

7 Affordable and clean energy



- Green Leasing for electric and hybrid vehicles

8 Economic growth



- Introduced mobile banking to grassroots communities and created awareness
- Installed internet banking kiosks in over 100 co-operatives across Sri Lanka

10 Reduced inequalities



- In partnership with the State Ministry of Defence launched the “*Neelahiritha* Project” to support retired war veterans into becoming agro-veterans.
- Disbursed LKR 12 Bn. to senior citizens and war heroes and their families
- 30 financial literacy seminars for war veterans, disabled soldiers and their families
- Introduced mobile banking to grassroots communities and created awareness
- Installed internet banking kiosks in over 100 co-operatives across Sri Lanka

12 Responsible consumption and production



- Donated a bio-gas unit

15 Life on land



- *Surakimu Siripa* polythene clean up

Being a socially responsible bank bolsters our image and brand, creating ambassadors of our customers and fuelling our employees’ passion to make a difference in the world. As we create value for the society and the environment, so they too create value for the Bank. The networks that have sprung up between the Bank and each stakeholder group enhance the well-being of the individual, the community and the Bank itself.

In addition to the initiatives outlined above, we also undertook the following initiatives in our commitment to the community.

Other community events

- SANASA *Nelum Mal Poojawa* was organised by the SANASA Federation and the SANASA Movement with the sponsorship of SDB bank for the 19th time. The main objective of this event is to bless Sri Lankan citizens, SANASA members and SDB bank customers with a healthy and prosperous new year.
- SDB bank’s annual blood donation programme 2019, held at the Head Office lobby drew a large number of donors.
- Women’s Day – held number of events under *Uththamavi* to support and celebrate women entrepreneurs
- Sinhala and Tamil New Year celebrations that centre on cultivating thrifty habits
- SDB bank Quiz competition for employees
- Celebrating 22 years of the SDB journey
- Silver sponsor of Great Place to Work Conference 2019
- Sponsor for National Pensioner’s Day Celebration 2019
- Employee Christmas Carols

Managing our Risks

SANASA Development Bank has adopted an integrated approach to risk management based on policy frameworks approved by the Board of Directors, governance structures and tools and techniques to identify, measure, mitigate and manage all risk exposures.

The Board of Directors has the ultimate responsibility to manage risk. It formulates policy and sets the risk parameters. The Board Integrated Risk Management Committee (BIRMC) assists the Board of Directors in this regard.

The responsibility for implementing the risk management framework lies with the Executive Integrated Risk Management Committee (EIRMC) who reviews the Bank's credit, market, liquidity and operational risk indicators as well as its internal capital adequacy levels.

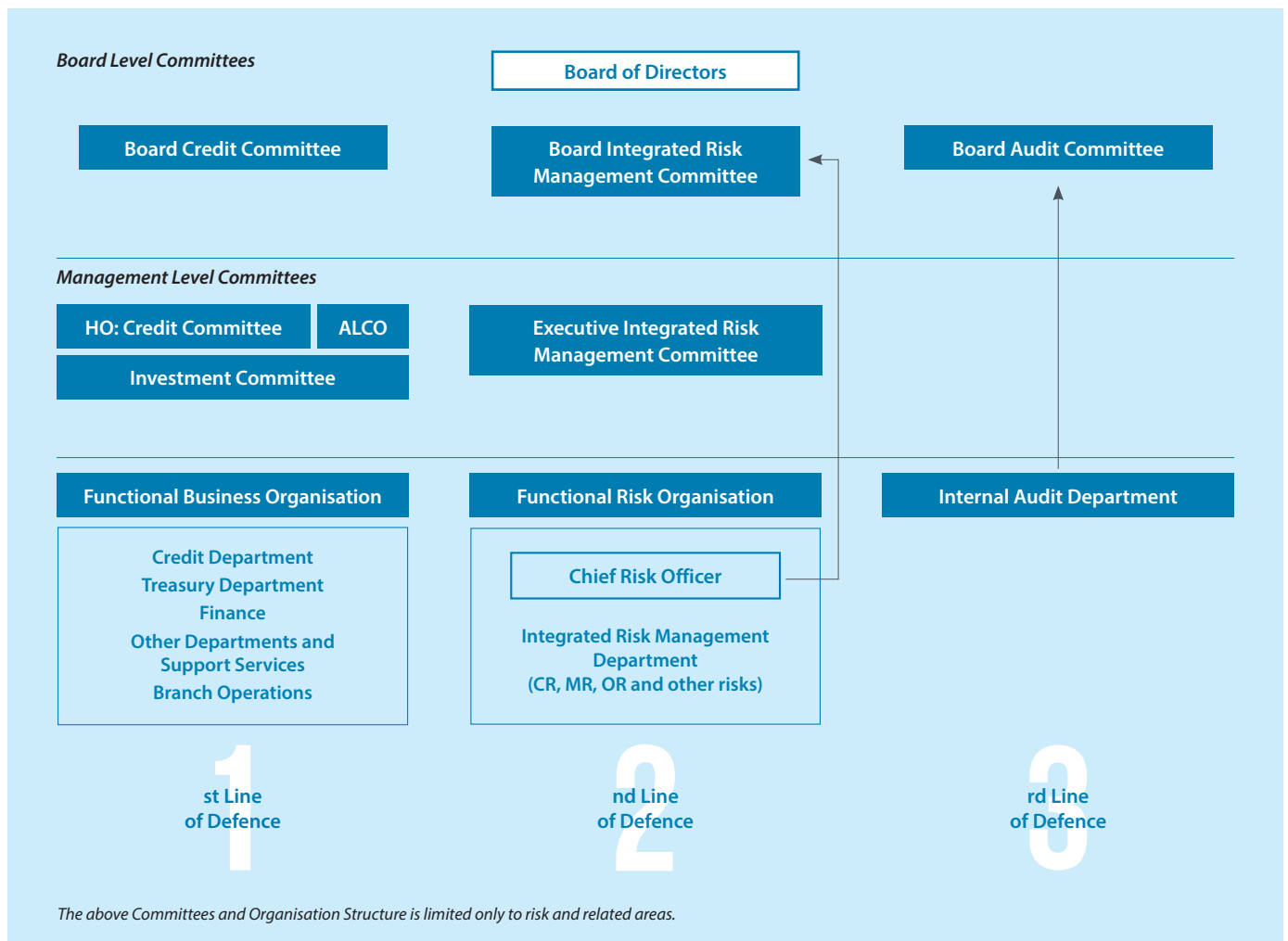
The Chief Risk Officer has a triple reporting responsibility to the EIRMC, the Operational Risk Management Committee and the BIRMC.

Approach to risk management

Having recognised the importance of risk management to the effective running of the Bank, the Board of Directors has developed a risk management policy that is designed to help identify, measure, manage and report all material risks.

Relevant procedures have been built around these policies which are communicated throughout the Bank to assist business units in the discharge of their duties and in dealing with customers.

The Bank adopts the internationally recognised Three Lines of Defence governance model where transparency and accountability are practised through clear segregation of duties.



The First Line of Defence (functions that own and manage risks) consists of identifying, managing, and reporting of risks at all levels. The intention is to manage specific risks at the source as effectively as possible.

The Second Line of Defence (functions that oversee risk) is the centralised oversight of the First Line of Defence by the risk management, compliance, finance and other support functions.

The Third Line of Defence (independent assurance) comprises internal and external audits that provide unaffiliated opinions on the strength and effectiveness of controls.

In order to embed a risk awareness culture across the organisation, ongoing training programmes are conducted and various communiques are issued continuously. During the year several training programmes were conducted to strengthen the operational risk reporting and data capture. Risk consciousness is an integral part of the Bank's induction programmes and consists of several mandatory training modules for all employees. In addition, a risk reporting process at multiple levels in the organisation, lends weight to its importance in the functions of the Bank.

Risk appetite

The risk appetite of the Bank is articulated through a clear set of indicators, with limits and triggers, relating to the key risks the Bank is exposed to. This set of guidelines is reviewed and updated regularly by the Board of Directors in keeping with the strategic objectives and the corporate plan for the year.

The following are the Bank's key risk appetite indicators, along with actual performance results for the year.

Key Risk Indicators	As at 31 December %	Internal Limit
Credit risk		
Gross non-performing loans ratio	4.4	<4.0
Top twenty exposures/ Total loans	4.1	<10.0
Market risk		
Earnings at risk ratio	-1.8	(+/-) 15.0
Economic value of equity ratio	-1.1	(+/-) 2.0
Liquidity		
SLAR	21.7	>20.0
LCR	123.8	>100.0

Risk reporting

An integral part of risk management is regular reporting of those factors relating to the exposures that have been identified. These reports are sent to the Board of Directors, the relevant department heads, Operational Risk Management Committee and the EIRMC by the Chief Risk Officer.

Risk exposure	Risk reports
Credit risk	Number of NPL value by sector, geography and product relative to the provision coverage
Market risk	Impact of rate shifts on the Bank's economic value of equity and the earnings Trading book value and return against limits
Liquidity risk	Liquidity allocation Cash flow forecasts Analysis of regulatory and internal cash flow maturities Stressed cash flow analysis
Operational risk	Summary of operational loss events by business unit
Strategic and reputational risk	Key budgetary ratios Scorecard based questionnaires to assess reputation risk across the Bank

Stress testing

The Bank conducts regular stress testing to identify potential impacts that fluctuations in market variables and other risk factors could have on the Bank's risk profile. Stresses in the Bank's credit, market, liquidity, are evaluated with reference to capital and earnings positions.

The Board Integrated Risk Management Committee (BIRMC) conducts regular reviews of the stress testing outcomes, including the major assumptions that underpin them.

The following table shows examples of stress factors that need to be tested to determine their impact on the capital adequacy ratio (CAR), net interest margin (NIM) and profitability.

	Credit risk	Concentration risk	Interest rate risk	Liquidity risk
Stress scenario	Increase in NPL ratio Shifts in NPL categories	Increase in HHI (Herfindahl-Hirschman index) values across lending counterparties and sector	Movement in interest rates	Liquidity stress scenarios

External drivers of risk

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

During the year under review, the following external drivers had an impact on the Bank's overall risk profile.

Macroeconomic conditions

- While the economy was severely battered after the Easter Sunday attacks, there was a slight recovery in the last quarter as tourist arrivals began to pick up. CBSL introduced various stimulus such as rate cuts and SME and Tourism moratorium in a bid to kick start the economy. The banking industry in turn was impacted due to the above measures. The industry also saw rising NPLs with small and medium-sized banks being particularly impacted. Overall asset and deposit growth remained muted throughout the year.

Political environment

- The first few months of the new presidency witnessed sweeping fiscal and monetary reforms in order to revive an economy, battered by the Easter Sunday attacks. SDFR and SLFR were cut by 50 basis points. The Government further attempted to revive SMEs with the introduction of the SME moratorium which allowed qualifying SMEs to service the interest only on their bank borrowings. This however was perceived as credit negative by rating agencies.

Climate change

- Sri Lanka was ranked 2nd on 2019 Global Climate Risk Index. The Bank is aware of the high risk of doing business in vulnerable industries and has taken the necessary precautions where needed.

Credit risk

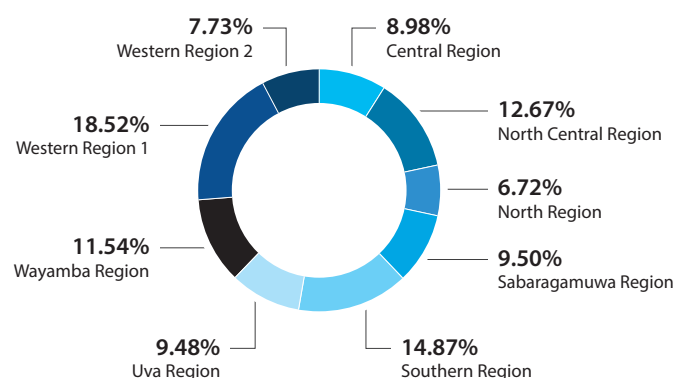
The Bank's underlying business model requires the extension of credit to individuals and businesses to enable them to fund their occupations and other personal needs. Credit risk relates to the potential losses that can arise when customers are unable to discharge their obligations for the repayment of loans and advances taken by them.

SDB bank has in place the Board Credit Committee which is charged with the responsibility of implementing the Bank's credit risk management framework. A Board approved Credit Risk Management policy outlines the responsibilities, tools and techniques for credit risk identification, measurement, mitigation and management. Key aspects, amongst others, of the Bank's credit policy include pre-credit sanctioning criteria, delegated approval authority, due diligence, collateral management and post-credit monitoring. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

Concentration risk

Concentration risk is the potential for a loss in value of the loan portfolio when an individual or group of exposures move together in an unfavourable direction. The implication of concentration risk is that it can generate such a significant loss when recovery is unlikely. The exposures can be geographical or sector wise. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Region wise portfolio



Market risk

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

How SDB bank manages market risk

The Bank's main market risk exposure relates to interest rate risk. Fluctuations in interest rates affect the cost of funds and consequently the Bank's profitability.

The Assets and Liabilities Committee (ALCO) is responsible for monitoring the Bank's market risk exposure. It reviews the impact of interest rate risk on the banking book as well as net interest margin, funding mismatches and the cumulative rate sensitive gap. The Committee also undertakes stress tests on the net interest margin (NIM) and the equity, under different interest rate scenarios.

A comprehensive set of policies is in place to govern all aspects of market risk. These policies are reviewed and updated regularly in view of emerging market risks.

Equity risk

Equity risk relates to potential losses in earnings resulting from adverse fluctuations of the share prices. SDB bank did not have any investments in shares and consequently this does not pose a risk.

Liquidity risk

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

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

Liquidity risk performance in 2019

During the year, the Bank maintained its liquidity ratios well within the internal limits and above regulatory minimums specified by the Central Bank of Sri Lanka (CBSL).

An analysis of the funding profile of the Bank, shows that the deposits are distributed amongst a range of customers and other sources where a few do not control a large percentage of the total.

The Bank also has in place a Contingency Plan to bridge any unexpected liquidity shortfalls. In the event of liquidity stress, Treasury is able to borrow 80% against Treasury Securities as repo borrowings through Bank approved primary dealers.

Operational risk

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

The Operational Risk Management Unit (ORMU) is responsible for administering the evaluation, to defined operational risk parameters, of all key business units on their exposure. This is a mechanism that enables business units to identify and assess their own risks and introduce measures to improve risk control. The Bank also maintains an Operational Risk Loss Data Base in line with Basel guidelines. Processes are also in place to capture all operational loss events which are then categorised in accordance with the guidelines.

Legal risk

"Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to your business, its relationships, processes, products and services." – Whalley, M. 2016.

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

Strategic risk

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

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

Capital management

The Internal Capital Adequacy Assessment Process (ICAAP) which complies with Basel requirements, outlines the process for assessing overall capital adequacy in relation to the Bank's risk profile. The implementation of this framework ensures that the Bank possesses sufficient capital to cover its material risk exposures.

	Regulatory requirement %	2019 %
Tier 1	8.50	9.43
Total Capital	12.50	14.80

Corporate Governance

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Message from the Chairperson on Corporate Governance

Dear Stakeholders

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

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

The collective industry acumen, depth of skills and diversity of experience of Board of Directors have enriched Board discussions and will be a key driver of the Bank's strategic transformation over the next few years. The Bank's ability to attract international investors and employee confidence on the Bank's mission, providing renewed vigour and enthusiasm to our team. In 2019 the Board met 13 times and key areas of focus included implementation of the transformation strategies.

The reports on pages 78 to 106 describe the Bank's corporate governance practices and compliance to the Banking Act Direction No. 12 of 2007 and subsequent amendments thereto for Licensed Specialised Banks in Sri Lanka by the CBSL and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2017.

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

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

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



Samadanie Kiriwadeniya
Chairperson

26 February 2020
Colombo, Sri Lanka

Governance and Compliance

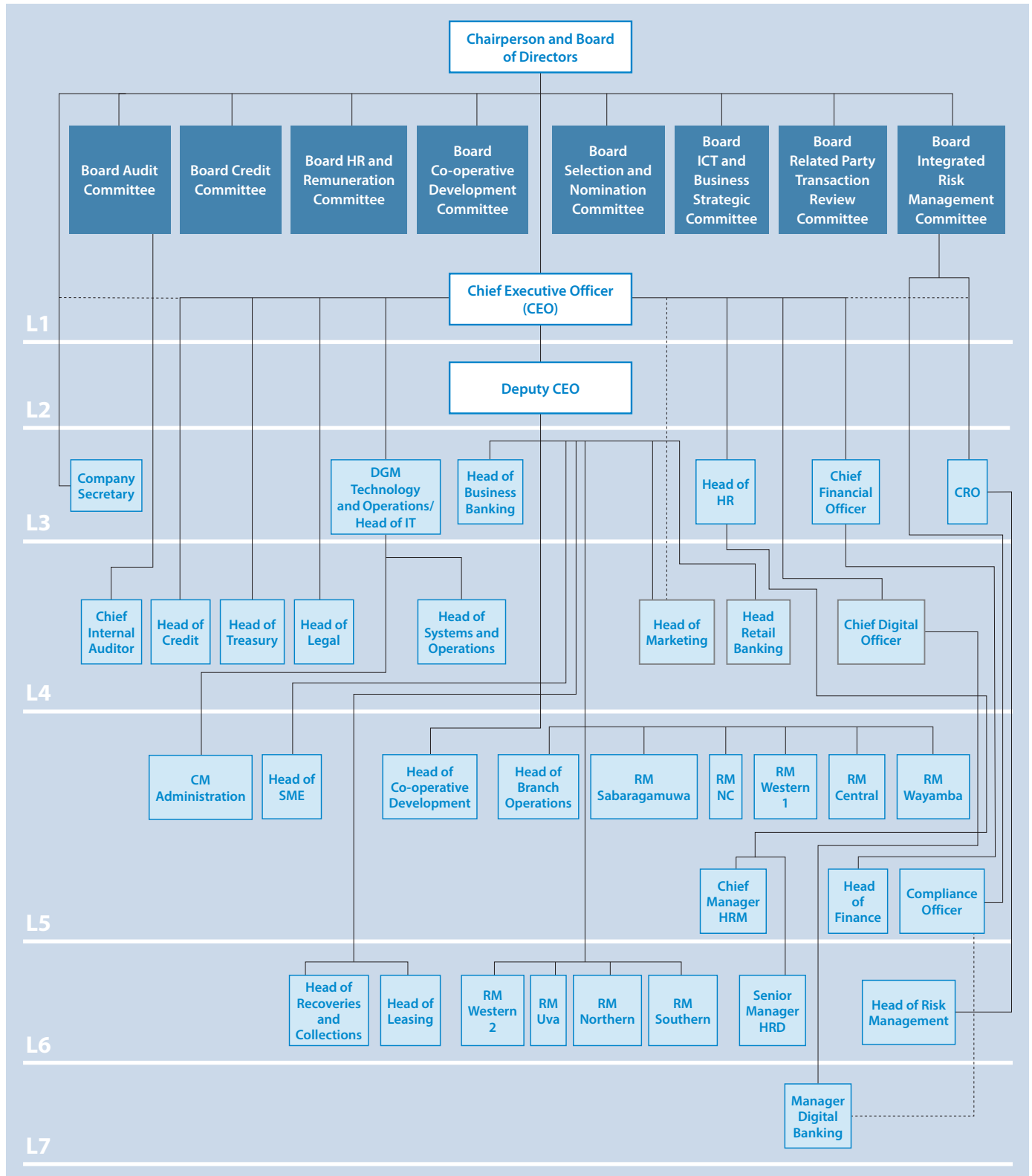
Bank's approach to corporate governance

SDB bank's Board of Directors holds apex responsibility for implementing sound governance structures and formulating policy frameworks, thereby effectively setting the tone at the top. Governance practices are reviewed and updated regularly to reflect regulatory changes, emerging risks and opportunities and internal changes. The Bank's ethical conduct is embodied in the oath of the SANASA Movement, which is based on the co-operative principles of empowerment, equal opportunity, and collective participation in decision-making. The Bank's Governance Framework has been developed to comply with several external and internal steering instruments, as listed below:

External instruments	Internal instruments
Companies Act No. 07 of 2007	Articles of Association of the Bank
Banking Act No. 30 of 1988 and amendments thereto	Board approved policies on all major operational aspects, customer charter
Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and amendments thereto	Policy for secrecy of information, Related Party Policy, credit and other internal manuals
Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (a Voluntary Code)	Integrated Risk Management Procedures Code of Conduct and Ethics for Directors
Listing Rules of the Colombo Stock Exchange	Disclosure policy, Communication policy
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto	Processes for internal controls
Financial Transactions Reporting Act No. 06 of 2006 Prevention of Money Laundering Act No. 05 of 2006 Convention on the Suppression of Terrorist Financing Act No. 25 of 2005	Compliance Charter, Compliance Policy and procedure manual for Know Your Customer and customer Due Diligence lead to prevention of money laundering and terrorist financing
Inland Revenue Act No. 24 of 2017	Internal circulars on operational practices

Governance structure

The Board of Directors hold ultimate accountability and responsibility for the affairs of the Bank. The Board is led by a Non-Independent, Non-Executive Chairperson. The Board has designated an Independent Director as the Senior Director. The Board is supported by eight subcommittees, which provide oversight and in-depth focus on specific areas, enabling the Board to dedicate sufficient time and focus to broader issues within its scope. The Bank's governance structure is graphically illustrated below;



Board Effectiveness

Board composition

The Board comprises ten Directors, all of whom operate in a Non-Executive capacity while four are Independent. The Board of Directors submits annual declarations of independence to this effect. Directors are luminaries in the fields of academics, rural development, administration, entrepreneurship and co-operatives enhancing the overall effectiveness of decision-making. Please refer pages 18 to 21 for detailed profiles of Board members. During the period under review, Mr B R A Bandara was appointed to the Board, Mr A P J de Vette resigned from the Board and Ms Dinithi Ratnayake was appointed in place of Mr A P J de Vette.

Diversity of skills

The Board combines diverse industry insights, skills and experience and therefore is able to assess matters from varying perspectives, enhancing the depth and effectiveness of discussions. Directors bring together academic, entrepreneurial, rural development and corporate perspectives and represent major shareholders, individuals from the SANASA Movement and professionals from the banking industry. There is also sufficient financial acumen on the Board, with two Directors holding membership in professional accountancy bodies and several Directors holding MBAs from reputed universities.

Chairperson and CEO

The Role of Chairperson and CEO has been separated ensuring balance of power and authority. The Chairperson is a Non-Executive Director and is responsible for setting the Board's annual work plan and agenda, ensuring that meetings are conducted effectively, with participation from all members and monitoring the overall effectiveness of the Board. The CEO's responsibilities include, implementing strategy, monitoring and reporting the Company's performance to the Board among others.

Appointment to the Board

A transparent procedure is in place for the appointment of new Directors to the Board. In the event of a vacancy, nominations are made through the Board Selection and Nominations Subcommittee (BS and NC). An affidavit of authenticity is required from the nominated person and the details communicated to the CBSL for Fit and propriety approval. Appointments are thereafter communicated to the CSE and shareholders through press releases. These communications include a brief résumé of the Director disclosing relevant expertise, key appointments, shareholding and whether he is independent or not. SDB bank has no discriminatory criteria for disqualification of nominees however BS and NC calls for nominations as per the criteria laid down by the Banking Act.

Board Human Resources and Remuneration Committee

The Bank's remuneration for the Board of Directors and the Key Management Persons are determined based on a formal Remuneration Policy and is designed to attract and motivate professionals and high-performers. The BHRRC is responsible for providing guidance to the Board on the remuneration of Board of Directors and Senior Management within agreed terms of reference and in accordance with the remuneration policies of the Bank.

Board access to information

Directors have unfettered access to the Bank's Management Team, who are invited for Board meetings depending on the agenda. The Management makes regular presentations to the Board to ensure that Directors are kept abreast of emerging changes in the operating landscape. Access to independent professional advice is also made available and coordinated through the Company Secretary. Directors attend seminars conducted by the Sri Lanka Institute of Directors and forums organised by the CBSL.

Board meetings

The Board convenes regularly and met 13 times in 2019; details of meeting attendance are given in the Annual Report of the Board of Directors on the Affairs of the Company on page 125. Notices of all Board meetings are given at least seven days prior to the holding of the meeting, thereby ensuring adequate time for members to prepare. Meeting agendas and Board papers are circulated to all Board members prior to the meeting. Directors are supplied with comprehensive and timely information that is required to discharge their duties effectively.

Self-appraisal

The Board and individual Directors are assessed annually for their performance and effectiveness. Each Director carries out a self-assessment of his/her individual performance as well as the collective effectiveness of the Board based on the requirements of the Securities and Exchange Commission (SEC) and CA Sri Lanka. Factors considered include Board composition, access to information, team dynamics and training opportunities among others. Going further, members of the subcommittees also assess their performance effectiveness annually.

Board subcommittees

The Board of Directors of the Bank formed mandatory Board Subcommittees and voluntary Board Subcommittees to assist the Board. The composition of both mandatory and voluntary Board Subcommittees, as at 31 December 2019 is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 124.

Accountability and audit

The Board is responsible for presenting a balanced and accurate assessment of its financial performance and position. The Bank's Financial Statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by The Institute of Chartered Accountants of Sri Lanka. Furthermore, the Company's Annual Report conforms to the GRI Standard on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Directors' responsibility with regards to Financial Statements is given on page 132 of this Annual Report.

Risk management

The Board is responsible for formulating the measures, tools, processes and policies to ensure that the Bank's risk exposures are managed within defined parameters. The Board Integrated Risk Management Committee assists the Board in the discharge of its duties related to risk management. The Bank's risk management framework has been formulated to comply with the requirements of the Banking Act and Guidelines of the CBSL. Detailed disclosures on the Company's key risk exposures and how they were managed during the year are given on pages 72 to 75 of this Report.

External audit

The Board Audit Committee makes recommendations to the Board regarding the appointment, service period, audit fee and engagement period of External Auditors. The Board has adopted a policy of rotating External Auditors every five years. Auditors submit Annual Statement confirming independence as required by the Companies Act No. 07 of 2007. Non-audit services are not provided by the External Auditors.

Ethics

The ethical conduct of the Bank's employees is underpinned on the following:

- **The SDB bank Code of Conduct:** The Code sets out the ethical behaviour expected from employees in dealing with other stakeholders and in their day-to-day operations, as well as administrative and grievance procedures. The Code of Conduct has been formulated in line with the Monetary Board's Customer Charter and the Secrecy Provision in the Banking Act. All employees are provided with a copy of the SDB bank Code of Conduct upon recruitment.
- **Whistle-blowing Policy:** The Bank has a Board-approved Whistle-blowing Policy that enables any person, including a member of staff to report unlawful or unethical behaviour while ensuring that their anonymity is preserved.

Compliance Status

Compliance with the Provisions of the Banking Act Direction No.12 of 2007 of the Central Bank of Sri Lanka

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:		
	(a) Ensure that the Board-approved strategic objectives and corporate values are communicated throughout the Bank.	Strategic objectives and corporate values were approved by Board of Directors for 2020-2022 and communicated to all employees through frequent meetings with the Corporate and Senior Managers.	Complied with
	(b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	The Bank's current Strategic Plan includes measurable goals and there is a Board-approved risk management policy which defines risk-related procedures and tools for identification, measurement and management of risk exposures.	Complied with
	(c) Identify the principal risks and ensure implementation of appropriate system to manage the risk prudently.	The Board has delegated its risk-related functions to a dedicated committee, namely the Board Integrated Risk Management Committee (BIRMC) and its findings are submitted on a quarterly basis to the main Board for review.	Complied with
	(d) A policy of communication is available with all stakeholders, including depositors, creditors, shareholders and borrowers.	Board-approved Communication Policy is in place.	Complied with
	(e) Reviewed the adequacy and the integrity of the Bank's internal control systems and management information system.	The Board reviews the adequacy and the integrity of the Bank's internal control system by way of internal audit reports submitted to the Board through the Audit Committee on a monthly basis, which is also assured by the External Auditor. Board Audit Committee (BAC) and the Board have reviewed the adequacy and the integrity of the Bank's Management Information System.	Complied with Complied with
	(f) Identified and designated Key Management Personnel, as defined in the Central Bank Guidelines.	Based on Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL), the Board has designated Key Management Personnel (KMP) of the Bank.	Complied with
	(g) Defined the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Areas of authority and key responsibilities of the KMPs are included in their Job Descriptions (JDs). Areas of authority and key responsibilities of Board of Directors (BOD) are defined in the Articles of Association.	Complied with
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel that is consistent with Board policy.	Board has exercised appropriate oversight of the affairs of the Bank by KMPs through Chief Executive Officer (CEO) and when the need arises they are called by the Board to explain matters relating to their areas.	Complied with
	(i) Periodically assess the effectiveness of the Board of Directors own governance policies including –		
	(a) The selection, nomination and election of Directors and Key Management Personnel.	A transparent procedure for selecting and appointing new Directors upon the recommendation of the Board Selection and Nominations Committee and a Policy of selection, appointment and remuneration of the KMPs are in place.	Complied with
	(b) The management of conflicts of interests.	Director's interests are disclosed to the Board and Directors who have a particular interest abstained from voting in such a situation and he/she is not counted for the quorum.	Complied with
	(c) The determination of weaknesses and implementation of changes where necessary.	Determination of weaknesses of BODs has been identified through the self-evaluation process for 2019.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(j) Ensure that the Bank has a succession plan for Key Management Personnel.	Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank. One to one succession plan for KMPs is available with the Board.	Complied with
	(k) Ensure that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Board meets the KMPs at Board committees to review policies and monitor progress towards corporate objectives at performance review meetings. when the need arises they are called by Board to explain matters relating to their area.	Complied with
	(l) Understand the regulatory environment and that the Bank maintains a relationship with regulators.	All the new regulations and directions issued by regulators and non-compliances are reported to the BODs by the Compliance Officer for their understanding of the regulatory environment. Awareness programmes are conducted on an ongoing basis.	Complied with
	(m) Process in place for hiring and oversight of External Auditors.	The Board selects External Auditors through the BAC, which holds responsibility for overseeing their activities.	Complied with
3 (1) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and define the functions and responsibilities of the Chairman and the CEO are in line with Direction No. 3 (5).	Appointment of the Chairperson and CEO is done by the Board and functions are defined as per Direction No 3 (5).	Complied with
3 (1) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	13 meetings were held during the year.	Complied with
3 (1) (iv)	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	A Board-approved procedure is in place allowing all Directors to include matters and proposals in the agenda for regular Board meetings.	Complied with
3 (1) (v)	The Board has given notice of at least seven days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Directors are notified of Board meetings more than seven days in advance.	Complied with
3 (1) (vi)	The Board has taken required action on Directors who have not attended at least two-third of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, is acceptable as attendance.	Such a situation did not arise during the year.	Complied with
3 (1) (vii)	The Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	The Company Secretary is an Attorney-at-Law who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with
3 (1) (viii)	All Directors to have access to advice and services of the Company Secretary.	All the Directors are free to access the Company Secretary for her advices and services.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (1) (ix)	The Company Secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	The minutes of Board meetings are maintained by the Company Secretary; and during each Board meeting the Board of Directors approve the minutes of the previous Board meeting.	Complied with
3 (1) (x)	The minutes of a Board meeting contain or refer to the following: (a) A summary of data and information used by the Board in its deliberations; (b) The matters considered by the Board; (c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) The decisions and Board resolutions.	Minutes of the Board meetings contains all the necessary information required under the direction.	Complied with
3 (1) (xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	A Board-approved procedure is in place to seek independent professional advice when necessary, with the cost borne by the Bank.	Complied with
3 (1) (xii)	There is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoiding conflicts of interests, or the appearance of conflicts of interest. A Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be in the quorum for the relevant agenda item at the Board meeting.	There is a provision in the Related Party Transaction Policy to determine, report, resolve and to take appropriate actions relating to Directors to avoid conflicts of interests, or the appearance of conflicts of interest.	Complied with
3 (1) (xiii)	The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	A formal schedule of matters specifically reserved for the Board is in place.	Complied with
3 (1) (xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	This situation did not arise during the year.	Complied with
3 (1) (xv)	The Board shall ensure that the Bank capitalised at levels as required by the Monetary Board.	The Bank was fully compliant with the Capital Adequacy Requirements during the year.	Complied with
3 (1) (xvi)	The Board shall publish, in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction No. 3 of these directions.	This report serves this purpose.	Complied with
3 (1) (xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Board has a scheme of self-assessment of Directors and the Company Secretary maintains records of such evaluations.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (2)	The Board's Composition:		
3 (2) (i)	The Board comprises not less than 7 and not more than 13 Directors.	The Board comprised nine Directors as at 31 December 2019.	Complied with
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	None of the Directors have completed nine years of service in the Board.	Complied with
3 (2) (iii)	The number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	The Board comprises solely of Non-Executive Directors; the CEO is not a Board member.	Complied with
3 (2) (iv)	The Board has at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.	Board comprises four Independent Non-Executive Directors.	Complied with
3 (2) (v)	In the event an Alternate Director was appointed to represent an Independent Director, the person so appointed meets the criteria that apply to the Independent Director.	This situation did not arise during the financial year 2019.	Complied with
3 (2) (vi)	The Bank has a process for appointing Independent Directors.	A procedure is in place for appointing Independent Directors by the Board upon the recommendation of the Board Selection and Nominations Committee.	Complied with
3 (2) (vii)	The stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.	Every meeting during the year was consistent with the required quorum and composition.	Complied with
3 (2) (viii)	The Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	The composition of the Board has been disclosed under "Board of Directors" on pages 122 and 123 of this Annual Report.	Complied with
3 (2) (ix)	There shall be procedure for the appointment of new Directors to the Board.	A procedure for appointing new Directors with the recommendation of the Board Selection and Nomination Committee is in place.	Complied with
3 (2) (x)	All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.	Appointment of Directors are done according to the Bank's Articles of Association.	Complied with
3 (2) (xi)	If a Director resigns or is removed from office, the Board – (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Directors' resignation/removal and the reason for such resignations are duly informed to the CBSL and Colombo Stock Exchange.	Complied with
3 (2) (xii)	There is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another Bank.	Directors provide annual declarations regarding their employment or directorships in other banks; None of the present Directors of the Bank acts as Director of another Bank. The Letter of Appointment and Code of Conduct issued to the employees explicitly prevents employees from accepting any directorship of other banks without the prior permission from the Bank.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (3)	Criteria to assess the fitness and propriety of Directors		
3 (3) (i)	The age of a person who serves as Director does not exceed 70 years.	Declarations given by Directors at the time of appointment indicate the date of birth. The age is monitored accordingly.	Complied with
3 (3) (ii)	No person shall hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	As per the declaration made by Directors, none of the Directors are holding Directorship in more than 20 companies.	Complied with
3 (4)	Management functions delegated by the Board		
3 (4) (i)	The delegation arrangements have been approved by the Board.	The Board is empowered by the Articles of Association to delegate its powers to the CEO upon such terms and conditions and with such restrictions as the Board may think fit.	Complied with
3 (4) (ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	The Board has delegated its authority to KMPs through CEO subject to final responsibility being retained with them.	Complied with
3 (4) (iii)	The Board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.	Complied with
3 (5)	The Chairman and CEO		
3 (5) (i)	The roles of Chairman and CEO is separate and not performed by the same individual.	Roles of Chairman and CEO are held by two different individuals that carry out different functions.	Complied with
3 (5) (ii)	The Chairman is a Non-Executive Director. In the case where the Chairman is not an Independent Director, the Board designates an Independent Director as the Senior Director with suitably documented terms of reference. The designation of the Senior Director is disclosed in the Bank's Annual Report.	The Chairperson is Non-Executive and Non-Independent Director and the Bank has appointed a Non-Executive independent Director as the Senior Director. This is disclosed under the "Annual Report of the Board of Directors on the Affairs of the Company" and "Board of Directors".	Complied with
3 (5) (iii)	The Board has a process to identify and disclose in its Corporate Governance Report, which shall be a part of its Annual Report, any relationship, if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	There is a process to obtain an annual declaration from each Director about relationships, if any, between the Chairman and the CEO and Board members and its nature. If there is any relationship, it is disclosed in the Corporate Governance Report in the Annual Report.	Complied with
3 (5) (iv)	The Board has a self-evaluation process where the Chairman – (a) Provides leadership to the Board; (b) Ensures that the Board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner.	A scheme of self-assessment process for the BODs is in place.	Complied with
3 (5) (v)	A formal agenda is circulated by the Company Secretary approved by the Chairman.	The Agenda for each Board meeting is prepared by the Company Secretary, which is approved by the Chairperson.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (5) (vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	The Chairperson ensures that the Directors receive adequate information in a timely manner and Directors are properly briefed on issues arising at the Board meeting. The minutes of the previous month's meetings are distributed to the Board members in advance and tabled at the next Board meeting for approval.	Complied with
3 (5) (vii)	The Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman takes the lead to act in the best interest of the Bank.	A scheme of self-assessment process for the BODs is in place which covers the requirement.	Complied with
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Assessment process covers the contribution of Non-Executive Directors as well. All the Directors are Non-Executive.	Complied with
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	The Chairperson is a Non-Executive Director and has not engaged in any activities involving direct supervision of KMPs or any other executive duties during the financial year 2019.	Complied with
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	AGM of the Bank is the main platform through which the Board maintains effective communication with shareholders and further the communication policy of the Bank is evidence there is a process in this regard.	Complied with
3 (5) (xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	The CEO functions as the apex executive-in charge of the day-to-day management of the Bank's operations and business.	Complied with

3 (6) Board-appointed Committees

3 (6) (i)	The Bank has established at least four Board committees as set out in Direction 3 (6) (ii), 3 (6) (iii), 3 (6) (iv), and 3 (6) (v) of these Directions. The Committee report is addressed directly to the Board. The Board presents in its Annual Report, a report on each committee on its duties, roles, and performance.	Following committees established and directly report to the Board and minutes of the same are discussed and ratified at the main Board meeting: (1) Board Audit Committee (BAC) (2) Board Human Resources and Remuneration Committee (BHRRC) (3) Board Selection and Nomination Committee (BSNC) (4) Board Integrated Risk Management Committee (BIRMC) (5) Board Credit Committee (BCC) (6) Board Related Party Transaction Review Committee (BRPTRC) (7) Board ICT and Business Strategic Committee (8) Board Co-operative Development Committee This is disclosed under the "Annual Report of the Board of Directors".	Complied with
3 (6) (ii)	Board Audit Committee		
	(a) The Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.	The Chairman is an Independent Non-Executive Director who is a qualified Chartered Accountant.	Complied with
	(b) All members of the Committee are Non-Executive Directors.	All members are Non-Executive Directors.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
(c)	<p>The Committee has made recommendations on matters in connection with –</p> <ul style="list-style-type: none"> (i) The appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the Auditors; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	The Committee make recommendations regarding those matters.	Complied with
(d)	The Committee has obtained representations from the External Auditor on their independence, and that the audit is carried out in accordance with SLAuS.	External Auditors are independent since they report directly to the BAC. The Report on the Financial Statements of the Bank for the year 2019 indicates that the audit is carried out in accordance with SLAuS.	Complied with
(e)	The Committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	Committee has implemented the policy in this regard.	Complied with
(f)	The Committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	Committee has discussed and finalised the Audit Plan 2019, nature and scope of the audit and deliverables, with the External Auditors in accordance with SLAuS before the audit commences.	Complied with
(g)	<p>The Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts, and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following:</p> <ul style="list-style-type: none"> (i) Major judgemental areas; (ii) Any changes in accounting policies and practices; (iii) The going concern assumption; and (iv) The compliance with relevant accounting standards and other legal requirements; and (v) In respect of the Annual Financial Statements the significant adjustments arising from the audit. 	BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, when the Annual Financial Statements and other accounts are submitted to the BAC by the CFO.	Complied with
(h)	The Committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.	Committee has met the External Auditors in the absence of the Executive Management during the year.	Complied with
(i)	The Committee has reviewed the External Auditors' Management Letter and the Management's response thereto.	BAC reviews the External Auditors' Management Letter and Management, response at the meeting.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank;		
	(i) Review the adequacy of the scope, functions, and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	The Committee reviews the adequacy of the scope, functions, and resources of the Internal Audit Department.	Complied with
	(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	The Committee reviews the internal audit programmes, and progress of internal audit function for the year 2019 was discussed at BAC.	Complied with
	(iii) Review any appraisal or assessment of the performance of the Head and Senior staff members of the Internal Audit Department;	BAC has evaluated the performance of the Head of Internal Audit and senior staff members for the year 2019.	Complied with
	(iv) Recommend any appointment or termination of the head, senior staff members, and outsourced service providers to the internal audit function;	Appointment, termination, or transfers of the head, senior staff and outsource service providers of the internal audit function are recommended by the BAC.	Complied with
	(v) The Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	There were no outsourced service providers of the Internal Audit Department during the period. Retirement of the Chief Internal Auditor due to expiration of terms of contract was appraised by the Committee.	Complied with
	(vi) The internal audit function is independent of the activities it audits.	Internal Audit Department is independent since they report directly to the BAC and is not involved in any operational activities of the Bank. Its functions are performed with impartially proficiency and due professional care.	Complied with
(k)	The minutes to determine whether the Committee has considered major findings of internal investigations and Management's responses thereto;	The Committee has reviewed all the findings and advised the internal investigation officers for appropriate actions.	Complied with
(l)	Ensure that whether the Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	There are no Executive Directors in the Board and they have met two occasions with the External Auditors.	Complied with
(m)	The Terms of Reference of the Committee to ensure that there is –		
	(i) Explicit authority to investigate into any matter within its Terms of Reference;		
	(ii) The resources which it needs to do so;		
	(iii) Full access to information; and		
	(iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	The Board approved Terms of Reference (ToR) of the Committee addresses all those matters.	Complied with
(n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties.	During the year 2019, BAC has held 20 regular meetings and its minutes are maintained by the Company Secretary.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	<p>(o) The Board has disclosed in the Annual Report,</p> <p>(i) Details of the activities of the Audit Committee;</p> <p>(ii) The number of Audit Committee meetings held in the year; and</p> <p>(iii) Details of attendance of each Individual Director at such meetings.</p>	<p>This information is disclosed in the Annual Report under the following headings:</p> <p>(i) "Report of the Board Audit Committee".</p> <p>(ii) and (iii) " Annual Report of the Board of Directors on the Affairs of the Company"</p>	Complied with
	<p>(p) The secretary of the Committee is the Company Secretary or the Head of the internal audit function.</p>	The secretary of the Committee is the Chief Internal Auditor.	Complied with
	<p>(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.</p>	This requirement has been documented in the "Whistle-blowing" policy and approved by the Board.	Complied with
3 (6) (iii)	The following rules apply in relation to the Human Resources and Remuneration Committee:		
	<p>(a) The Committee has implemented a policy to determine the remuneration (salaries, allowances, and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the "Terms of Reference" and minutes.</p>	BHRRC has implemented a policy to determine the remuneration of Directors. Committee has implemented a policy to determine the remuneration relating to CEO and KMPs of the Bank.	Complied with
	<p>(b) The goals and targets for the Directors, CEO and the Key Management Personnel are documented.</p>	<p>Goals and targets for the KMPs are in place and approved by the Board. However, this process needs to be strengthened after implementation of new performance management system going forward.</p> <p>No Executive Directors are available in the Board. Goals and targets of CEO and KMPs are reviewed by the BHRRC.</p>	Complied with
	<p>(c) The Committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits, and other payments of performance-based incentives.</p>	The Bank has a process to review and evaluate the performance of CEO and KMPs by the BHRRC/BAC or BIRMC.	Complied with
	<p>(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.</p>	CEO is present at all meetings other than when matters relating to the CEO are discussed.	Complied with
3 (6) (iv)	The following rules apply in relation to the Nomination Committee:		
	<p>(a) The Committee has implemented a procedure to select/appoint new Directors, CEO, and Key Management Personnel.</p>	Board has a policy and procedure for the selection, appointment and remuneration of the Directors, CEO, and KMPs.	Complied with
	<p>(b) The Committee has considered and recommended (or not recommended) re-election of current Directors.</p>	Duly recommended.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(c) The Committee has set the criteria such as qualifications, experience, and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions.	Criteria such as qualifications, experience, and key attributes required for eligibility for appointment or promotion to the post of CEO are submitted at the Selection and Nomination Committee. Criteria for KMPs are included in their job descriptions approved by the HRRC committee. These job descriptions are submitted at the Nomination Committee for their review.	Complied with
	(d) The Committee has obtained from the Directors, CEO, and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction No. 3 (3) and as set out in the Statutes.	Signed declarations are obtained from Directors, CEO, and KMP that they are fit and proper persons to hold the office.	Complied with
	(e) The Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank. The Bank has developed a one-to-one succession plan for KMPs.	Complied with
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	The Committee is chaired by an Independent Director, and the majority of the members are also Independent Directors. The CEO participates only on invitation.	Complied with
3 (6) (v)	The following rules apply in relation to the Board Integrated Risk Management Committee (BIRMC):		
	(a) The Committee shall consist of at least three Non-Executive Directors, CEO, and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks, and work within the framework of the authority and responsibility assigned to the Committee.	At present BIRMC consists of three Non-Executive Directors. The Committee includes CEO and KMPs supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks as members of the Committee.	Complied with
	(b) The Committee has a process to assess all risks, i.e. credit, market, liquidity, operational, and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	Credit, market, operational, and strategic risks are evaluated on a monthly basis by the Executive Integrated Risk Management Committee and minutes are submitted to BIRMC on quarterly basis. At present the Bank has no subsidiary or associate companies.	Complied with
	(c) The Committee has reviewed specific quantitative and qualitative risk limits for all management level Committees such as the Credit Committee and the Asset, and Liability Committee, and report any risk indicators periodically.	The Committee has reviewed the effectiveness of management level committees such as the Credit Committee and the Asset, and Liability Committee.	Complied with
	(d) The Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	The BIRMC reviews risk indicators which have exceeded the defined limits.	Complied with
	(e) The Committee has met at least quarterly.	Committee has met five times during 2019.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(f) The Committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Disciplinary actions to be taken against officers responsible for failure to identify specific risk is discussed at the Committee and it is incorporated into the disciplinary procedure manual.	Complied with
	(g) The Committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	All the risk assessment reports are reviewed by the Committee and the Committee will take actions to submit a risk assessment report for the next Board meeting.	Complied with
	(h) The Committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls, and approved policies on all areas of business operations and that there is a dedicated Compliance Officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.	Compliance function is in place to ensure that the Bank complies with all relevant regulations, rules, and guidelines. A dedicated senior officer has been appointed by the Bank in this regard who has designated as a KMP. The Compliance Officer submits a monthly compliance report to the Board and Related Party Transaction Report on a monthly basis to the main Board.	Complied with

3 (7) Related Party Transaction

3 (7) (i)	<p>There is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest. 	<p>There is a Board approved "Related Party Transaction Policy" which defines guidelines on related parties and avoiding any conflicts of interest with said parties that may arise from such transactions of the Bank.</p> <p>Transactions with related parties are done strictly according to the Board approved Related Party Transaction Policy and are reported to the Board on monthly basis.</p> <p>Further, the Related Party Transactions Review Committee (RPTRC) is a subcommittee of the Board and is responsible for making decisions over related party transactions other than day-to-day business activities.</p>	Complied with
3 (7) (ii)	<p>There is a process to identify and report the following types of transactions been identified as transactions with related parties that are covered by this direction.</p> <ul style="list-style-type: none"> (a) The grant of any type of accommodation, as defined in the Monetary Board's directions on maximum amount of accommodation. (b) The creation of any liabilities of the Bank in the form of deposits, borrowings, and investments. (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank. (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential, or otherwise sensitive information that may give benefits to such related parties, 	<p>There is a Board approved "Related Party Transaction Policy" which defines guidelines on related parties and avoiding any conflicts of interests with said parties that may arise from such transactions of the Bank.</p> <p>Bank has an established process of reporting of related party transactions with regard to related entities to the Board of Directors on a monthly basis.</p>	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (7) (iii)	<p>The Board has a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i), in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p> <p>(a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board.</p> <p>(b) Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p>	<p>The Board approved “Related Party Transaction Policy” in place which defines related parties and types of related party transactions and for the Bank not to engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p> <p>The Bank modified the system to enable the effective identification of related party transactions and to ensure that there are no favourable treatments offered to such related parties than that accorded to other constituents of the Bank carrying on the same business.</p>	
	<p>(d) Providing services to or receiving services from a related party without an evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential, or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>However, this process needs to be strengthened, implementing a mechanism to get a “pop up” when the name or other identifying data of a related party is entered into systems of the Bank. Monitoring has to be carried out accordingly covering all the products of the Bank to ensure the Bank would not offer “more favourable treatment” to related parties.</p>	Complied with
3 (7) (iv)	<p>The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>This requirement is documented in the Board approved Related Party Transaction Policy.</p>	Complied with
3 (7) (v)	<p>(a) The Bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</p>	<p>No such matters were pending as at end of 31 December 2019.</p>	Complied with
	<p>(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p>	<p>No such matters are outstanding as at 31 December 2019.</p>	Complied with
	<p>(c) There is a process to identify any Director who fails to comply with the above sub directions be deemed to have vacated the office of Director and has the Bank disclose such fact to the public.</p>	<p>Such a situation did not occur during 2019.</p>	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
	(d) Process in place to ensure Clause 3 (7) (v) (c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Such a situation did not occur during 2019.	Complied with
3 (7) (vi)	There is a process in place to identify when the Bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	No favourable treatments were given to the employees under any category other than staff benefit schemes approved by the Board of Directors.	Complied with
3 (7) (vii)	There is a process to obtain prior approval from the Monetary Board for any accommodation granted by the Bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	Not applicable due to the reasons mentioned in 3 (7) (v) and 3 (7) (vi) above.	Complied with
3 (8) Disclosures			
3 (8) (i)	The Board ensure that the Board has disclosed: (a) Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Annual Audited Financial Statements including basis of preparation and presentation, statement of compliance is disclosed in the Annual Report 2019 and such Audited Financial Statements and quarterly Financial Statements have been published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
3 (8) (ii)	The Board has made the following minimum disclosures in the Annual Report: (a) The statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. (b) The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Specific disclosures are available on page 132 of this Annual Report under "Statement of Directors Responsibility for Financial Reporting". Specific disclosures are available on pages 128 and 129 of this Annual Report under "Directors' Statement on Internal Control over Financial Reporting".	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not														
(c)	The Board has obtained the assurance report issued by the Auditors under "Sri Lanka Standards on Assurance Engagements SLSAE – 3050 – Assurance reports for banks on Directors Statement on Internal Control" referred to in Direction 3 (8) (ii) (b) above.	Board has obtained the Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control" and included on page 130 of this Annual Report.	Complied with														
(d)	Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank, and the total of fees/remuneration paid by the Bank.	Details on the same are disclosed under heading "Board of Directors". Fees and transactions with the Bank has been disclosed in this report under Direction 3 (8) (ii) (f).	Complied with														
(e)	Total net accommodation as defined in Direction 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Disclosures of accommodation outstanding as of balance sheet date to related parties are made under Notes to the Financial Statements in the Annual Report. Net accommodations granted to each category of related parties and its percentage as a Bank capital is as follow: <table border="1"> <thead> <tr> <th>Category of related party</th> <th>Balance LKR Mn.</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>24.76</td> <td>0.33</td> </tr> <tr> <td>Corporate Management</td> <td>159.65</td> <td>2.14</td> </tr> <tr> <td>Related Companies</td> <td>56.49</td> <td>0.76</td> </tr> </tbody> </table> <i>Spouses and other family members of related parties – NIL</i>	Category of related party	Balance LKR Mn.	%	Board of Directors	24.76	0.33	Corporate Management	159.65	2.14	Related Companies	56.49	0.76	Complied with		
Category of related party	Balance LKR Mn.	%															
Board of Directors	24.76	0.33															
Corporate Management	159.65	2.14															
Related Companies	56.49	0.76															
(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and Directors, and the aggregate values of the transactions of the Bank with its Key Management Personnel and Directors, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Disclosure of remuneration paid by the Bank to its KMP and Directors and other transactions with KMPs and Directors are disclosed below. <table border="1"> <thead> <tr> <th rowspan="2">Category of KMP</th> <th colspan="2">Balance as at 31 December 2019 LKR Mn.</th> <th rowspan="2">Remuneration fees paid during the year LKR Mn.</th> </tr> <tr> <th>Deposit</th> <th>Loan outstanding</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>0.16</td> <td>1.60</td> <td>23.16</td> </tr> <tr> <td>Corporate Management (AGM Grade and above</td> <td>16.47</td> <td>49.76</td> <td>109.89</td> </tr> </tbody> </table>	Category of KMP	Balance as at 31 December 2019 LKR Mn.		Remuneration fees paid during the year LKR Mn.	Deposit	Loan outstanding	Directors	0.16	1.60	23.16	Corporate Management (AGM Grade and above	16.47	49.76	109.89	Complied with
Category of KMP	Balance as at 31 December 2019 LKR Mn.			Remuneration fees paid during the year LKR Mn.													
	Deposit	Loan outstanding															
Directors	0.16	1.60	23.16														
Corporate Management (AGM Grade and above	16.47	49.76	109.89														
(g)	Board has confirmed in its Annual Corporate Governance Report that all the findings of the "Factual Findings Report" of Auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the Annual Corporate Governance Report.	Board has confirmed in the Annual Corporate Governance Report that all the findings of the "Factual Findings Reports" of Auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in Annual Corporate Governance Report.	Complied with														
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws, and internal controls and measures taken to rectify any material non-compliance.	This aspect is covered by the "Board of Directors on the affairs of the Company" on pages 126 and 127 of this Annual Report.	Complied with														
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	No such direction was issued by the Monetary Board during the year.	Complied with														

Compliance with the Code of Best Practice on Corporate Governance

Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
A. Directors			
A.1. The Board			
The Bank should be headed by a Board, which should direct, lead, and control the Bank			
All Directors of the Bank function in a Non-Executive capacity. The Board consists of professionals in the fields of Banking, Accounting, Rural Development, Management and Economics. All Directors possess the skills, experience and knowledge combined with a high sense of integrity and independent judgement. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment.			
1. Board meetings	A.1.1	The Board should meet regularly. At least once a quarter.	The Board meets regularly on monthly basis. During the year the Board met 13 times.
2. Board responsibilities	A.1.2	Board should provide an entrepreneurial leadership within a framework of prudent and effective controls.	The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the management of business. The Board has provided strategic direction in vision statement, mission statement and the Annual budget.
3. Compliance with laws and access to independent professional advice	A.1.3	The Board collectively and Directors individually must act in accordance with rules and regulations.	The Board collectively as well the Directors individually, recognise their duties to comply with laws of the country which are applicable to the Bank. A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This will be coordinated through the Board Secretary, as and when it is requested.
4. Board secretary	A.1.4	All Directors should have access to the advice and services of secretary.	All Directors have access to the Board Secretary. Further, she provides the Board with support and advice relating to Corporate Governance matters, Board procedures and applicable rules and regulations.
5. Independent judgement	A.1.5	All Directors should bring an independent judgement to bear on issues of strategy.	Directors are responsible for bringing independent and objective judgement, and scrutinising the decisions taken by the Corporate Management led by the GM/CEO, on issues of strategy, performance, resources utilisation and business conduct.
6. Dedication of adequate time and effort by the Board and Board Committee	A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	"The Chairperson and members of the Board have dedicated adequate time for the fulfilment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended Subcommittee meetings and also have made decisions via circular resolution where necessary. Papers relating to the Board meetings are sent well in advance allowing sufficient time for preparation."
7. Training for new Directors	A.1.7	Every Director should get an appropriate training.	The Board of Directors recognise the need for continuous training and expansion of knowledge and undertake such professional development as they consider necessary in assisting them to carry out their duties as Directors.

Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
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A.2 Chairman and CEO

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

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

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

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

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

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

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

1. Presence of Non-Executive Directors	A.5.1	The Board should include at least two Non-Executive Directors or a number equalling to 1/3 of all Directors whichever is higher and in the event of CEO and Chairman is same the majority should be consistent with Non-Executives.	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2019.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive Directors out of all, should be Independent Directors.	Board comprises four Independent, Non-Executive Directors.
3. Criteria to evaluate Independence of Non-Executive Directors	A.5.3	For a Director to be deemed as "Independent", such Director should be independent from management and free of any business or other relationships that could materially interfere.	Comply with independency criteria.
4. Signed declaration of independence by the Non-Executive Directors	A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence.	There is a declaration of Independence signed by all Non-Executive Directors.

Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
5. Determination of independence of the Directors by the Board	A.5.5	The Board should make a determination annually as to the independence or Non-Independence of each Non-Executive Directors.	The Board has determined that the submission of declaration/s by the Non-Executive Directors, as to the independence of them, as fair representation and will continue to evaluate their submission annually.
6. Appointment of alternate Director	A.5.6	If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive of the Bank.	No Alternate Director was appointed during the year 2019.
7. Senior Independent Directors	A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent Non-Executive Directors to be the "Senior Independent Director" and disclose this appointment in Annual Report.	The roles of the Chairman and the CEO are segregated. However, an Independent Director has been appointed as the Senior Director.
8. Confidential discussion with the Senior Independent Director	A.5.8	The Senior Independent Director should make himself available for confidential discussions with other Directors.	The Senior Independent Director is available for discussion of confidential issues by the other Directors if and when required.
9. Meeting of Non-Executive Directors	A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Directors are Non-Executive Directors and meet on a monthly basis.
10. Recording of concerns in Board minutes	A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes.	Concerns of Directors have been duly recorded in Board minutes.

A.6 Supply of information

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

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

A.7 Appointments to the Board

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

1. Nomination Committee	A.7.1	A Nomination Committee should be established to make recommendations to the Board on selection of New Directors. The Chairman and members of the Committee should be disclosed in the Annual Report.	The Nomination Committee made recommendations to the Board on all new Board appointments. The Terms of Reference of the Committee was formally approved by the Board and Chairman and members are disclosed in the Annual Report under "Report of the Board Selection and Nomination Committee (BS & NC)".
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Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
2. Assessment of Board composition by the Nomination Committee	A.7.2	The Nomination Committee or in the absence of Nomination Committee, the Board as a whole should annually assess Board composition.	The Nomination Committee carried out continuous review of the structure, size and composition (including the skills, knowledge, experience and independence required for Directors) of the Board to address and challenge adequately key risks and decisions that confront or may confront the Board and makes recommendations to the Board with regard to any changes.
3. Disclosure of details of new Directors to shareholders	A.7.3	Upon the appointment of a new Director, the Company should forthwith disclose relevant particulars to shareholders.	New appointments of Directors are disclosed through the CSE as well as at the AGM.

A.8 Re-election

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

1. Appointment of Non-Executive Directors	A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions of Companies Act relating to the removal of Directors and their reappointment should not be automatic.	Articles of Association of the Bank requires, each Director other than the CEO and any nominee Director, to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior review.
2. Election of Directors by the shareholders	A.8.2	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment and re-election thereafter at intervals of no more than three years.	Complied with.

A.9 Appraisal of Board performance

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

1. Appraisal of Board performances	A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2.	Self-assessments for Board of Directors were done for the year 2019.
2. Annual self-evaluation of the Board and its committees	A.9.2	The Board also should undertake an annual self-evaluation of its own performance and that of its committees.	There is a self-performance evaluation procedure for the Board of Directors of the Bank.
3. Disclosure of the method of appraisal of Board and Board Subcommittee performances	A.9.3	The Board should state how such evaluation was done in the Annual Report.	Refer the "Board of Directors" in the Annual Report.

A.10 Disclosure of Information in respect of Directors

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

1. Details in respect of Directors	A.10.1	The Annual Report of the Company should disclose details regarding Directors.	Details of the Directors are given in the Annual Report under "Board of Directors" and "Annual Report of the Board of Directors on the Affairs of the Company".
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Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
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A.11 Appraisal of the CEO

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

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

B. Directors' remuneration

B.1. Remuneration procedures

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

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

B.2 Level and make up of remuneration

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

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

Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
3. Comparison of remuneration with other companies in the Group	B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions.	Please refer the above comment under B.2.2.
4. Performance – related payment to Executive Directors	B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	The Bank does not have Executive Directors.
5. Executive share options	B.2.5	Executive share options should not be offered at a discount.	Not in practice such a share option scheme in the Bank.
6. Deciding the Executive Directors remuneration	B.2.6	In designing schemes for performance-related remuneration, Remuneration Committee should follow the relevant SEC regulations.	The Bank does not have Executive Directors.
7. Early termination of Directors	B.2.7	Remuneration Committee should consider what compensation commitments, their Directors contracts of service, if any entail in the event of early termination.	Compensation on early termination will be discussed on case by case basis considering the relevant facts.
8. Early termination not included in the initial contract	B.2.8	Where the initial contract does not explicitly provide for compensation commitments, remuneration committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	Compensation on early termination will be discussed on case by case basis by the Remuneration Committee.
9. Remuneration of the Non-Executive Directors	B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	The level of remuneration of Non-Executive Directors reflect the time commitment and responsibility of their role taking into consideration market practices.

B.3 Disclosure of remuneration

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

1. Disclosure of Remuneration	B.3.1	The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Directors.	Refer Note 36 to the Financial Statements relating to Related Party Transaction included in the Annual Report for remuneration of Directors, and "Report of the Board Human Resources and Remuneration Committee" for composition of the Remuneration Committee with names.
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C. Relations with shareholders

C.1 Constructive use of the Annual General Meeting and Conduct of General Meetings.

Boards should use the AGM to communicate with shareholders.

1. Encourage their participation	C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged in each resolution, and the balance for and withheld after it has been dealt with on a show of hands, except where a poll is called.	The Bank has a mechanism to record all proxy votes and proxy votes lodged on each resolution.
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Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
2. Separate resolution for all separate issues	C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	Bank propose a separate resolution at the AGM on each substantially separate issue.
3. Availability of all Board Subcommittee Chairmen at the AGM	C.1.3	The Chairman of the Board should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Board which includes the Chairman of the Audit, Remuneration, Nomination, and Integrated Risk Management Committees are present at the AGM to answer any questions.
4. Adequate notice of the AGM	C.1.4	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Bank gives notice of the AGM and related papers to the shareholders 15 working days prior to the Meeting date.
5. Procedures of voting at General Meetings	C.1.5	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	Voting procedures at General Meetings are circulated to the shareholders along with the Annual Report.

C.2 Communication with shareholders

The Board should implement effective communication with shareholders.

1. Dissemination of timely information	C.2.1	There should be a channel to reach all shareholders of the Company in order to disseminate timely information.	All the financial information of the Bank could be reached through newspapers and website to stakeholders.
2. Policy and Methodology for communication with shareholders	C.2.2	The Company should disclose the policy and methodology for communication with shareholders.	Communication with shareholders are done through individual letters through inquiries from Company Secretary Department, Annual Report, Bank Face Book page and Bank Website.
3. Implementation of communication Policy and Methodology	C.2.3	The Company should disclose how they implement the above policy and methodology.	A Board-approved communication policy is in place.
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication.	Following is the contact number of person to be contacted in the Company Secretary – 011 2832 590
5. Awareness of Directors on major issues and concerns of shareholders	C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.	Shareholders can discuss with Company Secretary/ Senior Director regarding any matter via above given contact numbers.
6. The Contact person in relation to shareholders' matters	C.2.6	The Company should decide the person to contact relating to shareholders matters. The relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board of Directors.	Following is the contact number of person to be contacted relating to shareholders matters. Company Secretary – 011 2832 590
7. The process of responding to shareholder matters	C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed.	Answering the shareholders' matters is done by Company Secretary/through the above contact numbers and at the AGM.

Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
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C.3 Major and material transactions

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

1. Major transactions	C.3.1	Prior to a company engaging in or committing to a "Major related party transaction" with a related party, Directors should disclose to shareholders the purpose and all relevant material facts and obtain shareholders' approval by ordinary resolution.	During 2019 there were no major transactions that took place as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affects Bank's net asset base.
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D. Accountability and audit

D.1. Financial reporting

The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.

1. Statutory and regulatory reporting	D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators.	SDB bank has reported a true and fair view of its position and performance for the year ended 31 December 2019 and at the end of each month of 2019. In the preparation of quarterly and annual financial statements, SDB bank had strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. SDB bank has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka.
2. Directors' Report in the Annual Report	D.1.2	The Directors' Report which forms a part of the Annual Report, should contain a declaration by the directors stating that Bank operations are in line with statutory requirements.	The "Annual Report of the Board of Directors on the Affairs of the Company" given in the Annual Report covers all areas of this section.
3. Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board on preparation and presentation of Financial Statements, and a statement of Internal Control.	This requirement is satisfied by the "Statement of Directors' Responsibility for Financial Reporting" and "Directors' Statement on Internal Control over Financial Reporting" given in the Annual Report Statement of Internal Control is also given in the Annual Report.
4. Management Discussions and analysis	D.1.4	Annual Report should contain a "Management Discussion and Analysis".	The Annual Report contains "Management Discussion and Analysis".
5. Declaration by the Board that the business as a going concern	D.1.5	The Directors should report that the business is going concern, with supporting assumptions or qualifications as necessary.	This is given in the "Annual Report of the Board of Directors on the affairs of the Company" in the Annual Report.

Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
6. Summoning an EGM to notify serious loss of capital	D.1.6	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Director shall forthwith summon an EGM of the Company to notify shareholders of the position and remedial actions.	Such a situation has not arisen during the period
7. Disclosure of Related Party Transactions	D.1.6	The Board should adequately disclose the Related Party Transactions in its Annual Report.	Related party transaction details are given in the Annual Report.

D.2 Internal Control

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

1. Annual evaluation of the internal controls system	D.2.1	The Directors should at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal control.	<p>The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls is evaluated by the Audit Committee In the year 2019. Risk has been reviewed by BIRMC quarterly.</p> <p>The Board of Directors was satisfied with the effectiveness of the system of internal controls, which is evidenced through the "Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC" given in the Annual Report under "Directors' Statement on Internal Control over Financial Reporting".</p>
2. Need for internal audit function	D.2.2	Companies should have an internal audit function.	The Bank has a separate Internal Audit Department. The Board of Directors reviews the internal control function once a year.
3. Reviews of the process and effectiveness of risk management and internal controls	D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls.	<p>Complied with.</p> <p>Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.</p>
4. Sound system of internal control and its content	D.2.4	Directors should follow the said guidance on responsibilities in maintaining a sound system of internal control.	<p>Complied with.</p> <p>Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.</p>

D.3 Audit Committee

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

1. Composition of the Audit committee	D.3.1	The Audit Committee should be comprised of a minimum of two Independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	<p>Complied with.</p> <p>(Please refer the composition of Audit committee in the Annual Report.)</p>
2. Review of objectivity of the External Auditor	D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	The Audit Committee ensures the independence and objectivity of External Auditors.

Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
3. Terms of reference of the Audit Committee	D.3.3	The Audit Committee should have a written Terms of Reference.	Bank has written Terms of Reference for Audit Committee which addresses requirements of the code.
4. Disclosures of the Audit committee	D.3.4	The names of the Directors of Audit Committee, determination of the independence of the Auditors and its basis should be disclosed in the Annual Report.	The names of the members of the Audit Committee are given in the Annual Report. The Committee ensures the rotation of External Audit Engagement Partner once in every five years. The External Auditor has provided an Independent confirmation in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC.

D.4 Code of Business Conduct and Ethics

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

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

D.5 Corporate Governance Disclosures

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

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

E.1 Shareholders voting

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

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

1. Evaluation of Governance Disclosures	E.2.1	When evaluating companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention.	Institutional investors' concerns are addressed as and when raised.
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Corporate governance principle	SEC and CA Sri Lanka code reference	Description of the requirement	SDB bank's extent of compliance in 2019
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F. Other investors

F.1 Investing/Divesting decision

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

2. Individual shareholder's voting	F.2.1	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	All individual shareholders are given opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and news paper notices.
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G. Sustainability reporting

G.1 Principles of sustainability reporting

1. Principle 1 – Economic sustainability	G.1.1	Principle of economic sustainability governance recognises how organisations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate in their sphere of influence and how this is integrated through the organisation.	The Bank considers its regional influence and its impact when planning their strategies, activities and decisions on economic performances for economic sustainability government.
2. Principle 2 – The environment	G.1.2	Environmental governance of an organisation should adopt an integrated approach that takes into consideration economic, social, health and environmental implications of their decisions and activities.	Bank has taken into consideration integrated approach on direct and indirect economic, social, health and environmental implications when taking decisions on pollution prevention, protection of environment and restoration of natural resources.
3. Principle 3 – Labour practice	G.1.3	Labour practices governance of an organisation encompasses all policies and practices relating to work performed by or on behalf of the organisation.	All practices and policies are formulated to have a present working environment in the organisation.
4. Principle 4 – Society	G.1.4	Society governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community development.	Development including responsible public policies encompass support for a building for a relationship with the community.
5. Principle 5 – Product responsibility	G.1.5	Product responsibility governance includes manufacturing quality products and distributing them and ensuring that the products safe for the consumers and the environment.	Bank develops banking products to ensure the safety and fair contractual practices and its data protection and privacy.
6. Stakeholder identification, engagement and effective communication	G.1.6	Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communication should be proactive and transparent.	Communication with the stakeholders is cordial and include past performance and existing economic, social and environmental issues.
7. Principle 7 – Formalisation of sustainability report	G.1.7	Sustainability reporting and disclosure should be formalised as part of the Company's reporting process and take place on a regular basis.	Sustainability reporting is based on local and global standards providing credible accounts of the Bank's economic, social and environmental impact.

Report of the Board Integrated Risk Management Committee

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

Composition of the Committee

The BIRMC comprised the following Directors and members:

- Prof Sampath Amaratunge – Chairman (BIRMC), Independent, Non-Executive Director
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director
- Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director
- Mr Abhayawickrama Bandara – Non-Independent, Non-Executive Director (Appointed to the BIRMC w.e.f. 26 June 2019)

The Company Secretary acts as the secretary of the meeting.

Term of reference (ToR) of the Committee

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

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

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

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

Committee activities during the year

During the year under review several value additions and procedures were introduced by the Committee to further strengthen the Risk Management Process of the Bank. The Bank-wide Operational Risk goals were approved by the Committee during the year, enabling the Bank to report and mitigate high level operational risk incidents. The Committee also reviewed and approved changes to internal limits for credit and integrated risk indicators in line with the risk appetite of the Bank.

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

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

Meetings

The BIRMC met five times during the year under review. The attendance of the Committee members at the meetings of the Committee is tabled on page 125. The minutes of meetings are regularly forwarded to the Board together with detailed key risk indicators, stress testing reports and forecasts. All key risk indicators and potential risks were discussed and reviewed at each meeting and appropriate mitigatory measures taken where necessary.

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



Prof Sampath Amaratunge
Chairman
Board Integrated Risk Management Committee

26 February 2020
Colombo, Sri Lanka

Report of the Board Audit Committee

Composition of the Committee

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

The following members serve/served on the Board Audit Committee (BAC):

- Mr Lakshman Abeysekera – Senior Director/Chairman (BAC), Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr K G Wijerathne – Non-Independent, Non-Executive Director
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director

The Chairman of the BAC Mr Lakshman Abeysekera is an Independent Non-Executive Director. Brief profiles of Mr Lakshman Abeysekera and other members of the BAC are given on pages 18 to 21 of the Annual Report.

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

Terms of reference

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

Regulatory compliance

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

Duties and role of the Board Audit Committee

The BAC is responsible for:

- Reviewing financial information of the Bank in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure;
- Reporting to the Board on the quality and acceptability of the Bank’s accounting policies and practices;
- Assessing the reasonableness of the underlying assumptions for estimates and judgements made in preparing the Financial Statements.
- Reviewing accounting and financial reporting, risk management processes and regulatory compliance;

- Reviewing of the Financial Statements (including quarterly/interim statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies which are consistently applied;
- Reviewing internal audit reports and liaising with Corporate Management in taking precautionary measures to minimise control weaknesses, procedure violations and frauds;
- Assessing the independence and reviewing the adequacy of the scope, functions and resources of the Internal Audit Department, including the appointment of the Chief Internal Auditor (CIA) and the performance of the CIA and senior staff members of the Internal Audit Department;
- Overseeing the appointment, compensation, resignation, dismissal of the External Auditor, including review of the external audit, its scope, cost and effectiveness and monitoring of the External Auditor’s independence;
- Reviewing adequacy and effectiveness of the Bank’s systems of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the applicable accounting standards and the regulatory requirements;
- Engaging independent advisors on specialised functions where it is deemed necessary.

Meetings

For the purpose of discharging its duties, the BAC met twenty (20) times during the year. Attendance of the Committee members of each of these meetings is given in the table in page 125 of the Annual Report. The minutes of the meetings have been regularly reported to the Board of Directors. Chief Internal Auditor and Chief Financial Officer have normally attended meetings on invitation and Chief Executive Officer and the relevant Senior Management/Officers in other grades are also participated in the meetings on invitation. On the invitation of the Committee, the Engagement Partner and the Senior Officers of the Banks External Auditors, Messrs Ernst & Young attended for three (03) Committee meetings during the year. The Committee continued guiding the Management with the selection of the new Accounting policies which are required under the new Accounting Standards. In four (04) out of twenty (20) meetings, it has been discussed and recommended the Quarterly and Annual Financial Statements for Board approval. The Committee met Chief Internal Auditor and other senior internal Audit staff in one (01) meeting without presence of the Management. The BAC met the External Auditors in three (03) occasions during the year and in which two (02) occasions were without the presence of the CEO and the Corporate Management to ensure that there was no limitations of scope in relation to the audit and to allow for full disclosure of any incident which could have had a negative impact on the effectiveness on the external audits. It was concluded that there was no cause for concern.

Financial reporting

The Committee, as part of its responsibility to oversee the Bank’s financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors with regard to the quarterly and the annual Financial Statements prior to their release for publication. The review included

the quality and acceptability of accounting policies and practices, the clarity of the disclosures and the extent of compliance with Sri Lanka Accounting Standards (SLFRS and LKAS), the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto and other relevant financial and governance reporting requirements. To facilitate their review, the BAC considered reports from the Chief Financial Officer and also reports from the External Auditors on the outcome of their review and annual audit.

The BAC continuously monitored the implementation of the Sri Lanka Financial Reporting standards – SLFRS 9 “Financial Instruments” issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1 January 2018 by replacing the Sri Lanka Accounting Standard – LKAS 39 “Financial Instruments: Recognition and Measurement”. SLFRS 9 uses a forward looking “expected credit loss model” compared to the previously applied “incurred credit loss model” under LKAS 39. The Bank has obtained the services of an external consultant for the implementation of SLFRS 9 in 2018. The models have been developed, tested and submitted to External Auditors for independent validation since year ended 31 December 2018.

The Board also has taken into consideration the requirement of the Sri Lanka Accounting Standards SLFRS 16 on “Leases” that has been issued with effect from 1 January 2019. The Bank engaged with an external consultant to prepare a diagnostic report on SLFRS 16 “Leases”. All required adjustments have been made in the Financial Statements for the year ended 31 December 2019.

In accordance with revised Sri Lanka Standards on Auditing, Independent Auditors’ reports for financial years ending on or after 31 December 2018 are required to incorporate the reporting of Key Audit Matters. As part of the Bank’s Audit Committee’s responsibilities, notably its review of financial results, reports from internal and external audit, finance and internal financial control reports, the Bank’s Accounting Policies, as well as the annual Financial Statements; the BAC took cognisance of the Key Audit Matters as reported in the Independent Auditors’ Report. In addition, the Committee reviewed Management’s judgements on significant accounting and external reporting issues and confirmed external audit’s agreement with the treatment thereof.

Internal Control Over Financial Reporting (ICOFR)

The Bank is required to comply with Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka and assessed the adequacy and effectiveness of internal control over financial reporting as of 31 December 2019.

The Bank assessed the adequacy and effectiveness of its internal control over financial reporting as of 31 December 2019 based on the criteria set out in the Guidance for Directors of Banks on “The Directors’ Statement of Internal Control”, issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2010.

The Bank’s assessment was based on processes documented by the respective process owners with the guidance of the Bank’s Internal Audit and External Auditor (Ernst & Young). Based on Internal Auditors’ and External Auditors’ assessments, the Board has concluded that, as of 31 December 2019, the Bank’s internal control over financial reporting is effective. Directors’ Report on the Bank’s Internal Control over

Financial Reporting is provided on pages 128 and 129 in the Annual Report. The Bank’s External Auditors have reviewed the effectiveness of the Bank’s internal control over financial reporting and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. External Auditor’s Report on the Bank’s Internal Control over Financial Reporting is provided on page 130 of the Annual Report.

Annual corporate governance report

As required by Section 3 (8) (ii) (g) of the Banking Act Direction No. 12 of 2007, on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka, the Annual Corporate Governance Report for 2019 is provided on pages 82 to 106 in the Annual Report. The External Auditors of the Bank have performed procedures set-out in Sri Lanka Related Services Practice Statement 4750 issued by The Institute of Chartered Accountants of Sri Lanka (SLRSPS 4750), to meet the compliance requirement of the Corporate Governance directive. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported by the Board on pages 82 to 106.

External audit

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

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

The BAC has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed for the financial year ending 31 December 2020 subject to the approval of shareholders at the Annual General Meeting.

Internal audit

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

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

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

The Chief Internal Auditor reports directly to the BAC. As per the best practices, the Committee also had independent discussions with the Chief Internal Auditor and the senior internal audit staff without the management team to ensure independence of the Internal Audit Department's operations.

The Internal Audit Department comprises four (04) broad areas namely;

- Branch Audits and Regional Office Audits;
- Departments and Specialised Audits;
- Information Systems Audits and;
- Investigations.

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

Branch Audits, Departments/Divisions Audits, including Information Technology Operations and Regional Office Audits were covered during 2019, as per the Risk Based Audit Plan (RBAP) approved by the BAC. Also the investigations were conducted by the Internal Audit Department where necessary.

Progress of implementation of BAC decisions with agreed timelines to implement has been introduced and monitored through regular updates from CIA on the status of the implementation.

Along with the significant findings, the Internal Audit Department has engaged in sharing and providing knowledge through audit exit meetings to the Bank's staff for better control awareness and identifying early warning signals. In keeping with BAC recommendations, the internal audit has also provided inputs to the Corporate Management for effective control and prevention of frauds.

Internal Audit Charter and Internal Audit Manual

The internal Audit function is governed by the Internal Audit Charter which defines the Vision, Values, Authority and Accountability, Independence and Impartiality, Budget, Scope, Responsibility, Outsourcing policy of internal audit, Policy on engagement of External Auditor to provide non-audit services, Investigations, Standards and Quality assurance procedure that assist the Internal Audit Department to discharge its function effectively. The Internal Audit Charter and the Internal Audit Manual were reviewed/ revised and approved by the Board and BAC respectively.

Whistle blowing

SANASA Development Bank's Whistle-blowing Policy is intended to serve as a channel of fraud risk management. The policy allows any team member who has a legitimate concern on an existing or potential "wrong doing", by any person within the Bank, to come forward voluntarily, and bring such concerns to the notice of an independent/ designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, even anonymous complaints are looked at. A process has been established to track such whistle blowing and take necessary actions. This procedure is being monitored by the BAC.

Reporting to the Board

The Minutes of the BAC meetings are tabled at the Board meetings enabling all Board members to have access to them.

Professional advice

The BAC has the authority to seek external professional advice on matters within its purview; and consultations were obtained when need arises.

Board Audit Committee evaluation

The annual evaluation of the BAC was conducted by the Board of Directors during the year and concluded that its performance was effective.

On behalf of the Board Audit Committee (BAC),



Lakshman Abeysekera
Senior Director/Chairman
Board Audit Committee (BAC)

26 February 2020
Colombo, Sri Lanka

Report of the Board Human Resources and Remuneration Committee

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

Composition of BHRRC

The Board Human Resources and Remuneration Committee consists of three (03) Non-Executive Directors appended below:

- Mr Chaaminda Kumarasiri – Chairman (BHRRC), Independent, Non-Executive Director
- Ms Samadanie Kiriwadeniya – Chairperson, Non-Independent, Non-Executive Director
- Mr Lakshman Abeysekera – Senior Director, Independent, Non-Executive Director

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

Committee meetings of BHRRC

The Committee held eighteen (18) Board Human Resources and Remuneration Committee meetings during the year under review to endorse proposals related to a wide array of aspects relating to the Human Resources function of the Bank. The Committee has been able to continuously direct the HRM function of the Bank to align with its strategic direction while complying with the regulatory and statutory framework of the Bank.

Scope and responsibilities

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

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

Key HR initiatives during the year

During the year, the Committee, comprehensively reviewed the performance of the Key Management Personnel's (KMP) of the Bank for the year 2018 against the set goals and targets. They also set goals and targets for KMPs for 2019 in line with the strategic vision and direction of the Bank in 2019.

The Committee acknowledges that in addition to effective strategic planning and talent management, cultivating a work environment that supports and sustains a culture of superior performance that drives success both current and in the future is essential and thus approved a performance-linked bonus plan for all staff according to the overall achievement of Bank level profit target, a rewarding incentive scheme for sales personnel and a performance-based variable pay plan for support staff.

The Committee approved a comprehensive framework for the Human Resource Management and Development process. Upon the recommendation of the Corporate Management, Company Secretary was promoted to the DGM grade and six Chief Managers overseeing the divisions; IT, systems and operations, credit assessment, treasury, legal and internal audit also were promoted to the grade of Assistant General Managers and their remunerations were approved by the BHRRC.

The Committee also endorsed the Management's initiative to partner with "Great Place to Work", a global HR consultancy firm for an employee engagement survey and to form a long-term engagement strategy for SDB bank.

The Committee also approved few new recruitments to some of the key positions such as Head of Human Resources, Head of Finance and Regional Manager Western 1.

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



Chaaminda Kumarasiri
Chairman
Board Human Resources and Remuneration Committee

26 February 2020
Colombo, Sri Lanka

Report of the Board Selection and Nomination Committee

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

Composition of the BS & NC

The Board Selection and Nomination Committee comprises three (03) Non-Executive Directors (of which a majority are Independent) appointed by the Board of Directors of the Bank. During the year 2019, the following Directors served on the BS & NC:

- Mr Lakshman Abeysekera – Senior Director/Chairman (BS & NC), Independent, Non-Executive Director
- Ms Samadanie Kiriwandeniya – Chairperson, Non-Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director

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

Primary objectives of the BS & NC

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

Responsibilities of the BS & NC

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

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

The Terms of Reference of the Board Selection and Nomination Committee was adopted by the Board in 2012 and it was further reviewed and refined in 2019.

Meetings of the BS & NC and its effectiveness

The Committee met seven (07) times during the year under review and it focused mainly on the following:

- **Board composition** – Identified the skills required and recommended the appointment of one new Director with expertise in Credit, Finance Auditing and Co-operative aspects.
- **Re-election of Directors** – The Board Selection and Nomination Committee assessed the contribution made by the Directors who were retiring by rotation and made its recommendation to the Board to be submitted for re-election, by the shareholders at the AGM. Board Selection and Nomination Committee also recommended suitable Directors to fill the vacancies in place of retiring Directors.
- **Filling the skills gaps in the Key Management Team** – The Board Selection and Nomination Committee continuously reviewed the required skills and experience at the Top Management level and made recommendations to the Board with regard to the appointment of Key Management Personnel.
- **Succession plan** – The Board Selection and Nomination Committee along with the Chief Executive Officer of the Bank reviewed and analysed the expertise required and available at Corporate and Senior Management level and specially discussed the succession plan for Key Management Personnel's with a view to identify and develop potential candidates for such posts. Reviewed and discussed the process and overall methodology for a succession plan and a contingency plan for Key Management Personnel.
- **Job grading** – Parallel to the job evaluation and grading exercise carried out, the Board Selection and Nomination Committee evaluated candidates and elected to fill the posts of Deputy Chief Executive Officer, DGM – Technology and Operations, Chief Internal Auditor, Head of Human Resources and Head of Finance. Company Secretary was promoted to the DGM grade and Head of IT, Head of Credit, Head of Legal, Head of Treasury and Head of System and Operations were also promoted to the AGM grade. Further, compliance officer also promoted to the Chief Manager grade.
- With the retirement of former GM/CEO on 28 February 2019, new Chief Executive Officer was appointed and approved by the Board of Directors on 3 January 2019, with the recommendation of BS & NC held on 31 December 2018.

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



Lakshman Abeysekera
Chairman/Senior Director
Board Selection and Nomination Committee

26 February 2020
Colombo, Sri Lanka

Report of the Board Related Party Transactions Review Committee

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

Composition of BRPTRC

During the year 2019, the Committee consists of three Independent, Non-Executive Directors as appended below:

- Mr Chaaminda Kumarasiri – Chairman (BRPTRC), Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr Prasanna Premaratna – Independent, Non-Executive Director

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

Terms of reference of the Committee

The Terms of Reference (ToR) of the Board Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the ToR in December 2019. The Committee carries out the following duties and responsibilities:

- All transactions with Related Parties of the Bank in order to ensure that Related Parties are treated on par with other shareholders of the Bank;
- Implementing regulations relating to Related Parties issued by Central Bank of Sri Lanka and Securities and Exchange Commission of Sri Lanka;
- Ensure that the interests of Shareholders as a whole are taken into account by a listed entity when entering into related party transactions; and
- Ensure that there is a safeguard to prevent of taking advantage of their positions by Directors, Key Management Personnel or substantial shareholders.

Committee meetings of BRPTRC

The Committee met four (4) times during the year under review and the attendance of Committee members at meetings is stated in the table on page 125 of the Annual Report. Attendance of Committee meetings is compulsory for Chief Executive Officer, Compliance Officer and Chief Risk Officer except when matters related to those positions are discussed.

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

Objective of the Committee

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

Summary of activities

During the year the Committee reviewed transactions relating to the procurement of goods and services carried out by the Bank with various related parties on an "arms-length" basis.

The Committee also considered and reviewed loans granted to SANASA Societies and other affiliated SANASA entities.

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

The Committee has reviewed the Related Party Transactions of the Bank during the period of 1 January 2019 to 31 December 2019 and has thus complied with the rules pertaining to Related Party Transactions as set out in Section 9 of the Listing Rules of the CSE.

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



Chaaminda Kumarasiri

Chairman

Board Related Party Transactions Review Committee

26 February 2020
Colombo, Sri Lanka

Report of the Board ICT and Business Strategic Committee

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

The ICT Strategy, Marketing Strategy and Operational Strategy of the Bank were identified as three main sections that fall under the scrutiny of the Committee.

Composition of the Committee

BICT & BSC comprises four (04) Non-Executive Directors, appointed by the Board of Directors. During the year 2019, the following Directors served on BICT & BSC:

- Ms Samadanie Kiriwandeniya – Chairperson (BICT & BSC), Non-Independent, Non-Executive Director
- Mr Lakshman Abeysekera – Senior Director, Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director

Mr Arnoldus de Vette – Non-Independent, Non-Executive Director served as a member of the committee until resigned from the Board on 18 December 2019. We take this opportunity to place on record the committee's appreciation for the valuable service rendered by Mr Arnoldus de Vette as a member of the Committee.

Company Secretary of the Bank serves as the Secretary to the Committee based on the approved ToR for the Committee.

Meetings of BICT & BSC

The Committee met four (04) times during the period under review and during the year Committee deliberated followings and suggested recommendations for implementation of;

- Mid-year Review of Budget 2019
- Strategic Plan 2020-2022
- Budget 2020
- Business Strategies 2020
- Marketing Budget and Plan 2020

The scope of ToR

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

For and on behalf of the Board ICT and Business Strategic Committee,



Samadanie Kiriwandeniya
Chairperson
Board ICT and Business Strategic Committee

26 February 2020
Colombo, Sri Lanka

Report of the Board Credit Committee

The main income generation activity of the Bank is its lending operation. It has employed capital funds of its shareholders as well as deposits mobilised from its depositors to engage in this exercise. Therefore, it has cast a considerable responsibility on the Board of Directors of the Bank to employ these funds with the highest degree of prudence to ensure the safety of the funds and maximum profitability to the Bank.

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

The membership of the Board Credit Committee is comprised of three (03) Non-Executive Directors who meet at least 10 times annually to deliberate on issues under its purview:

Composition of the BCC

During the year 2019, the following Directors served on the BCC:

- Mr Prasanna Premaratna – Chairman (BCC), Independent, Non-Executive Director
- Ms Samadanie Kiriwadeniya – Chairperson, Non-Independent, Non-Executive Director
- Mr Lionel Thilakarathne – Non-Independent, Non-Executive Director

Mr Arnoldus de Vette – Non-Independent, Non-Executive Director served as a member of the Committee until resigned from the Board on 18 December 2019. We take this opportunity to place on record the Committee's appreciation for the valuable service rendered by Mr Arnoldus de Vette as a member of the Committee.

Company Secretary is functioning as the Secretary of the Committee. Chief Executive Officer, Deputy Chief Executive Officer, Chief Risk Officer, Head of Credit, Head of Recovery and Collection, shall attend the Meetings and Head of Co-operative Division, Head of Legal, Head of SME shall attend the Meetings by invitation to assist them and to provide expert knowledge on different areas of issues.

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

- Formulate the Credit Policy and Recovery Policy of the Bank and review and recommend timely changes for the approval of the Board of Directors
- Monitor the credit growth/performance of the Bank vis-à-vis the annual budget forecasts and previous year's performance
- Analytically appraise credit proposals and recommend to the Board of Directors for approval
- Evaluate the market potential in the prevailing economic environment together with inherent risks attached and provide appropriate guidelines

- Monitor the interest rate behaviour in the market and the internal and external factors affecting such fluctuations
- Monitor the portfolio mix to ensure sectoral exposure, collateral diversification, term diversification and lending to priority sectors
- Provide relevant directions to ensure adherence to statutory and regulatory compliance requirements
- Ascertain the quality of the credit portfolio by monitoring credit collections and delinquent loan recoveries
- Evaluate and afford interest concessions where appropriate, for full and final settlements of hard-core loans and write-offs of loan capitals whenever it deems necessary and recommend to the Board of Directors
- Apart from the aforesaid, the Board Credit Committee has the prerogative to call for any other information or special report relating to the Credit Operation of the Bank, if it deems necessary for its scrutiny

The Committee met Eleven (11) times, during the year under review to discuss the normal scope of work and the proceedings of the Committee meetings have been reported to the Board of Directors.

During the meetings held in 2019 the Committee carried out following activities:

- Reviewed and agreed on the revised Terms of Reference of the Committee and recommended for approval of the Board of Directors
- Reviewed and approved credit proposals comprising new facilities, annual review of revolving facilities, changes to terms and conditions of facilities already approved and interest rate concessions given to past due facilities
- Reviewed the progress of Recovery Department on the implementation of action plans approved by Board Credit Committee on the handling of non-performing Loan facilities
- Reviewed the Top 20 watch List Customers and Top 20 NPL customers list and advised the Management on recoveries
- Reviewed performance of pawning, SDB *athamaru* and Safety locker as fee based income

For and on behalf of the Board Credit Committee,

Prasanna Premaratna
Chairman
Board Credit Committee

26 February 2020
Colombo, Sri Lanka

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Financial Calendar

Financial Calendar – 2019

Annual General Meeting		
23rd Annual General Meeting	To be held on 15 July 2020	
22nd Annual General Meeting	Held on 30 May 2019	
Annual Financial Statements*		
Annual Financial Statements 2019	Signed on 26 February 2020	
Annual Financial Statements 2018	Signed on 8 March 2019	
Interim Financial Statements**	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
4th Quarter 2018	28 February 2019	29 March 2019
1st Quarter 2019	15 May 2019	30 May 2019
2nd Quarter 2019	13 August 2019	28 August 2019
3rd Quarter 2019	15 November 2019	28 November 2019
4th Quarter 2019	27 February 2020	To be published in June 2020

Proposed Financial Calendar – 2020

Annual General Meeting		
24th Annual General Meeting	To be held on or before 31 May 2021	
Annual Financial Statements*		
Annual Financial Statements 2020	To be signed in March 2021	
Interim Financial Statements**	Date to be released to the CSE	Date to be published to the newspapers (In Sinhala, English, Tamil)
1st Quarter 2020	15 May 2020	31 May 2020
2nd Quarter 2020	15 August 2020	31 August 2020
3rd Quarter 2020	15 November 2020	30 November 2020
4th Quarter 2020	28 February 2021	31 March 2021

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

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

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

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

General

The Directors have pleasure in presenting to the shareholders the Annual Report of the SANASA Development Bank PLC together with the Audited Financial Statements for the year ended 31 December 2019 and the Auditors' Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder including the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

The Financial Statements of the Bank for the year ended 31 December 2019, including the comparatives for 2018 were approved and authorised for issue by the Board of Directors on 26 February 2019 in accordance with the Resolution of the Directors. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

SANASA Development Bank PLC ("The Bank") is a licensed specialised bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability company in Sri Lanka on 6 August 1997 under the Companies Act No. 17 of 1982. The Bank was reregistered as per the requirements of the Companies Act No. 07 of 2007 ("Companies Act") on 30 October 2007. The reregistration number of the Bank is PB 62 PQ. The Registered Office as well as the Head Office of the Bank is at No. 12, Edmonton Road, Kirulapone, Colombo 6, Sri Lanka.

The ordinary voting shares of the Bank are listed on the Main Board of the Colombo Stock Exchange since May 2012. The Senior, Rated Guaranteed Debentures issued by the Bank are also listed on the CSE. The Bank has been assigned a National Long-term Rating of BB+(lka) with a stable outlook by Fitch Ratings Lanka Ltd., and the (SL)BBB- with stable outlook by ICRA Lanka Limited.

Vision, mission, goals, values and corporate conduct

The Bank's Vision and Mission statements are exhibited on page 8 of the Annual Report.

The business activities of the Bank are conducted in keeping with the highest level of ethical standards in achieving its Vision and Mission.

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

Principal business activities

The principal activities of the Bank include accepting deposits at competitive rates of interest and the investment of these deposits in community-based lending programmes, with special focus on Co-operative Societies, their members and other micro enterprises, issuing of local and international debit cards. The Bank's range of products includes Special Deposits, Credit, Pawning, Leasing and Re-finance Loan Schemes.

At the end of 2019 the Bank has established 94 delivery points (2018 – 94 at the end of 2018) across all districts of the country.

Review of operations

The "Chairperson's Message" on pages 12 and 13, the "Chief Executive Officer's Review" on pages 14 to 16, and the "Banking on value creation" on pages 41 to 70, together with the Audited Financial Statements provide an overall review of business performance and the state of affairs of the Bank together with important events that took place during the year as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

Future developments

The Bank intends expanding its network of delivery channels by employing client-focused strategy with effective management of capital, liquidity and risks. Please refer sections on "Chairperson's Message" on pages 12 and 13, "Chief Executive Officer's Review" on pages 14 to 16 and "Banking on value creation" on pages 41 to 70 for initiatives taken in this regard.

Financial Statements

The Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988. The Financial Statements of the Bank for the year ended 31 December 2019 duly signed by the Chief Financial Officer and Chief Executive Officer, two Directors of the Bank and the Company Secretary are given on pages 133 to 190, which form an integral part of the Annual Report of the Board of Directors.

Director's responsibility for financial reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank, which reflect a true and fair view of the financial position and performance of the Bank. The Directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 133 to 190 have been prepared in conformity with the requirements of the SLFRSs and LKASs as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The "Statement of Directors' Responsibility" appearing on page 132 forms an integral part of this Report.

Auditors' report

The External Auditors' of the Bank are Messrs Ernst and Young, Chartered Accountants. Messrs Ernst & Young, Chartered Accountants carried out the Audit on the Financial Statements of the Bank for the year ended 31 December 2019 and their report on these Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given on pages 133-135 of this Annual Report. The Auditors' remuneration details are stated in Note 10 to the Financial Statements on page 155.

As per the knowledge of the Directors the Auditors are independent and do not have any relationships or any interest in contracts with the Bank.

Significant accounting policies

The Significant Accounting Policies adopted in the preparation of the Financial Statements are given on pages 140 to 152 and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

Going concern

The Directors have made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

Financial results and appropriations

Gross income

The gross income of the Bank for 2019 was LKR 15.24 Bn. (2018: LKR 13.64 Bn.). An analysis of the gross income is given in Note 3, 4, 5 and 6 to the Financial Statements on pages 153 and 154.

Profits and appropriations

The net profit before tax of the Bank amounted to LKR 585 Mn. in 2019 (2018: LKR 644 Mn.) and this has reduced by 9% when compared to 2018. Further, the net profit after tax of the Bank amounted to LKR 253 Mn. in 2019 (2018: LKR 357 Mn.) and this was a decrease of 29% when compared to 2018. A detailed breakup of profits and appropriations of the Bank is given below:

Description	2019 LKR	2018 LKR
Profit for the year		
Profit for the year ended 31 December after payment of all operating expenses and provision for depreciation and contingencies	585,827,440	644,142,473
Less: Taxation	(332,422,344)	(287,192,354)
Net profit after tax	253,405,096	356,950,119
Other Comprehensive Income (OCI)		
Actuarial gain/(losses) on defined benefit plans	(41,587,781)	(45,995,306)
Gains/(losses) on remeasuring available-for-sale financial assets	(3,209,534)	(3,388,111)
Deferred tax relating to other comprehensive income	11,644,579	12,878,686
Total comprehensive income for the year	220,252,360	320,445,388
Unappropriated profit brought forward from previous year	1,264,920,177	1,328,049,884
Balance available before adjustment	1,485,172,537	1,648,495,272
Impact of adoption of SLFRS 9 as at 1 January 2018	-	(37,054,387)
Appropriations		
Transfer to statutory reserve fund	(12,670,255)	(17,847,506)
Dividend		
Final cash dividend – 2017 (LKR 2.50 per share)	-	(136,947,168)
Final scrip dividend – 2017 (LKR 3.50 per share)	-	(191,726,035)
Unappropriated balance carried forward as at 31 December	1,472,502,282	1,264,920,177

Taxation

The income tax rate applicable on the Bank's domestic operations is 28% (2018: 28%). Details of tax payments are given in Note 11 to the Financial Statements on pages 155 and 156.

The Bank has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard – LKAS 12 "Income Taxes". Details of deferred tax provisions made are given in Note 11.2 to the Financial Statements on page 156.

The Bank is liable for VAT on financial services at 15% in 2019 (2018: 15%) and NBT on financial services up to 30 November 2019 at 2% (2018 – 2%).

With effect from 1 October 2018 the Bank is liable for the Debt Repayment Levy (DRL) at 7% (2018: 7%) and from 1 April 2013, the Bank is liable for Crop Insurance Levy at 1% which is payable to the National Insurance Trust Fund Board.

Statutory payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments (including all taxes, duties and levies payable by the Bank) due to the Government, other regulatory institutions and related to the employees have been made on time or where relevant provided for.

Reserves

A summary of the Bank's reserves position is as given below:

As at 31 December	2019 LKR	2018 LKR
Statutory reserve fund	228,281,724	215,611,469
Other reserves	27,605,349	30,814,883
Retained profits	1,491,553,906	1,280,762,267

Information on the movement of reserves is given in the Statement of Changes in Equity on page 138 and in Notes 31, 32 and 33 to the Financial Statements on pages 171 and 172.

Capital expenditure

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to LKR 171,644,938 (2018: LKR 216,934,546). Details are given in Note 19 to the Financial Statements.

Capital commitments

The contracted and approved capital expenditure as at the date of the reporting is given in Note 19 to the Financial Statements.

Property, plant and equipment, intangible assets and leasehold property

Information on property, plant and equipment and leasehold property of the Bank are given in Note 19 to the Financial Statements on pages 162 and 163. Particulars of intangible assets are given in Note 22 to the Financial Statements on page 165.

Investment properties of the Bank are disclosed in accordance with Sri Lanka Accounting Standard – 40 "Investment Property". Specific information on extent, location of the land and buildings held by the Bank are given under Note 21 to the Financial Statements on page 164.

Stated capital

The stated capital of the Bank as at 31 December 2019 amounted to LKR 5,921,538,126 consisting of 56,308,252 ordinary voting shares (2018: LKR 5,921,538,126 consisting of 56,308,252 ordinary voting shares).

Debt capital

The Bank has issued Rated Guaranteed Redeemable Debentures of LKR 100 each in 2015 which are guaranteed by Sampath Bank PLC and Seylan Bank PLC to the total outstanding value of LKR 1,014,034,248 as at 31 December 2019 (2018: LKR 4,198,547,716), which are listed on the Colombo Stock Exchange. The details of the debentures outstanding as at 31 December 2019 are given in Note 26 to the Financial Statements.

Share information

Information in relation to earnings, net assets, dividends and market value per share etc., is given on page 65. Information on the trading of shares and movement in the number of shares represented by the stated capital is given in the section on "The Confidence of Investors" on pages 58 to 66 to this Report.

Details on shareholding distribution, share ownership composition and substantial shareholding are as follows:

Distribution schedule of shareholdings

Shareholder	As at 31 December 2019		As at 31 December 2018	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	33,901	9,735,164	34,060	16,516,455
Institution				
Foreign	4	12,308,428	4	12,289,797
Local and other institutions	46	18,681,731	50	11,847,519
SANASA Federation				
Acc 1	1	720,024	1	720,024
Acc 2		28,439		28,439
SANASA societies	3,394	8,176,835	3,372	7,047,079
SANASA unions	34	1,241,252	35	1,242,645
MPPCS	21	156,595	21	156,595
Trust companies	105	5,259,784	105	6,459,699
Total	37,506	56,308,252	37,648	56,308,252

Composition of share ownership

	31 December 2019				31 December 2018			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1 – 1,000	35,813	95.49	4,358,723	7.74	36,003	95.63	4,404,185	7.82
1,001 – 10,000	1,312	3.49	3,684,299	6.54	1,286	3.42	3,556,285	6.32
10,001 – 100,000	341	0.91	10,200,329	18.12	313	0.83	9,447,858	16.78
100,001 – 1,000,000	32	0.09	7,634,895	13.56	38	0.10	8,607,818	15.29
1,000,001 – and above	8	0.02	30,430,006	54.04	8	0.02	30,292,106	53.79
	37,506	100	56,308,252	100	37,648	100	56,308,252	100

Substantial shareholdings

Names of the twenty largest shareholders, with their respective shareholdings and percentage holdings as at 31 December 2019 with their Comparative Shareholding as at 31 December 2018 are as follows:

No.	Shareholder name	31 December 2019		31 December 2018	
		Number of shares	%	Number of shares	%
01.	Ayenka Holdings (Pvt) Ltd.	7,028,043	12.48	6,779,840	12.04
02.	Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd.*	6,952,168	12.34	6,936,510	12.32
03.	SBI Emerging Asia Financial Sector Fund PTE LTD	5,045,636	8.96	5,045,636	8.96
04.	CB NY S/A International Finance Corporation	4,991,644	8.86	4,991,644	8.86
05.	Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V	2,242,504	3.98	2,242,504	3.98
06.	People's Leasing & Finance PLC	2,094,012	3.72	2,094,012	3.72
07.	Kegalle SANASA Shareholders Trust Company Limited	1,039,330	1.85	1,039,330	1.85
08.	SANASA General Insurance Company Limited	1,036,669	1.84	1,162,630	2.06
09.	SANASA Life Insurance Company Ltd. (Life)	910,708	1.62	910,708	1.62
10.	Sampath Bank PLC/Dr T Senthilverl	871,885	1.55	871,885	1.55
11.	Sanasa Federation Ltd.	720,024	1.28	720,024	1.28
12.	Polgahawela Sanasa Societies Union Ltd.	387,314	0.69	387,314	0.69
13.	Hambanthota DTCCS Union Ltd.	384,257	0.68	384,257	0.68
14.	Dr T Senthilverl	373,598	0.66	373,598	0.66
15.	Mr D P Pieris	257,067	0.46	257,067	0.46
16.	Kotikawatta Thrift and Credit Co-operative Society Limited	253,896	0.45	-	-
17.	Polgahawela SANASA Shareholders Trust Company Ltd.	240,836	0.43	238,667	0.42
18.	Sampath Bank PLC /Mr Arunasalam Sithampalam	224,333	0.40	224,333	0.40
19.	Dr S Yaddhige	205,653	0.37	205,653	0.37
20.	Kamburupitiya City SANASA Society Ltd.	181,209	0.32	181,209	0.32

* Shares held by Seylan Bank PLC/Dr Thirugnanasambandar Senthilverl has been transferred to the Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd. on 17 June 2019.

Equitable treatment to shareholders

The Bank has at all times ensured that all shareholders are treated equitably.

2019 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 18 to 21 of the Annual Report.

Information on the Directors of the Bank

The Board of Directors of the Bank consists of Nine (2018: Nine) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31 December

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

Name of the Director	Executive/ Non-Executive Status	Independent/ Non-Independent Status
1. Ms Samadanie Kiriwadeniya	Non-Executive	Non-Independent
2. Mr Lakshman Abeysekera	Non-Executive	Independent
3. Prof Sampath Amaratunge	Non-Executive	Independent
4. Mr Prabhash Subasinghe	Non-Executive	Non-Independent
5. Mr K G Wijerathne	Non-Executive	Non-Independent
6. Mr Lionel Thilakarathne	Non-Executive	Non-Independent
7. Mr Chaaminda Kumarasiri	Non-Executive	Independent
8. Mr Prasanna Premaratna	Non-Executive	Independent
9. Mr B R A Bandara	Non-Executive	Non-Independent
New appointments made during 2019		
1. Mr B R A Bandara (Appointed w.e.f. 27 March 2019)	Non-Executive	Non-Independent
Resignations/Retirements during 2019		
1. Mr A P J de Vette (Resigned w.e.f. 18 December 2019)	Non-Executive	Non-Independent

With the resignation of the Director Mr A P J de Vette who represented SBI-FMO, Ms Dinithi Ratnayake was appointed as a Director of SDB bank w.e.f. 17 February 2020 who possesses more than 24 years' experience in banking with in-depth knowledge in finance institutions, advisory and transactional banking including strong credit background, and exposure to debt capital markets and international Risk and Compliance practices.

Retirement by rotation and Re-election/ Re-appointment of Directors

- i. In terms of Article 6 (4) of the Articles of Association, one-third of the aggregate of Non-Executive Directors shall retire by rotation at each Annual General Meeting. Article 6 (4) provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation), have been longest in office, since their last election or appointment.
- ii. The Board recommended the re-election of the following Directors, after considering the contents of the Affidavits and Declarations submitted by them and all other related issues:
 - (a) Mr K G Wijerathne
 - (b) Mr B R A Bandara
- iii. Directors who served on the Board for over nine years.
In terms of the Banking Act Direction No. 12 of 2007 (Corporate Governance for Licensed Specialised Banks in Sri Lanka), the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed nine years. Ms M S Kiriwadeniya who was elected to Board on 24 May 2011 will complete nine years on 23 May 2020 and shall retire on above date.

Board subcommittees

The Board of Directors of the Bank formed four mandatory Board subcommittees namely, The Board Selection and Nomination Committee, The Board Human Resources and Remuneration Committee, The Board Integrated Risk Management Committee and The Board Audit Committee as required by the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" issued by the CBSL.

The Board formed a Related Party Transactions Review Committee in 2014 to assist the Board in reviewing all related party transactions carried out by the Bank by early adopting the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (the SEC) which became mandatory from 1 January 2016.

The Board of Directors also has formed three other voluntary Board subcommittees to assist the Board. These committees play a critical role in order to ensure that the activities of the Bank at all times are conducted with the highest ethical standards and in the best interest of all its stakeholders. The Terms of Reference of these subcommittees confirm to the recommendations made by various regulatory bodies, such as the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission, and the Colombo Stock Exchange.

The composition of both mandatory and voluntary Board subcommittees, as at 31 December 2019 and the details of the attendance by Directors at meetings are tabulated on page 125 while the reports of these subcommittees are found on pages 107 to 115 in this Report.

Board subcommittees and its composition

Committee	Mandate	Composition
Board Integrated Risk Management Committee	Quarterly	Prof S Amaratunge (Chairman – BIRMC) Mr C Kumarasiri Mr P Subasinghe Mr B R A Bandara
Board Audit Committee	Monthly	Mr L Abeysekera (Chairman – BAC/Senior Director) Prof S Amaratunge Mr K G Wijerathne Mr C Kumarasiri
Board Human Resources and Remuneration Committee	At least 6 times annually	Mr C Kumarasiri (Chairman – BHRRC) Ms S Kiriwandeniya (Chairperson) Mr L Abeysekera (Senior Director)
Board Selection and Nomination Committee	If and when it is required	Mr L Abeysekera (Chairman – BS and NC/Senior Director) Ms S Kiriwandeniya (Chairperson) Prof S Amaratunge
Board Related Party Transactions Review Committee	Quarterly	Mr C Kumarasiri (Chairman – BRPTRC) Prof S Amaratunge Mr P Premaratna
Board ICT and Business Strategic Committee	Quarterly	Ms S Kiriwandeniya (Chairman – BICT and BSC/Chairperson) Mr L Abeysekera (Senior Director) Prof S Amaratunge Mr P Subasinghe
Board Credit Committee	at least 10 times annually	Mr P Premaratna (Chairman – BCC) Ms S Kiriwandeniya (Chairperson) Mr S L Thilakarathne
Board Co-operative Development Committee	Quarterly	Mr K G Wijerathne (Chairman – BCDC) Mr L Abeysekera (Senior Director) Mr S L Thilakarathne Mr B R A Bandara

Director, Mr A P J de Vette who served as a member of Board Credit Committee and Board ICT and Business Strategic Committee resigned on 18 December 2019.

Director's meetings

Details of the meetings of the Board of Directors which comprises with Board Meetings, Board Audit Committee Meetings, Board Selection and Nomination Committee Meetings, Board Human Resources and Remuneration Committee Meetings, Board Credit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board ICT

and Business Strategic Committee Meetings, Board Related Party Transactions Review Committee Meetings and Board Co-operative Development Committee Meetings and the attendance of Directors at these meetings are given below:

Name	Board Meeting	Board Credit Committee (BCC)	Board Audit Committee (BAC)	Board Human Resources and Remuneration Committee (BHRRC)	Board Integrated Risk Management Committee (BIRMC)	Board Selection and Nomination Committee (BS and NC)	Board ICT and Business Strategic Committee (BICT and BSC)	Board Related Party transactions Review Committee (BRPTRC)	Board Co-operative Development Committee (BCDC)	Total
Ms S Kiriwadeniya	13/13	9/11		18/18		7/7	3/4			50/53
Mr L Abeysekera	13/13		20/20	18/18		7/7	4/4		5/5	67/67
Prof S Amaratunge	10/13		17/20		5/5	7/7	3/4	3/4		45/53
Mr P Subasinghe	11/13				4/5		3/4			18/22
Mr L Thilakarathne	13/13	9/11					*1/4		5/5	28/33
Mr A P J De Vette	9/13	7/11					*1/4			17/28
Mr K G Wijerathne	12/13		15/20				-		5/5	32/38
Mr C Kumarasiri	13/13		20/20	18/18	5/5	*3/7	*2/4	4/4		65/71
Mr P Premaratna	13/13	11/11					*2/4	4/4		30/32
Mr B R A Bandara	10/13				2/5		*1/4		2/5	15/27

* Directors' attendance for the subcommittee meetings by Invitation.

Mr B R A Bandara

Appointed to the Board w.e.f. – 27 March 2019

Appointed to the BIRMC w.e.f. – 26 June 2019

Appointed to the BCDC w.e.f. – 26 June 2019

Mr A P J De Vette

Resigned from the Board, BCC and BICT and BSC w.e.f. – 18 December 2019

Disclosure of Directors' dealing in shares

Individual ordinary voting shareholdings of persons who were Directors of the Bank at any time during the financial year are as follows:

Number of shares

Name of the Director	As at 31 December 2019	As at 31 December 2018
Ms S Kiriwadeniya	5,785	5,785
Mr L Abeysekera	-	-
Prof S Amaratunge	-	-
Mr P Subasinghe	69,341	69,341
Mr L Thilakarathne	-	-
Mr A P J de Vette	-	-
Mr K G Wijerathne	117	117
Mr C Kumarasiri	-	-
Mr P Premaratna	-	-
Mr B R A Bandara	3,791	-

Directors' shareholding percentage

	As at 31 December 2019 %	As at 31 December 2018 %
Directors	0.14	0.13
Public	99.64	99.86
CEO and related parties	0.22	0.01

Directors' statement of internal control – Bank

The Bank maintains Directors' Interests Register as required under the provisions of Section 168 (1) (e) of the Companies Act No. 07 of 2007. The Directors of the Bank have disclosed their interests in contracts or proposed contracts, in terms of Section 192 (1) and 192 (2) of the Companies Act. These interests have been recorded in the interests' register which is available for inspection in terms of the provisions of the Companies Act. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

Directors' remuneration

As required under the Section 168 (1) (f) of the Companies Act No. 07 of 2007, Directors' remuneration and other benefits in respect of the Bank for the financial year ended 31 December 2019 are given in Note 10 to the Financial Statements on page 155.

Related party transactions

Directors have disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standards – LKAS 24 "Related Party Disclosures" which is adopted in preparation of the Financial Statements. Those transactions are given in Note 36 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

Bank has also complied with the requirement of the Code of Best Practice 2017 issued by The Institute of Chartered Accountants of Sri Lanka, Listing Rules of Colombo Stock Exchange (CSE) and with all disclosure requirements stipulated thereunder.

Directors' and insurance

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, Secretaries, Officers and certain employees of the Bank as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

Environmental protection

To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment.

Events after the reporting period

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the reporting period, other than those disclosed in Note 35 to the Financial Statements on page 173.

Appointment of Auditors and their remuneration

The Bank's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Audit fees and reimbursement of expenses paid to Ernst & Young during the year under review by the Bank amounted to LKR 2,650,752 (2018: LKR 2,876,530). Further LKR 820,000 (2018: LKR 708,410) were paid by the Bank for audit-related and non-audit services including reimbursement of expenses. Details of the audit fees paid are given on Note 10 to the Financial Statements on page 155.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship or interest with the Bank that in our judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. Hence they may come up for re-election at the Annual General Meeting, with the recommendation of Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the re-appointment of Messrs Ernst & Young, Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

Information on ratios, market prices of shares and credit ratings

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on "The Confidence of Investors" on pages 58 to 66.

Risk management and internal control

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the Section on "Managing Risks" on pages 72 to 75 and in Note 42 to the Financial Statements on pages 180 to 189.

The Directors have taken reasonable steps open to them to safeguard the assets of the Bank and to prevent and detect frauds and any other irregularities. For this purpose the Directors have instituted effective and comprehensive systems of Internal controls for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises internal reviews, Internal Audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect the frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

Board of Directors on the Affairs of the Company

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of Banking Act Direction No. 12 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on pages 128 and 129.

The Board has obtained an assurance report from the External Auditors on Directors' Statement on Internal Control which is given on page 130 of the Annual Report.

Outstanding litigations

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 34.2 of the Financial Statements given on pages 172 and 173 will not have a material impact on the financial position of the Bank or its future operations.

Corporate Governance

Directors' declarations:

- i. the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee;
- ii. the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested;
- iii. all endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue;
- iv. the business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business Plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank are prepared based on the going concern assumption; and
- v. they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence. The measures taken and the extent to which the Bank has complied with the Code of Best Practice on Corporate Governance issued by the CA Sri Lanka and the SEC, the CSE and the CBSL are given on pages 82 to 106.

Annual General Meeting and the Notice of Meeting

The 23rd Annual General Meeting of the Bank will be held at "Lavender Hall" Bandaranaike Memorial International Conference Hall, Bauddhaloka Mawatha, Colombo 7 at 9.00am on 15 July 2020.

Acknowledgement of the contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

For and on behalf of the Board of Directors,



Samadanie Kiriwadeniya
Chairperson



Lakshman Abeysekera
Senior Director



Tamarika Rodrigo
Company Secretary

26 February 2020
Colombo, Sri Lanka

Directors' Statement on Internal Control over Financial Reporting

Responsibility

In line with the, Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at SANASA Development Bank PLC ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of Banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatements of financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' statement on Internal Control, issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking into account the principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the System of Internal Controls over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk through designing and implementing suitable internal controls to mitigate risks faced by the Bank.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system over financial reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis applying Risk Based Audit Procedures (RBAP). Audits are carried out on all Departments/Divisions/Functions and Branches in accordance with the annual Risk Based Audit Plan approved by the Board Audit Committee (BAC). The frequency of which is determined by the level of risk assessed, to provide an independent and objective report. Findings of the Internal Audit Department are submitted to the BAC for review at their periodic meetings. The BAC also reviews and updates on the scope and the adequacy of the internal audit function against the approved audit plan. The BAC had detailed discussions on significant and pervasive audit findings and monitor the action plans to address them.
- The BAC reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities, including Key Audit Matters (KAM) given by the External Auditors: and evaluates the adequacy and effectiveness of the risk management and internal control systems. The minutes of the BAC meetings are forwarded to the Board on a periodic basis. Further, details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (BAC).
- The Board Integrated Risk Management Committee (BIRMC) was established to assist the Board to oversee the overall risk management of the principal areas of the Bank. The Executive Integrated Risk Management Committee (EIRMC) which includes representation from all key business, operating and control units of the Bank to assist BIRMC to execute the assigned functions as per the ToR.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Senior Management Committee, Assets and Liability Management Committee, Investment Committee, the Information Technology Steering Committee, Executive Integrated Risk Management Committee (EIRMC) and the Operational Risk Management Committee.

- In assessing the internal control system over financial reporting, the process owners of the Bank collated all the procedures and controls to ensure that the Financial Statements of the Bank provide accurate information. These in turn were reviewed by the Internal Audit Department for suitability of the design and effectiveness on an ongoing basis, throughout the year.

SLFRS 9 “(Financial Instruments)” has been taken into consideration by the Board and it is effective from 1 January 2018 by replacing the Sri Lanka Accounting Standard – LKAS 39 “(Financial Instruments: Recognition and Measurement)”. SLFRS 9 uses a forward looking “expected credit loss model” compared to the previously applied “incurred credit loss model” under LKAS 39. The Bank has obtained the services of an External Consultant for SLFRS 9 implementation in 2018. The models have been developed, tested, and submitted for External Auditors for verification and implemented since year ended 31 December 2018.

The Board also has taken into consideration the requirement of the Sri Lanka Financial Reporting Standards: SLFRS – 16 on “Leases” that has been issued with effect from 1 January 2019 by replacing LKAS – 17 “Leases”. The Bank engaged with an external consultant to prepare a Diagnostic report on SLFRS 16 – “Leases”. All required adjustments have been made in the Financial Statements for the year ended 31 December 2019.

In the light of the comments made by the External Auditors in connection with Internal Control System over Financial Reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors during the year, in connection with the Internal Control System over Financial Reporting will be dealt with in future.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and Regulatory Requirements.

Review of the statement by External Auditors

The External Auditors, Messrs Ernst & Young have reviewed the above Directors’ Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2019 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control over Financial Reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given in Auditors’ Report of this Annual Report.

By Order of the Board,



Lakshman Abeysekera
Senior Director, Chairman
Board Audit Committee (BAC)



Chaaminda Kumarasiri
Non-Executive, Independent Director



Samadanie Kiriwadeniya
Chairperson

26 February 2020
Colombo, Sri Lanka

Independent Assurance Report



Building a better
working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
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AdeS/RM/TK

Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of SANASA Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2019.

Management's responsibility

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

Our independence and quality control

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

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

Our responsibilities and compliance with SLSAE 3050 (Revised)

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

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

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

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

Summary of work performed

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

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

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

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

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

Our conclusion

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

26 February 2020
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
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Principal G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA
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Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of SANASA Development Bank PLC (Bank) as at 31 December 2019 are prepared in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);
- Companies Act No. 07 of 2007 (Companies Act);
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto;
- Listing Rules of the Colombo Stock Exchange;
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka; and
- Section 3 (8) (ii) of the Banking Act Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka, which is also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard (LKAS 1) "Presentation of Financial Statements".

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. The significant accounting policies and estimates that involve a high degree of judgement and complexity were discussed with the Audit Committee and External Auditors. Comparative information has been restated wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained in the Notes to the Financial Statements.

The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and procedures for safeguarding assets, preventing and detecting frauds and/or errors as well as other irregularities which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

We confirm, compliance with Section 3 (8) (ii) of the Banking Act Direction No. 12 of 2007 on Corporate Governance (Internal Control Over Financial Reporting – ICOFR) issued by the Central Bank of Sri Lanka as of 26 December 2007 and that the Bank's Internal Controls over Financial Reporting is adequate and effective. The Annual Report of the Directors on pages 119 to 127 has briefly covered the Bank's Internal Control over Financial Reporting. In addition, Directors' Statement on Internal Control over Financial Reporting is provided on pages 128 and 129. The Bank's External Auditors, Messrs Ernst & Young, have audited the effectiveness of the Bank's Internal Controls over Financial Reporting and have given an unqualified opinion on page 130 of this Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on pages 133 to 135 of this Annual Report.

The Audit Committee of the Bank meets periodically with the Internal Auditors and the Independent External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss issues relating to auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee report is given on pages 108 to 110.

The Audit Committee approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not impair Messrs Ernst & Young's independence.

We confirm that to the best of our knowledge:

- the Bank has complied with all applicable laws, regulations and prudential requirements;
- there are no material non-compliances; and
- there are no material litigations that are pending against the Bank other than those disclosed in Note 34.2 to the Financial Statements in the Annual Report.



Thilak Piyadigama
Chief Executive Officer



Terrance Kumara
Chief Financial Officer

26 February 2020
Colombo, Sri Lanka

Statement of Directors' Responsibility for Financial Reporting

The responsibilities of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the provisions of the Companies Act No. 07 of 2007 are set out in the following statement. The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on pages 133 to 135 of the Annual Report.

As per the provisions of Sections 150 (1), 151, 152 and 153 (1) and (2) of the Companies Act No. 07 of 2007 the Directors are required to prepare Financial Statements that give a true and fair view of the financial position of the Bank for each financial year and place them before the Annual General Meeting. The Financial Statements comprise the Statement of Financial Position as at end of the financial year, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and Notes thereto.

The Financial Statements are prepared by Chief Financial Officer under the supervision of Chief Executive Officer. The Directors confirm that the Financial Statements of the Bank give a true and fair view of:

1. The state of affairs of the Bank as at 31 December 2019; and
2. The financial performance of the Bank for the financial year ended 31 December 2019.

The Board of Directors accepts the responsibility of the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing these Financial Statements;

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgements and estimates have been made which are reasonable and prudent; and
3. All applicable Accounting Standards, as relevant, have been complied with.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Bank has maintained sufficient accounting records to disclose, with reasonable accuracy the financial position of the Bank.

The Financial Statements prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS) which came into effect from 1 January 2012, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of Licensed Specialised Banks.

The Directors have also instituted effective and comprehensive systems of Internal Control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial

and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31 December 2019 are given in pages 128 and 129 of the Annual Report, "Directors Statement on Internal Control over Financial Reporting". External Auditors' Assurance Report on the "Directors Statement on Internal Control" is given on page 130 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Bank maintain proper books of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee. The report of the said Committee is given on pages 108 to 110 in the Annual Report. The Board of Directors also approves the interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Directors are required to prepare the Financial Statements and to provide the Bank's External Auditor, Messrs Ernst & Young, Chartered Accountants, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

The Financial Statements of the Bank have been certified by the Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the Financial Statements of the Bank have been signed by two Directors and the Company Secretary of the Bank on 26 February 2020 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

Further, as required by Section 56 (2) of the Companies Act No. 07 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the Auditors, prior to declaring a final dividend of LKR 7.00 per share for this year to be paid in July 2020.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,



Tamarika Rodrigo
Company Secretary

26 February 2020
Colombo, Sri Lanka

Independent Auditors' Report



Building a better
working world

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Independent Auditors' Report

To the shareholders of SANASA Development Bank PLC

Report on the Audit of the Financial Statements

Opinion

We have Audited the Financial Statements of SANASA Development Bank PLC ("the Bank"), which comprise the Statement of Financial Position as at 31 December 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

financial statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the Audit of the Financial Statements of the current period. These matters were addressed in the context of the audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment allowance for loans and receivables</p> <p>Loans and receivables amounting to LKR 88.72 Bn. (Note 16), net of impairment allowance of LKR 2.90 Bn. (Note 16) consist of 80% of the total assets of the Bank as at 31 December 2019.</p> <p>The estimation of impairment allowance for loans and receivables involved significant assumptions, estimates and complex manual calculations. Significant estimates and assumptions used by the Management in such calculations and the basis for impairment allowance are disclosed in Notes 2.3.2.3 and 42.2 respectively.</p> <p>Impairment allowance for loans and receivables was considered a key audit matter due to the magnitude and significance of the assumptions involved.</p>	<p>To assess the reasonableness of the impairment charges, our audit procedures (among others) included the following:</p> <ul style="list-style-type: none"> We evaluated design effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of significant judgements, estimates and assumptions in relation to the impairment by the Board Audit Committees and Management. In addition to the above, following key procedures were also performed: <p>For a sample of loans and advances individually assessed for impairment:</p> <ul style="list-style-type: none"> We tested for a sample of loans and advances where impairment indicators existed, reasonableness of Management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. For loans and advances granted to customers in industries with elevated risk of credit loss, we assessed the main criteria used by the Management in its assessment of expected impairment losses and reasonableness of impairment made thereof.

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Key audit matter	How our audit addressed the key audit matter
	<p>For loans and advances collectively assessed for impairment:</p> <ul style="list-style-type: none"> – We checked the completeness and accuracy of the underlying information and calculations thereon by agreeing details to the relevant source documents, information in IT systems and re-performing the calculations. – We also considered the reasonableness of macroeconomic and other factors used by Management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. <ul style="list-style-type: none"> • We assessed the adequacy of the related financial statement disclosures as set out in Notes 2.3.2.3, 7, 16 and 42.2.
<p>Preparation of financial statements inclusive of significant disclosures</p> <p>The Bank uses multiple IT systems in its operations. As a result, the preparation of financial statements inclusive of key disclosures are heavily dependent on information derived from those multiple systems. The process of preparing key disclosures involved generation of multiple system reports, collation, analysis and spread sheet based further calculation.</p> <p>Accordingly, we considered the risk of any control lapses of the preparation of accounting and financial information as a key audit matter.</p>	<p>Our audit procedures included the following, amongst others:</p> <ul style="list-style-type: none"> • Understanding and evaluation of design effectiveness of key automated, IT dependent and manual controls implemented by Management over generation of multiple system reports and collation of required information on which the significant Financial Statements disclosures are based. • Test-checking; <ul style="list-style-type: none"> – the reports used to generate significant disclosures for accuracy and completeness; – source data with those of the reports generated from the related systems; – calculations made by Management; – reasonableness of categorisations made by Management; • Assessing if the significant disclosures are being made in line with applicable accounting standards. • Where we considered necessary, performing additional substantive audit procedures on selected disclosures.
<p>Other information included in the Bank's 2019 Annual Report</p> <p>Other information consists of the information included in the Bank's 2019 Annual Report, other than the Financial Statements and our Auditor's Report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this Auditor's Report.</p> <p>Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.</p> <p>In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Responsibilities of Management and those charged with governance for the financial statements</p> <p>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.</p> <p>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.</p> <p>Those charged with governance are responsible for overseeing the Bank's financial reporting process.</p>

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 judgement 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditor's Report is 2097.



26 February 2020

Colombo

Statement of Comprehensive Income

For the year ended 31 December	Note	2019 LKR	2018 LKR
Interest income		15,079,323,806	13,146,787,156
Interest expenses		(9,382,528,920)	(8,423,757,728)
Net interest income	3	5,696,794,886	4,723,029,428
Fee and commission income		237,656,461	196,762,071
Fee and commission expenses		(6,506,626)	(4,396,881)
Net fee and commission income	4	231,149,835	192,365,190
Net gains/(losses) from trading		1,264,727	-
Net fair value gains/(losses) of financial assets at fair value through profit or loss	5	114,889,449	280,172,060
Net other operating income	6	90,968,785	20,811,102
Total operating income		6,135,067,682	5,216,377,780
Impairment for loans and other losses	7	(917,433,506)	(525,843,881)
Net operating income		5,217,634,176	4,690,533,899
Personnel expenses	8	(2,116,347,930)	(1,827,073,349)
Depreciation and amortisation expenses	9	(431,192,597)	(224,260,432)
Other expenses	10	(1,420,073,045)	(1,526,131,852)
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services		1,250,020,604	1,113,068,266
Value added tax (VAT) on financial services		(386,522,109)	(362,940,818)
Nation building tax (NBT) on financial services		(51,106,360)	(52,702,722)
Debt repayment levy (DRL)		(226,564,695)	(53,282,253)
Operating profit/(loss) after VAT, NBT and DRL on financial services		585,827,440	644,142,473
Profit before tax		585,827,440	644,142,473
Tax expenses	11	(332,422,344)	(287,192,354)
Profit for the year		253,405,096	356,950,119
Other comprehensive income			
Other comprehensive income/(expenses) not to be reclassified to profit or loss			
Actuarial losses on defined benefit plans	28.1.3	(41,587,781)	(45,995,306)
Deferred tax relating to defined benefit plans	11.2.1	11,644,579	12,878,686
Loss arising on re-measuring investments in equity instruments designated at fair value through other comprehensive income	18.1.1	(3,209,534)	(3,388,111)
Other comprehensive income for the year net of tax		(33,152,736)	(36,504,731)
Total comprehensive income for the year		220,252,360	320,445,388
Earnings per share on profit			
Basic/diluted earnings per share – (LKR)	12	4.50	6.34

The Accounting Policies and Notes on pages 140 through 190 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 December	Note	2019 LKR	2018 LKR
Assets			
Cash and cash equivalents	13	2,429,790,570	4,171,938,630
Placements with banks	14	5,628,094,545	9,528,425,565
Financial assets fair value through profit or loss	15	3,527,310,141	146,103,330
Financial assets at amortised cost			
– loans and receivables to other customers	16	85,823,334,862	77,507,021,162
– debt and other instruments	17	6,998,924,881	3,405,600,286
Financial assets measured at fair value through other comprehensive income	18	56,938,514	60,148,048
Property, plant and equipment	19	645,231,444	704,738,493
Right of use assets	20	651,270,748	–
Investment properties	21	21,278,600	22,334,630
Intangible assets	22	308,444,541	3,727,725
Deferred tax assets	11.2	232,481,661	69,414,926
Other assets	23	1,460,523,822	1,198,314,390
Total assets		107,783,624,329	96,817,767,185
Liabilities			
Due to other customers	24	72,431,923,465	67,474,821,535
Other borrowings	25	20,299,717,968	15,420,967,962
Debt securities issued	26	1,014,034,248	4,198,547,716
Subordinated term debts	27	4,210,565,525	1,008,027,823
Retirement benefit obligation	28	479,575,300	354,854,450
Current tax liabilities		187,069,978	143,987,552
Other liabilities	29	1,491,758,740	767,833,402
Total liabilities		100,114,645,224	89,369,040,440
Equity			
Stated capital	30	5,921,538,126	5,921,538,126
Statutory reserve fund	31	228,281,724	215,611,469
Retained earnings	32	1,491,553,906	1,280,762,267
Other reserves	33	27,605,349	30,814,883
Total equity		7,668,979,105	7,448,726,745
Total equity and liabilities		107,783,624,329	96,817,767,185
Contingent liabilities and commitments	34	177,752,357	182,986,032

Certification

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



Terrance Kumara
Chief Financial Officer

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



M S Kiriwandeniya
Chairperson



Lakshman Abeysekera
Senior Director



Thilak Piyadigama
Chief Executive Officer



Tamarika Rodrigo
Company Secretary

The Accounting Policies and Notes on pages 140 through 190 form an integral part of the Financial Statements.

26 February 2020
Colombo

Statement of Changes in Equity

For the year ended 31 December	Stated capital		Reserves			Total equity
	Ordinary voting shares	Statutory reserve fund	Retained earnings	Available for sale reserve/Fair value through OCI	General reserves	
	LKR	LKR	LKR	LKR	LKR	
Balance as at 31 December 2017	5,758,689,211	197,763,963	1,340,503,863	(12,453,979)	46,656,973	7,331,160,031
Impact of adoption of SLFRS 9 as at 1 January 2018	-	-	(37,054,387)	-	-	(37,054,387)
Restated balance under SLFRS 9 as at 1 January 2018	5,758,689,211	197,763,963	1,303,449,476	(12,453,979)	46,656,973	7,294,105,644
Profit for the year	-	-	356,950,119	-	-	356,950,119
Other comprehensive income (net of tax)	-	-	(33,116,620)	(3,388,111)	-	(36,504,731)
Total comprehensive income for the year	-	-	323,833,499	(3,388,111)	-	320,445,388
Transactions with equity holders, recognised directly in equity						
Scrip dividend	162,848,915	-	(191,726,035)	-	-	(28,877,120)
Dividends to equity holders	-	-	(136,947,168)	-	-	(136,947,168)
Transfer to statutory reserve fund	-	17,847,506	(17,847,506)	-	-	-
Total transaction with equity holders	162,848,915	17,847,506	(346,520,708)	-	-	(165,824,287)
Closing balance as at 31 December 2018	5,921,538,126	215,611,469	1,280,762,267	(15,842,090)	46,656,973	7,448,726,745
Opening balance as at 1 January 2019	5,921,538,126	215,611,469	1,280,762,267	(15,842,090)	46,656,973	7,448,726,745
Profit for the year	-	-	253,405,096	-	-	253,405,096
Other comprehensive income (net of tax)	-	-	(29,943,202)	(3,209,534)	-	(33,152,736)
Total comprehensive income for the year	-	-	223,461,894	(3,209,534)	-	220,252,360
Transfer to statutory reserve fund	-	12,670,255	(12,670,255)	-	-	-
Closing balance as at 31 December 2019	5,921,538,126	228,281,724	1,491,553,906	(19,051,624)	46,656,973	7,668,979,105

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 shareholders, 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 140 through 190 form an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31 December	Note	2019 LKR	2018 LKR
Cash flows from/(used in) operating activities			
Interest received		14,898,176,741	12,879,033,724
Fee and commission received		216,362,778	218,856,327
Receipts from other operating activities		(221,855,717)	65,627,056
Interest payment		(9,546,853,352)	(7,836,343,603)
Cash payment to employees		(2,134,949,329)	(1,953,287,233)
Payments to suppliers and other operating activities		(1,601,603,518)	(2,103,279,424)
Fee and commission expenses		(6,506,626)	(4,396,881)
VAT and NBT on financial services		(437,628,469)	(415,643,540)
Operating profit before changes in operating assets		1,165,142,508	850,566,426
(Increase)/decrease in operating assets			
Funds advanced to customers		(9,169,985,133)	(11,345,449,448)
Other short-term securities		(719,925,694)	590,167,755
Increase/(decrease) in operating liabilities			
Deposits from customers		5,121,426,361	7,570,087,169
Net cash from operating activities before income tax		(3,603,341,958)	(2,334,628,098)
Income tax paid		(316,666,487)	(162,478,859)
Net cash from operating activities		(3,920,008,445)	(2,497,106,956)
Cash flows from/(used in) investing activities			
Dividend received		240,800	476,587
(Increase)/decrease in dealing securities		(3,265,052,634)	4,607,874,303
(Increase)/decrease in treasury bonds and other investments		(2,932,143,523)	1,617,468,415
Proceeds from sale of property, plant and equipment		14,467,863	59,872,470
Purchase of property, plant and equipment	19	(171,644,938)	(216,934,545)
Purchase of intangible assets	22	(323,857,065)	-
Net cash from/(used in) investing activities		(6,677,989,497)	6,068,757,231
Cash flows from/(used in) financing activities			
Dividend paid		-	(136,947,168)
Repayment of long-term borrowing		(15,195,146,100)	(6,012,141,112)
Interest paid on subordinated debt		(283,958,008)	(137,219,807)
Increase/(decrease) in borrowing		20,375,878,347	12,755,127,856
Funds received/(utilised) during the period		-	(11,463,482)
Net cash flow from/(used in) financing activities		4,896,774,239	6,457,356,287
Net increase/(decrease) in cash and cash equivalents		(5,701,223,703)	10,029,006,562
Cash and cash equivalents at the beginning of the year	13.3	16,615,902,384	6,586,895,822
Cash and cash equivalents at the end of the year	13.3	10,914,678,681	16,615,902,384

The Accounting Policies and Notes on pages 140 through 190 form an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2019

1 Corporate information

1.1 General

SANASA Development Bank PLC (“the Bank”) is a Licensed Specialised Bank established under the Banking Act No. 30 of 1988. 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 Parent entity and ultimate parent entity

The Bank does not have an identifiable parent of its own.

1.4 Date of authorisation of issue

The Financial Statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 26 February 2020.

2 Accounting policies

2.1 Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for financial assets recognised through other comprehensive income and other financial assets and liabilities held for trading. The Financial Statements are presented in Sri Lankan Rupees (LKR) and all values are rounded to the nearest rupee, except when otherwise indicated.

2.1.1 Changes in accounting policies and disclosures

In these Financial Statements, the Bank has applied SLFRS 16 and IFRIC 23, effective for annual periods beginning on or after 1 January 2019, for the first time.

SLFRS 16 – Leases

SLFRS 16 supersedes LKAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for various branches. Before the adoption of SLFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2.3.5 for the accounting policy prior to 1 January 2019.

Upon adoption of SLFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.3.5 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted as operating leases

The Bank recognised right of use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right of use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right of use assets was recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right of use assets of LKR 651 Mn. were recognised and presented in the Statement of Financial Position within “Right of use assets”.
- Additional lease liabilities of LKR 592 Mn. (included in “Other liabilities”) were recognised.
- The adoption of SLFRS 16 had no impact on the Bank’s retained earnings and no material impact on its capital adequacy ratio.

IFRIC 23 – Uncertainty over income tax treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 “Income Taxes”. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex environment, it assessed Bank the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Bank in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be statements of the accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Bank.

Except for the changes mentioned above, the Bank has consistently applied the accounting policies for all periods presented in these Financial Statements.

2.1.2 Statement of compliance

The Financial Statements of the Bank which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and significant accounting policies and notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 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.

2.1.3 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the Statement of Financial Position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 41.

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 expense is not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the Bank’s accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgment and estimates are as follows:

2.2.1 Going concern

The Bank’s Management has made an assessment of the Bank’s ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.2.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 39.

2.2.3 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provide for the impairment loss on loans and advances as disclosed in Note 7 and Note 16. All individually not insignificant loans and advances and unimpaired individual significant customers are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to Expected Credit Loss (ECL – applicable from 1 January 2018 onwards) events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, remaining

maturity, customer identification number, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, gross domestic production, interest rate and exchange rate fluctuation).

2.2.4 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2.2.5 Taxation

The Bank is subject to income taxes and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guideline on the treatment of the adoption of SLFRSs in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

The Bank recognised assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income.

2.2.6 Defined benefit plan

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, salary increment rate, age of retirement, and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumptions used for valuation is disclosed in more detail in Note 28.1.3.

2.2.7 Useful lifetime of the property and equipment

The Bank reviews the residual values, useful lives and methods of depreciation of assets as 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.

2.3 Summary of significant accounting policies

2.3.1 Foreign currency transactions and balances

The Financial Statements are presented in Sri Lankan Rupees (LKR).

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income" in the Income Statement.

2.3.2 Financial instruments

2.3.2.1 Initial recognition, classification and subsequent measurement

(a) Date of recognition

All financial assets and liabilities 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.

(b) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the Management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(c) "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 immediately recognises the difference between the transaction price and fair value ("Day 1" profit or loss) in "Net operating income". 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 income statement when the inputs become observable, or when the instrument is derecognised.

(d) Classification and subsequent measurement of financial instruments

(i) Financial assets

The Bank classifies its financial assets into the following measurement categories:

- Financial assets fair value through profit or loss
- Financial assets at amortised cost
- Financial assets measured at fair value through other comprehensive income

The classification depends on the Bank's business model for managing financial assets and the contractual terms of the financial assets' cash flows. The Bank classifies its financial liabilities at amortised cost unless it has designated liabilities at fair value through profit.

a. Financial assets fair value through profit or loss

Financial assets fair value through profit or loss comprise:

- Financial investments – for trading;
- Instruments with contractual terms that do not represent solely payments of principal and profit.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the Statement of Profit or Loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of profit or loss as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Financial investments – for trading

A financial investment is classified as financial assets recognised through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Government securities and investment in unit trust securities are classified as financial assets recognised through profit or loss and recognised at fair value. Refer Note 15.

Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis. The Bank does not designate any financial instruments under this category.

b. Financial assets measured at amortised cost

Placements, loans and receivables to other customers and debt and other instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and profits on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note 2.3.2.3 impairment of financial assets.

c. Financial assets measured at fair value through other comprehensive income

Investment in equity instruments that are neither trading financial assets recognised through profit or loss, nor contingent consideration recognised by the Bank in a business combination to which SLFRS 3 “Business Combination” applies, are measured at fair value through other comprehensive income, where an irrevocable election has

been made by Management due to long-term nature of investment. For portfolios where Management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss.

(ii) Financial liabilities

The initial and subsequent measurement of financial liabilities depends on their classification as described below:

At the inception the Bank determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as;

- Financial liabilities at Fair Value through Profit or Loss (FVTPL)
 - Financial liabilities held for trading
 - Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

a. Financial liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognised in profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of the portfolio that is managed together for short term profit or position taking. This category includes derivative financial instruments entered in to by the Bank which are not designated as hedging instruments in the hedge relationships as defined by the Sri Lanka Accounting Standards – LKAS 39 on “Financial Instruments: Recognition and Measurements”. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

The Bank does not have any financial liabilities under this category.

b. Financial liabilities at amortised cost

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities at amortised cost under “due to customers and other borrowings” as appropriate, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in "interest expenses" in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

This category consists of due to other customers, other borrowings, debt securities issued and subordinated term debts.

2.3.2.2 De-recognition of financial instruments

(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 asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and 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.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that 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 that the Bank could be required to repay.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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.

2.3.2.3 Impairment of financial assets

The Bank applies a three-stage approach to measuring Expected Credit Losses (ECLs) for the following categories of financial assets (debt instruments) that are not measured at fair value through profit or loss:

- Instruments measured at amortised cost and fair value through other comprehensive income;
- Loans and receivables to other customers; and
- Financial guarantee contracts

ECL is not recognised on equity instruments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12 months ECL from customers who are not significantly credit deteriorated (i.e. less than 30 days past due).

Stage 2: Lifetime ECL – not Credit Impaired

Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9. All restructured loans, which are restructured up to two times (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest instalment post-restructure). Under-performing credit facilities/exposures.

Stage 3: Lifetime ECL – Credit Impaired

Credit facilities where contractual payments of a customer are more than 90 days past due or three instalments in arrears, subject to the rebuttable presumption as stated in SLFRS 9. All restructured loans, which are restructured more than twice. All rescheduled loans, other than credit facilities/exposures (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest instalment post-restructure). All credit facilities/customers classified as non-performing as per CBSL Directions. Non-performing credit facilities/customers.

Determining the stage for impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12 months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for impairment loss for these financial assets is based on a 12 months ECL.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the statement of profit or loss.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective rate.
- Undrawn commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For further details on how the Bank calculates ECLs including the use of forward looking information, refer to the impairment assessment section in Note 42.

ECLs are recognised using a provision for impairment loss account in Statement of Profit and Loss. The Bank recognises the provision charge in statement of profit or loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the Statement of Financial Position.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

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.

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 capital and financing income, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued financing income from missed payments.

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 Bank would expect to receive, including the realisation of any collateral.

2.3.2.4 Critical accounting assumptions and estimates applicable for financial instruments

The application of the Bank's accounting policies requires the use of judgements, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Bank.

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgement, estimates and assumptions are specified below.

(a) Fair value measurement

A significant portion of financial instruments are carried on the statement of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

(b) Impairment charges on loans and receivables to other customers

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and receivables to other customers. In estimating these cash flows, the Bank makes judgments about the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the advance portfolio (such as credit quality, levels of arrears, credit utilisation, advances to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, inflation, GDP growth rate, country risk and the performance of different individual groups). The impairment loss on loans and receivables to other customers is disclosed in more detail in Note 16.

2.3.2.5 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account 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 uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 39.

2.3.2.6 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent values and Audited Financial Statements.

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

2.3.2.7 Offsetting financial instruments

Financial Assets and Liabilities are offset, and the net amount is presented in the Balance Sheet when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. Refer to Note on financial risk management – offsetting of financial assets and liabilities.

2.3.3 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “repurchase agreements”, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or replace the securities, the Bank reclassifies those securities in its Statement of Financial Position to “Financial assets held-for-trading pledged as collateral” or to “Financial investments available-for-sale pledged as collateral”, as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within “reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Bank.

The difference between the purchase and resale prices is recorded in “Net interest income” and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “Financial liabilities held-for-trading” and measured at fair value with any gains or losses included in “Net operating income”.

2.3.4 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised on the Statement of Financial Position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in “Net operating income”.

2.3.5 Leases (Policy applicable before 1 January 2019)

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.3.5.1 Operating leases

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.3.5.2 Finance leases

Bank as a lessor

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as “Finance Leases”. Amounts receivable under finance leases are included under “loans and receivables to customers” in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.3.6 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand and balances with Banks on demand or with an original maturity of three months or less.

2.3.7 Property, plant and equipment

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, plant and equipment. Initially property and equipment are measured at cost.

2.3.7.1 Basis of recognition and measurement

Cost model

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalised borrowing costs. Purchase of software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The Bank applies the cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

2.3.7.2 Subsequent cost

These are costs that are recognised in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the Bank and it can be reliably measured.

2.3.7.3 Repairs and maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Bank and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

2.3.7.4 Capital work in progress

Capital work in progress is stated at cost. It 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.

2.3.7.5 Borrowing costs

As per LKAS 23 on "Borrowing Costs", the Bank capitalises the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

2.3.7.6 De-recognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "other operating income" in the income statement in the year the asset is derecognised.

2.3.7.7 Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20 years
Computer hardware	3 years
Machinery and equipment	5 years
Motor vehicles	4 years
Furniture and fittings	5 years

2.3.8 Investment properties

Properties held to earn rental income have been classified as investment properties. Investment properties initially recognised at cost. After initial recognition the Bank uses the cost method to measure all of its investment property in accordance with requirements in LKAS 16 "Property, plant and equipment".

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Depreciation is calculated using the straight-line method to write down the cost of investment property to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Buildings	20 years
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2.3.9 Asset classified as held for sale

Non-current assets are classified as investments - "held for sale" when their carrying amounts will be recovered principally through sale, they are available for sale in their present condition and their sale is highly probable. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of SLFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations" such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from employee benefits.

2.3.10 Intangible assets

The Bank's intangible assets include the value of computer software.

2.3.10.1 Basis of recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank in accordance with LKAS 38 on "Intangible Assets".

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

2.3.10.2 Subsequent expenditure

Subsequent expenditure on intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

2.3.10.3 Useful economic life, amortisation and impairment

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The class of intangible assets	Useful life	Amortisation method
Computer software	7 years	Straight-line method

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

2.3.10.4 Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

2.3.11 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

2.3.12 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of Bank guarantees. Bank guarantees are initially recognised in the financial statements (within "other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the income statement, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in "Credit loss expense". The premium received is recognised in the income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

2.3.13 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and 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. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.3.14 Retirement benefit obligations

2.3.14.1 Defined benefit plan- gratuity

Based on LKAS 19 on "Employee Benefits", the Bank has adopted the actuarial valuation method for employee benefit liability an actuarial valuation is carried out every year to ascertain the liability. A separate fund is not maintained for this purpose.

The principal assumptions, which have the most significant effects on the valuation, are the rate of discount, rate of increase in salary, rate of turnover at the selected ages, rate of disability, death benefits and expenses.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognised actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of Statement of Financial Position that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related pension liability.

The Bank recognises all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognised as personnel expenses in income statement.

2.3.14.2 Defined contribution plan – Employees’ Provident Fund and Employees’ Trust Fund

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with the respective Statutes and Regulations. The Bank contributes a minimum 12% and 3%.

2.3.15 Recognition of income and expenses

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. The following specific recognition criteria must also be met before revenue is recognised.

2.3.15.1 Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as “Other operating income”. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3.15.2 Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- 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 commission income and asset management, custody and other management and advisory fees.

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 EIR on 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.

- Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2.3.15.3 Dividend income

Dividend income is recognised when the Bank’s right to receive the payment is established.

2.3.15.4 Net gain/(loss) from financial instruments

Net gain/(loss) from financial investments include capital gain/(loss) from trading and fair value gain/(loss) of financial investments at fair value through profit or loss.

2.3.15.5 Other operating income

Income earned on other sources, which are not directly related to the normal operations of the Bank are recognised as other operating income on accrual basis, such as gains on disposal of property, plant and equipment and foreign exchange gain/(loss).

2.3.16 Taxes

2.3.16.1 Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

2.3.16.2 Deferred tax

Deferred tax is provided on temporary differences at the Statement of Financial Position 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.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each Statement of Financial Position 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 Statement of Financial Position date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.3.16.3 Value Added Tax (VAT) on financial services

VAT on financial services is calculated in accordance with the Value Added Tax 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 income tax adjusted for the economic depreciation and emoluments of employees' computed on prescribed rate. The VAT on financial services rate applied in 2019 is 15% (2018 – 15%).

2.3.16.4 Withholding tax on dividends

Withholding tax on dividends distributed by the Bank that arise from the distribution of dividends of the Bank is recognised at the time of liability to pay the related dividend is recognised. At present, the rate of 14% is deducted at source.

2.3.16.5 Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, the ESC is calculated on liable turnover. Currently, the ESC is payable at 0.5% and is deductible from the income tax payable. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the two subsequent years. This tax was abolished by the government with effect from 1 January 2020.

2.3.16.6 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, CIL is payable at 1% of the profit after tax.

2.3.16.7 Nation Building Tax (NBT) on financial services

According to the Nation Building Tax Act No. 09 of 2009 and subsequent amendments thereto, Nation Building Tax should be paid on the liable turnover with effect from 1 January 2014. NBT on financial services is calculated based on the value addition used for the purpose of VAT on financial services. The NBT rate applied up to 30 November 2019 is 2% and it was abolished with effect from 1 December 2019 (2018 – 2%).

2.3.16.8 Debts Repayments Levy (DRL)

DRL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services in accordance with the Finance Act No. 35 of 2018 from 1 October 2018. The DRL rate applied in 2019 is 7% (2018 – 7%). This tax was abolished by the Government with effect from 1 January 2020.

2.3.17 Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

2.3.18 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the Statement of Financial Position date are disclosed as an event after the reporting date.

2.3.19 Equity reserves

The reserves recorded in equity on the Bank's Statement of Financial Position include:

"Available-for-sale/fair value through OCI" reserve which comprises changes in fair value of fair value through other comprehensive income investments.

2.3.20 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing services (Business segments) or in providing services within a particular economic environment (Geographical segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the SLFRS 8 on "Segmental Reporting", segmental information is presented in respect of the Bank based on Bank's Management and internal reporting structure.

The Bank's segmental reporting is based on the following operating segments.

Banking	: Individual customers' deposits and consumer financing, equipment financing, home and property financing
Leasing	: Lease and hire purchase facility customers
Treasury	: Placements of funds with other banks and financial institutions, equity investments
Pawning	: Pawning advances to customers

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 profit or loss of respective segment.

2.4 Sri Lanka Accounting Standards not yet effective as at 31 December 2019

The following Sri Lanka Accounting Standards and interpretations have been issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2019. The Bank intends to adopt these new and amended standards, if applicable, when they become effective.

SLFRS 17 – Insurance contracts

SLFRS 17 “Insurance Contracts”, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 “Insurance contracts”. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first applies SLFRS 17. This standard is not applicable to the Bank.

Amendments to LKAS 1 and LKAS 8: Definition of material

Amendments to LKAS 1 “Presentation of Financial Statements” and LKAS 8 “Accounting policies, Changes in accounting Estimates and Errors” are made to align the definition of “material” across the standard and to clarify certain aspects of the definition. The new definition states that, “information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

The amendments to the definition of material are not expected to have a significant impact on the Bank’s Financial Statements.

Amendments to SLFRS 3: Definition of a business

Amendments to the definition of a business in SLFRS 3 “Business Combinations” are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020 with early application permitted.

Amendments to references to the conceptual framework in SLFRS standards

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

Since the amendments are effective for annual periods beginning on or after 1 January 2020, the Bank will not be affected by these amendments as at the reporting date. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Bank’s Financial Statements.

For the year ended 31 December

3 Net interest income

	2019 LKR	2018 LKR
Interest income		
Cash and cash equivalents	89,311,724	60,099,522
Placements with banks	760,109,685	851,002,417
Financial assets at amortised cost		
– Loans and receivables to other customers*	13,839,972,079	11,985,315,386
– Debt and other instruments	389,930,319	250,369,831
Total interest income	15,079,323,806	13,146,787,156
Interest expenses		
Financial liabilities at amortised cost		
– Due to other customers	7,051,780,733	6,576,577,677
– Due to debt securities holders	98,141,850	393,858,241
– Other borrowers	2,189,361,846	1,453,321,810
– Finance cost of lease liability	43,244,491	–
Total interest expenses	9,382,528,920	8,423,757,728
Net interest income	5,696,794,886	4,723,029,428

* Late fee charged from overdue rentals classified under net fee and commission income in 31 December 2018 has been reclassified to interest income and comparative figure in this Financial Statement is amended. (Refer Note 44)

3.1 Net interest income from Sri Lanka Government Securities

	2019 LKR	2018 LKR
Net interest income from Sri Lanka Government Securities	325,074,604	149,604,115
Total	325,074,604	149,604,115

4 Net fee and commission income

	2019 LKR	2018 LKR
Fee and commission income*	237,656,461	196,762,071
Fee and commission expenses	(6,506,626)	(4,396,881)
Net fee and commission income	231,149,835	192,365,190

4.1 Net fee and commission earned from

	2019 LKR	2018 LKR
Loans	128,412,167	98,983,799
Deposits	1,591,602	1,629,265
Guarantees	1,885,322	2,232,754
Commission earned from insurance	21,692,391	18,776,277
Commission earned from ATM	17,724,505	18,652,403
Others	59,843,848	52,090,692
Net fee and commission income	231,149,835	192,365,190

* Late fee charged from overdue rentals classified under net fee and commission income in 31 December 2018 has been reclassified to interest income and comparative figure in this Financial Statement is amended. (Refer Note 44)

5 Net fair value gain/(loss) from financial assets at fair value through profit or loss

	2019 LKR	2018 LKR
Sri Lanka Government Securities – Treasury bills	(58,050)	(942,414)
Unit Trust	114,947,499	281,114,474
Total	114,889,449	280,172,060

6 Net other operating income

	2019 LKR	2018 LKR
Gain on sale of property, plant and equipment	12,055,221	2,812,163
Dividend income	240,800	476,587
Account maintenance fees	75,675,472	16,329,296
Other income	2,997,292	1,193,056
Other operating income	90,968,785	20,811,102

7 Impairment for loans and other losses**7.1 Balance with Bank**

	2019 LKR	2018 LKR
Stage 1	(267,938)	606,166
Total	(267,938)	606,166

7.2 Placement with banks

	2019 LKR	2018 LKR
Stage 1	(4,848,662)	5,671,770
Total	(4,848,662)	5,671,770

7.3 Financial assets at amortised cost – Loans and receivables to customers

	2019 LKR	2018 LKR
Stage 1	231,986,335	(9,390,783)
Stage 2	(105,851,634)	48,205,067
Stage 3	795,892,983	480,902,288
Total	922,027,684	519,716,573

7.4 Debt and other instruments

	2019 LKR	2018 LKR
Stage 1	522,422	(150,628)
Total	522,422	(150,628)
Total	917,433,506	525,843,881

8 Personnel expenses

	2019 LKR	2018 LKR
Salary and bonus	1,518,776,089	1,343,605,896
Contributions to defined contribution plans – EPF	202,665,907	178,360,466
– ETF	43,427,993	38,216,904
Contributions to defined benefit plans	92,127,811	54,590,639
Overtime	7,282,232	7,932,044
Staff welfare	29,112,351	26,607,544
Staff allowances	104,383,718	78,858,344
Others	118,571,829	98,901,512
Total	2,116,347,930	1,827,073,349

9 Depreciation and amortisation expenses

	2019 LKR	2018 LKR
Depreciation of property, plant and equipment	228,739,345	218,783,787
Amortisation of Right of use assets	182,256,972	–
Depreciation of investment property	1,056,030	1,056,030
Amortisation of intangible assets	19,140,249	4,420,615
Total	431,192,597	224,260,432

10 Other expenses

	2019 LKR	2018 LKR
Directors' emoluments	22,346,444	19,660,000
Auditors' remunerations	4,195,864	4,000,000
Professional and legal expenses	6,752,497	1,495,216
Office administration and establishment expenses	1,386,778,240	1,500,976,636
Total	1,420,073,045	1,526,131,852

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

11 Tax expense

	2019 LKR	2018 LKR
Current tax expense		
Income tax for the year	452,640,558	341,234,017
Adjustment in respect of current income tax of prior periods	31,203,942	46,084,930
Deferred taxation charge/(reversal)	(151,422,156)	(100,126,593)
Total	332,422,344	287,192,354

11.1 Reconciliation of tax expenses

	2019 LKR	2018 LKR
Profit before tax	585,827,440	644,142,473
Income tax for the period (Accounting profit @ 28%)	164,031,683	180,359,893
Income exempt from tax/or not taxable	(3,442,886)	(36,886,787)
Adjustment in respect of current income tax of prior periods	31,203,942	46,084,930
Add: Tax effect of expenses that are not deductible for tax purposes	538,933,025	778,552,158
Less: Tax effect of expenses that are deductible for tax purposes	(288,309,630)	(520,532,902)
Add: Tax impact on leasing loss	41,428,366	(60,258,345)
Tax expense for the period	483,844,500	387,318,947
Deferred taxation charge	(151,422,156)	(100,126,593)
At the effective income tax rate of 56.74% (2018: 44.59%)	332,422,344	287,192,354

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

	Statement of financial position		Statement of comprehensive income	
	2019 LKR	2018 LKR	2019 LKR	2018 LKR
Deferred tax liability				
Capital allowances for property, plant and equipment	50,479,669	15,637,704	34,841,965	(8,370,430)
Capital allowances for leased assets	100,495,732	148,218,327	(47,722,595)	(37,009,763)
	150,975,401	163,856,031	(12,880,630)	(45,380,193)
Deferred tax assets				
Defined benefit plans	131,762,557	99,359,246	(32,403,311)	(27,358,202)
Loss on lease assets	-	-	-	79,234,788
Impairment allowance	244,367,815	133,911,711	(110,456,104)	(133,911,711)
Right to use assets	7,326,690	-	(7,326,690)	-
	383,457,062	233,270,957	(150,186,105)	(82,035,125)
Deferred taxation charge/(reversal)			(163,066,735)	(127,415,319)
Net deferred tax liability/assets	(232,481,661)	(69,414,926)		

11.2.1 Composition of deferred tax charge

	2019 LKR	2018 LKR
Impact on income tax expense	(151,422,156)	(100,126,593)
Impact on other comprehensive income	(11,644,579)	(12,878,686)
Impact on comprehensive income	(163,066,735)	(113,005,279)
Impact on opening balance under SLFRS 09	-	(14,410,040)
Total impact	(163,066,735)	(127,415,319)

12 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders (after deducting preference share dividends, if any) by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a scrip dividend.

	2019 LKR	2018 LKR
Net profit for the period	253,405,096	356,950,119
Profit attributable to ordinary shareholders	253,405,096	356,950,119

	2019 Number	2018 Number
Weighted average number of ordinary shares in issue	56,308,252	56,308,252
	56,308,252	56,308,252
Basic/diluted earnings per ordinary share	4.50	6.34

The subordinated term debts detailed in Note 27 are resulted for anti-diluted earnings per share.

13 Cash and cash equivalents

	2019 LKR	2018 LKR
Cash in hand	272,317,628	424,829,523
Balances with banks	2,157,826,360	3,747,730,463
Less : Impairment	(353,418)	(621,356)
Carrying value after impairment	2,429,790,570	4,171,938,630

13.1 Analysis of cash and cash equivalents based on exposure to credit risk

	Stage 1	
	2019 LKR	2018 LKR
Placements	2,430,143,988	4,172,559,986
Less: Impairment	(353,418)	(621,356)
Carrying value after impairment	2,429,790,570	4,171,938,630

13.2 Stage wise classification of impairment allowances of cash and cash equivalents

	Stage 1	
	2019 LKR	2018 LKR
Opening balance as at 1 January	621,356	15,190
Charges/(write back) to income statement	(267,938)	606,166
Closing balance as at 31 December	353,418	621,356

13.3 Cash and cash equivalents for cash flow statement

	2019 LKR	2018 LKR
Cash and cash equivalents	2,429,790,570	4,171,938,630
Repurchase agreement	4,332,653,659	2,934,221,630
Fixed deposits less than 3 months	4,152,234,452	9,509,742,123
Total	10,914,678,681	16,615,902,383

14 Placements with banks

	2019 LKR	2018 LKR
Placements with Banks	5,630,717,976	9,535,897,658
Less: Impairment	(2,623,431)	(7,472,093)
Carrying value after impairment	5,628,094,545	9,528,425,565

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

	Stage 1	
	2019 LKR	2018 LKR
Placements with banks	5,630,717,976	9,535,897,658
Less: Impairment allowance for placement	(2,623,431)	(7,472,093)
Carrying value after impairment	5,628,094,545	9,528,425,565

14.2 Stage wise classification of impairment allowances of placements with banks

	Stage 1	
	2019 LKR	2018 LKR
Opening balance as at 1 January	7,472,093	1,800,323
Charges/(write back) to income statement	(4,848,662)	5,671,770
Closing balance as at 31 December	2,623,431	7,472,093

15 Financial assets at fair value through profit or loss

	2019 LKR	2018 LKR
Sri Lanka Government Securities – Treasury bills	46,519,350	–
Unit Trust	3,480,790,791	146,103,330
Total	3,527,310,141	146,103,330

16 Financial assets at amortised cost – Loans and receivables to other customers

	2019 LKR	2018 LKR
Gross loans and receivables (16.1)	88,720,800,911	79,482,459,527
Less: Individual impairment	(891,669,149)	(350,360,455)
Collective impairment	(2,005,796,900)	(1,625,077,910)
Net loans and receivables	85,823,334,862	77,507,021,162

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

	2019			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Significant impairment loans				
Term loan	–	–	2,429,448,220	2,429,448,220
Leasing	–	–	347,461,848	347,461,848
Collective impairment loans				
Pawning	1,659,484,155	30,675,731	22,012,069	1,712,171,954
Cash margin	4,645,118,340	793,272,466	4,963,166	5,443,353,971
Staff loans	1,252,923,774	4,610,333	22,812,160	1,280,346,267
Term loans				
Business	10,338,753,420	238,259,107	898,766,510	11,475,779,037
Co-operative	2,100,930,848	101,685,565	82,598,336	2,285,214,749
Housing	2,638,550,309	456,060,240	221,438,389	3,316,048,938
Personal	51,175,819,323	923,660,778	1,888,639,373	53,988,119,475
Lease rentals receivables	4,398,092,872	1,774,794,840	269,968,740	6,442,856,452
Gross loans and receivables	78,209,673,042	4,323,019,060	6,188,108,809	88,720,800,911
Less: Impairment allowance	(550,264,452)	(163,953,856)	(2,183,247,741)	(2,897,466,049)
Net loans and receivables	77,659,408,590	4,159,065,203	4,004,861,069	85,823,334,862
2018				
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Significant impairment loans				
Term loan	–	–	1,000,469,342	1,000,469,342
Leasing	–	–	145,961,745	145,961,745
Collective impairment loans				
Pawning	1,187,539,873	56,887,961	13,850,772	1,258,278,606
Cash margin	5,134,496,941	430,882,184	8,813,039	5,574,192,164
Staff loans	1,097,737,911	–	23,866,152	1,121,604,063
Term loans				
Business	7,763,492,734	1,161,498,837	595,625,756	9,520,617,327
Co-operative	2,133,338,868	111,133,683	287,054,035	2,531,526,586
Housing	2,200,895,413	453,150,141	240,483,984	2,894,529,538
Personal	47,665,057,056	1,126,826,518	1,553,195,979	50,345,079,553
Lease rentals receivables	3,562,166,844	1,295,727,450	232,306,309	5,090,200,603
Gross loans and receivables	70,744,725,640	4,636,106,774	4,101,627,113	79,482,459,527
Less: Impairment allowance	(318,278,117)	(269,805,490)	(1,387,354,758)	(1,975,438,365)
Net loans and receivables	70,426,447,523	4,366,301,284	2,714,272,355	77,507,021,162

16.2 Gross loans and receivables analysis by product

	2019 LKR	2018 LKR
Loans and receivables		
Pawning	1,712,171,954	1,258,278,606
Cash margin	5,443,353,971	5,574,192,164
Staff loans	1,280,346,267	1,121,604,063
Lease rentals receivable (Note 16.2.1)	6,790,318,300	5,236,162,349
Term loans		
Business	13,255,022,223	10,248,947,436
Co-operative	2,775,250,944	2,682,172,444
Housing	3,416,424,007	2,971,196,180
Personal	54,047,913,244	50,389,906,285
Gross total	88,720,800,911	79,482,459,527

16.2.1 Lease rentals receivable

	2019 LKR	2018 LKR
Within one year	3,202,575,288	2,896,844,537
One to five years	5,177,577,345	3,890,404,144
After five years	–	35,539,483
– Unearned income on rentals receivable	(1,589,834,333)	(1,586,625,815)
	6,790,318,300	5,236,162,349

16.3 Gross loans and receivables analysis by currency

	2019 LKR	2018 LKR
Sri Lankan Rupee	88,720,800,911	79,482,459,527
Gross total	88,720,800,911	79,482,459,527

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

	2019 LKR	2018 LKR
Stage 1		
Opening balance as at 1 January	318,278,117	327,668,900
Charges/(write back) to income statement	231,986,335	(9,390,783)
Closing balance as at 31 December	550,264,452	318,278,117
Stage 2		
Opening balance as at 1 January	269,805,490	221,600,423
Charges/(write back) to income statement	(105,851,634)	48,205,067
Closing balance as at 31 December	163,953,856	269,805,490
Stage 3		
Opening balance as at 1 January	1,387,354,758	917,503,123
Charges/(write back) to income statement	795,892,983	480,902,288
Write-off during the year	–	(11,050,653)
Closing balance as at 31 December	2,183,247,741	1,387,354,758

16.5 Movement in individual and collective impairment

	Individual impairment LKR	Collective impairment LKR	Total Impairment LKR
Restated balance under SLFRS 9 as at 1 January 2018	220,946,259	1,245,826,188	1,466,772,447
Charge/(write back) to income statement	129,414,196	390,302,377	519,716,573
Recovery/(write-off) during the year	-	(11,050,655)	(11,050,655)
Closing balance as at 31 December 2018	350,360,455	1,625,077,910	1,975,438,365
Opening balance as at 1 January 2019	350,360,455	1,625,077,910	1,975,438,365
Charge/(write back) to income statement	541,308,694	380,718,990	922,027,684
Recovery/(write-off) during the year	-	-	-
Closing balance as at 31 December 2019	891,669,149	2,005,796,900	2,897,466,049

17 Financial assets at amortised cost – Debt and other instruments

	2019 LKR	2018 LKR
Debentures	93,473,535	174,804,870
Repurchase agreement	4,332,653,659	2,934,221,630
Treasury bill	1,771,722,268	296,755,397
Commercial papers	801,779,452	-
Less: Impairment	(704,033)	(181,611)
Carrying value after impairment	6,998,924,881	3,405,600,286

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

	Stage 1	
	2019 LKR	2018 LKR
Debentures	93,473,535	174,804,870
Repurchase agreement	4,332,653,659	2,934,221,630
Treasury bill	1,771,722,268	296,755,397
Commercial papers	801,779,452	-
Less: Impairment allowance	(704,033)	(181,611)
Carrying value after impairment	6,998,924,881	3,405,600,286

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

	Stage 1	
	2019 LKR	2018 LKR
Opening balance as at 1 January	181,611	332,239
Charges/(write back) to income statement	522,422	(150,628)
Closing balance as at 31 December	704,033	181,611

18 Financial assets measured at fair value through other comprehensive income

	2019 LKR	2018 LKR
Unquoted equity securities (Note 18.1)	56,938,514	60,148,048
Financial assets measured at fair value through other comprehensive income	56,938,514	60,148,048

18.1 Unquoted equity securities

	2019		2018	
	Number of shares	Amount LKR	Number of shares	Amount LKR
SANASA Insurance Company Limited	7,590,494	75,904,944	7,590,494	75,904,944
Credit Information Bureau of Sri Lanka	100	10,000	100	10,000
Consorzio Etimos S.C.	2	75,194	2	75,194
Loss from mark to market valuation as at 31 December market value		(19,051,624)		(15,842,090)
		56,938,514		60,148,048

18.1.1 Movement in unquoted equity securities

	2019 LKR	2018 LKR
Opening Balance as at 1 January	60,148,048	63,536,159
Investments made during the year	–	–
Disposal during the year	–	–
Loss from mark to market valuation	(3,209,534)	(3,388,111)
Closing balance as at 31 December	56,938,514	60,148,048

18.1.2 Valuation of unquoted equity securities

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

19 Property, plant and equipment

2019	Land and buildings LKR	Leasehold properties LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Total LKR
Cost							
Opening balance as at 1 January 2019	251,979,214	590,000	770,392,814	502,015,293	375,412,047	155,821,731	2,056,211,099
Additions	–	–	70,837,633	33,733,536	42,058,542	25,015,227	171,644,938
Disposals	–	(590,000)	(7,901,370)	(8,085,296)	(17,798,119)	(18,030,805)	(52,405,590)
Closing balance as at 31 December 2019	251,979,214	–	833,329,077	527,663,533	399,672,470	162,806,153	2,175,450,447
Less: Accumulated depreciation							
Opening balance as at 1 January 2019	31,597,097	590,000	578,596,828	394,948,782	222,178,506	123,561,393	1,351,472,606
Charge for the year	3,873,373	–	108,488,036	44,865,376	53,138,582	18,373,979	228,739,345
Disposals	–	(590,000)	(7,901,370)	(7,293,641)	(17,101,672)	(17,106,267)	(49,992,949)
Closing balance as at 31 December 2019	35,470,471	–	679,183,494	432,520,517	258,215,416	124,829,105	1,530,219,002

For the year ended 31 December

2018	Land and buildings LKR	Leasehold properties LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Total LKR
Cost							
Opening balance as at 1 January 2018	251,979,214	590,000	678,783,946	480,614,783	325,426,778	145,774,508	1,883,169,229
Additions	-	-	104,758,145	33,466,175	66,557,679	12,152,546	216,934,546
Disposals	-	-	(13,149,277)	(12,065,666)	(16,572,410)	(2,105,323)	(43,892,676)
Closing balance as at 31 December 2018	251,979,214	590,000	770,392,814	502,015,293	375,412,047	155,821,731	2,056,211,099
Less: Accumulated depreciation							
Opening balance as at 1 January 2018	29,721,712	590,000	481,626,273	363,356,943	194,351,555	104,837,167	1,174,483,649
Charge for the year	1,875,385	-	109,850,005	42,348,288	43,880,560	20,829,549	218,783,787
Disposals	-	-	(12,879,450)	(10,756,449)	(16,053,609)	(2,105,323)	(41,794,831)
Closing balance as at 31 December 2018	31,597,097	590,000	578,596,828	394,948,782	222,178,506	123,561,393	1,351,472,605
Net book value as at 31 December 2019	216,508,744	-	154,145,583	95,143,016	141,457,054	37,977,048	645,231,444
Net book value as at 31 December 2018	220,382,118	-	191,795,986	107,066,511	153,233,541	32,260,338	704,738,493

19.1 Freehold land and buildings

The details of the Land and Buildings owned by the Bank are as follows:

Location/Address	Extent		As at 31 December 2019		As at 31 December 2018	
			Cost		Cost	
	Land (Purchase)	Building (Square feet)	Land LKR	Building LKR	Land LKR	Building LKR
No. 14, Edmonton Road, Kirulapone	17.85	-	38,999,000	-	38,999,000	-
No. 12/01, Edmonton Road, Kirulapone	18.05	-	46,799,000	-	46,799,000	-
A1, SANASA Housing Project, Toppass, Nuwara Eliya	14	1,200	400,000	2,100,000	400,000	2,100,000
No. 145, Rathnapura Road, Horana	13	5,956	20,539,000	6,500,000	20,539,000	6,500,000
No. 63A, Matara Road, Akuressa	14	3,728	14,423,820	8,975,180	14,423,820	8,975,180
No. 255, Sunnysaid Garden, Karapitiya	18.50	5,992	9,250,000	20,833,360	9,250,000	20,833,360
No. 342, Main Street, Kegalle	13.25	5,580	34,760,400	14,118,600	34,760,400	14,118,600
No. 6/176, Walauwatta, Kegalle	20	-	16,639,000	-	16,639,000	-
No. 5/176, Walauwatta, Kegalle	12	1,334	8,400,000	1,250,000	8,400,000	1,250,000
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	320	2,600	1,002,912	4,568,824	1,002,912	4,568,824
60/65, Sahasapura Scheme, Baseline Mawatha, Borella	-	1,006	-	2,420,118	-	2,420,118
			191,213,132	60,766,082	191,213,132	60,766,082

19.2 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of LKR 171,644,940/- (2018 – LKR 216,934,546/-). Cash payments amounting to LKR 171,644,940/- (2018 – LKR 216,934,546/-) were made during the year for purchase of property, plant and equipment.

19.3 Property, plant and equipment includes fully depreciated assets having a gross carrying amounts of LKR 1,267,939,427/- (2018 – LKR 1,040,724,692/-)

19.4 There were no restrictions on the title of the property, plant and equipment as at 31 December 2019.

19.5 There were no idle property, plant and equipment as at 31 December 2019.

For the year ended 31 December

20 Right of use assets

	2019 LKR	2018 LKR
Opening balance as at 1 January	-	-
Present value of the lease payments	481,376,365	-
Prepayment	104,348,737	-
Effect of adoption of SLFRS 16 as at 1 January 2019	585,725,102	-
Additions and improvements during the year	247,802,618	-
Amortisation expenses for the year	(182,256,972)	-
Net book value as at 31 December	651,270,748	-

21 Investment properties

	2019 LKR	2018 LKR
Cost		
Opening balance as at 1 January	35,359,000	35,359,000
Additions	-	-
Closing balance as at 31 December	35,359,000	35,359,000
Less: Accumulated depreciation		
Opening balance as at 1 January	13,024,370	11,968,340
Charge for the year	1,056,030	1,056,030
Closing balance as at 31 December	14,080,400	13,024,370
Net book value as at 31 December	21,278,600	22,334,630

21.1 The details of the investment properties owned by the Bank are as follows:

Location/Address	Extent		31 December 2019 Cost		31 December 2018 Cost	
	Land (Purchase)	Building (Square feet)	Land LKR	Building LKR	Land LKR	Building LKR
No. 6 A/176, Walauwatta, Kegalle	28	8,233.5	14,238,400	21,120,600	14,238,400	21,120,600
			14,238,400	21,120,600	14,238,400	21,120,600

21.2 There were no direct operating expenses arising from investment property that generated retain income and that did not generate material rental income.

21.3 Assets classified as investment properties include land and building located in kegalle. Market value (Level 3) of the above asset is LKR 52,788,900/- . Valuation was carried out by R M W N K Chandrasekara independent Professional Valuer.

22 Intangible assets

	2019 LKR	2018 LKR
Cost		
Opening balance as at 1 January	211,929,704	211,929,704
Additions	323,857,065	-
Closing balance as at 31 December	535,786,769	211,929,704
Less: Accumulated amortisation		
Opening balance as at 1 January	208,201,979	203,781,364
Charge for the year	19,140,249	4,420,615
Closing balance as at 31 December	227,342,228	208,201,979
Net book value as at 31 December	308,444,541	3,727,725

22.1 There were no idle Intangible assets as at 31 December 2019.

22.2 There were no restrictions on the title of the intangible assets as at 31 December 2019.

23 Other assets

	2019 LKR	2018 LKR
Postage legal and other charges receivable	74,976,255	55,628,494
VAT receivable	-	7,314,404
Prepaid staff cost	718,181,850	635,701,610
Deposits and prepayments	586,153,879	425,178,412
Inventory	81,211,838	74,491,470
Total	1,460,523,822	1,198,314,390

24 Due to other customers

	2019 LKR	2018 LKR
Total amount due to other customers	72,431,923,465	67,474,821,535
Total	72,431,923,465	67,474,821,535

24.1 Analysis of due to other customers

	2019 LKR	2018 LKR
By product		
Savings deposits	15,540,255,346	12,369,442,964
Fixed deposits	56,891,668,119	55,105,378,571
Total	72,431,923,465	67,474,821,535
By currency		
Sri Lanka Rupee	72,431,923,465	67,474,821,535
Total	72,431,923,465	67,474,821,535

25 Other borrowings

	2019 LKR	2018 LKR
Term loan (Note 25.1)	16,735,146,458	12,347,696,633
Securitised borrowings (Note 25.2)	1,322,982,880	827,867,887
Refinance borrowing (Note 25.3)	2,241,588,630	2,245,403,442
Total	20,299,717,968	15,420,967,962

25.1 Details of term loans

Institution	Fixed/Floating	Tenure (Months)	2019 LKR	2018 LKR
National Savings Bank	Floating	48	207,769,764	458,077,389
National Savings Bank	Floating	48	1,332,800,000	1,833,200,000
Sampath Bank PLC	Floating	60	58,409,645	158,658,090
Sampath Bank PLC	Floating	60	58,409,645	158,658,090
Sampath Bank PLC	Floating	60	200,375,404	300,675,854
Sampath Bank PLC	Floating	60	217,076,694	317,382,295
Sampath Bank PLC	Floating	60	1,870,318,174	-
Seylan Bank PLC	Floating	48	407,168,242	38,094,448
Seylan Bank PLC	Floating	60	617,216,681	823,023,219
Seylan Bank PLC	Floating	48	810,352,488	-
Seylan Bank PLC	Floating	60	1,003,945,205	-
Seylan Bank PLC	Floating	60	501,972,603	-
DFCC Bank	Floating	48	323,578,596	489,776,081
DFCC Bank	Floating	48	364,832,444	448,974,730
Peoples Bank	Floating	60	357,154,938	786,169,108
Peoples Bank	Floating	3	504,238,356	-
Peoples Bank	Floating	3	500,160,137	-
MCB Bank Ltd	Floating	60	91,379,307	141,502,782
HNB Bank PLC	Floating	48	313,329,431	564,330,767
HNB Bank PLC	Floating	48	1,094,441,610	1,469,852,568
NDB Bank PLC	Fixed/Floating	-	-	1,013,227,397
NDB Bank PLC	Floating	1	150,749,589	-
NDB Bank PLC	Floating	1	301,499,178	-
NDB Bank PLC	Floating	1	150,562,192	-
NDB Bank PLC	Floating	1	100,374,795	-
NDB Bank PLC	Floating	1	300,090,411	-
Bank of Ceylon	Floating	60	1,403,234,192	-
Nations Trust Bank PLC	Floating	48	940,066,488	-
The International Finance Corporation (IFC)	Fixed	60	1,889,186,294	2,415,304,500
The Netherlands Development Finance Company (FMO)	Floating	52	664,453,956	930,789,315
			16,735,146,458	12,347,696,633

25.1.1 Movement in term loans

	Opening balance as at 1 January 2019 LKR	Obtained during year LKR	Repayment LKR	Closing balance as at 31 December 2019 LKR
National Savings Bank	2,291,100,000	–	(750,600,000)	1,540,500,000
Sampath Bank PLC	933,248,000	2,000,000,000	(533,365,333)	2,399,882,667
Seylan Bank PLC	859,050,000	3,000,000,000	(528,424,994)	3,330,625,006
Peoples Bank	781,547,486	3,000,000,000	(2,426,298,629)	1,355,248,857
MCB Bank Ltd	141,450,000	–	(50,100,000)	91,350,000
HNB Bank PLC	2,031,320,000	–	(624,960,000)	1,406,360,000
NDB Bank PLC	1,000,000,000	7,950,000,000	(7,950,000,000)	1,000,000,000
DFCC Bank	937,499,998	–	(250,000,008)	687,499,990
Bank of Ceylon	–	1,400,000,000	–	1,400,000,000
Nations Trust Bank	–	1,000,000,000	(62,502,000)	937,498,000
FMO	925,530,757	–	(264,437,359)	661,093,398
IFC	2,331,000,000	–	(517,999,995)	1,813,000,005
Interest Payable	115,950,393	–	–	112,088,534
	12,347,696,633	18,350,000,000	(13,958,688,318)	16,735,146,458

25.2 Securitised borrowings

	2019 LKR	2018 LKR
Trust 1	–	4,269,292
Trust 2	373,969,439	823,598,595
Trust 3	949,013,441	–
Total	1,322,982,880	827,867,887

25.3 Refinance borrowings

	2019 LKR	2018 LKR
SANASA Federation (Refinance of <i>Athwela</i> Loans)	54,200,000	54,200,000
Central Bank of Sri Lanka (RERED)	–	3,930,019
Central Bank of Sri Lanka (<i>Susahana</i>)	80,827	80,827
Asian Development Bank (<i>Dasuna</i>)	19,658	191,488
Borrowings under CBSL – Tea Development	–	103,530
Borrowings under Refinance of <i>Jayatha</i>	475,435,470	441,306,600
Borrowing under Awakaning East	–	30,123,850
Borrowing under Awakaning North	145,825	1,671,750
Borrowing under <i>Saubagya</i>	1,231,893,619	1,246,363,283
Borrowing under SPENDP	72,000	408,000
Borrowing – Refinance Smile iii	439,890,700	434,120,501
Borrowing – Refinance Sepi	1,900,000	2,700,000
Borrowing – <i>Suwashakthi</i> Loan	2,616,328	3,848,997
Borrowing – <i>Athwela</i> (READ)	21,118,334	25,516,667
Borrowing – <i>Kapraka Ayojana</i>	14,215,870	837,930
	2,241,588,630	2,245,403,442

25.4 Maturity analysis of refinance borrowings

	2019 LKR	2018 LKR
Due within one year	845,552,922	985,193,182
1-5 years	1,377,200,599	1,223,230,860
After 5 years	18,705,800	36,979,400
Total	2,241,459,321	2,245,403,442

25.5 Securities and terms of borrowings

Interest rate ranging for above borrowings 0% to 13.75% per annum.

Bank has pledged from the lease portfolio sum of LKR 1,222,145,124/- for the securitised borrowings (2018 – LKR 1,892,536,930/-).

26 Debt security issued

	2019 LKR	2018 LKR
Debentures	1,014,034,248	4,198,547,716
Total	1,014,034,248	4,198,547,716

26.1 Types of debentures (Fixed)

(i) Rated Guaranteed Redeemable Debentures of LKR 100 each – Guaranteed by Sampath Bank PLC. The debentures are quoted on the Colombo Stock Exchange. (Rated (SL)A+ (SO) with a Stable Outlook by ICRA Lanka Limited)

Type	Interest payable frequency	Issue date	Maturity date	Annual effective rate (AER) %	Face value LKR	Interest payable LKR	Balance LKR
B	Semi Annually	31 December 2015	31 December 2020	10.25	402,610,000	20,295,956	422,905,956

(ii) Rated Guaranteed Redeemable Debentures of LKR 100 each – Guaranteed by Seylan Bank PLC. The debentures are quoted on the Colombo Stock Exchange. (Rated (SL)A- (SO) with a Stable Outlook by ICRA Lanka Limited)

Type	Interest payable frequency	Issue date	Maturity date	Annual effective rate (AER) %	Face value LKR	Interest payable LKR	Balance LKR
D	Semi Annually	31 December 2015	31 December 2020	10.57	561,950,000	29,178,292	591,128,292
					964,560,000	49,474,248	1,014,034,248

27 Subordinated term debts

	2019 LKR	2018 LKR
Subordinated term debts	4,210,565,525	1,008,027,823
Total	4,210,565,525	1,008,027,823

For the year ended 31 December

27.1 Details of subordinated term debts

Investor	Tenor/Repayment	Interest Rate	2019 LKR	2018 LKR
FMO	Repayment or conversion after 66 months	6-month T-bill rate + 550 basis points Payable per annum	316,124,625	316,696,269
SBI-FMO	Repayment or conversion after 66 months	6-month T-bill rate + 450 basis points Payable per annum	705,239,278	706,706,095
DGGF	Repayment or conversion after 60 months	6-month T-bill rate+700 basis points Payable per annum	1,768,988,516	-
BIO	Repayment or conversion after 60 months	6-month LIBOR + 550 basis points Payable per annum	1,453,890,011	-
Less: Initial transaction cost			(33,676,905)	(15,374,541)
Total			4,210,565,525	1,008,027,823

28 Retirement benefit obligation

28.1 Defined benefit liability*

	2019 LKR	2018 LKR
Defined benefit liability (Note 28.1.1)	479,575,300	354,854,450
Total	479,575,300	354,854,450

* Defined benefit liability classified under other liability in 31 December 2018 has been reclassified and separately recorded as retirement benefit obligation and comparative figure in this financial statement is amended. (Refer Note 44)

28.1.1 Movement in defined benefit obligation

	2019 LKR	2018 LKR
Opening balance as at 1 January	354,854,450	257,476,102
Net benefit expense (Note 28.1.2)	133,715,592	100,585,945
Benefit paid	(8,994,741)	(3,207,597)
Closing balance as at 31 December	479,575,300	354,854,450

28.1.2 Net benefit expense

	2019 LKR	2018 LKR
Interest cost	43,647,097	28,359,486
Current service cost	48,480,714	26,231,153
	92,127,811	54,590,639
Amounts recognised in the other comprehensive income		
Actuarial gain/(loss) on obligations	41,587,781	45,995,306
Total expense for the year	133,715,592	100,585,945

For the year ended 31 December

28.1.3 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 2019. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2019	2018
Long term interest rate (%)	10.25	12.30
Future salary increase rate (%)	7.75	11.30
Retirement age (years)	55	55

Mortality – GA 1983 Mortality Table issued by the Institute of Actuaries London. The average duration of the defined benefit plan obligation at the end of the reporting period is 10 years.

28.2 Sensitivity analysis on discounting rate and salary increment rate to Statement of Financial Position and Comprehensive Income

Assumption	Rate change	2019		2018	
		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+	(35,226,669)	(35,226,669)	(31,422,769)	(31,422,769)
Discount rate	1-	40,392,239	40,392,239	36,365,685	36,365,685
Salary increment rate	1+	39,697,560	39,697,560	35,249,002	35,249,002
Salary increment rate	1-	(35,236,014)	(35,236,014)	(31,042,941)	(31,042,941)

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

	2019 LKR	2018 LKR
Within next 12 months	44,481,682	29,520,864
Between 2 and 5 years	342,084,695	209,523,632
Beyond 5 years	350,405,795	471,331,175

29 Other liability*

	2019 LKR	2018 LKR
Special purpose project funds	405,698,608	407,765,490
Lease liability (Note 29.1)	591,658,015	–
Accruals and other payables	494,402,117	360,067,912
Total	1,491,758,740	767,833,402

* Defined benefit liability classified under other liability in 31 December 2018 has been reclassified and separately recorded as retirement benefit obligation and comparative figure in this Financial Statement is amended. (Refer Note 44)

29.1 Movement in lease liabilities

	2019 LKR	2018 LKR
Opening balance as at 1 January	–	–
Effect of adoption of SLFRS 16 as at 1 January	472,702,962	–
Additions	239,253,218	–
Accretion of interest	43,244,491	–
Payments during the year	(163,542,656)	–
Closing balance as at 31 December	591,658,015	–

For the year ended 31 December

29.2 Maturity analysis of lease liabilities

	2019 LKR	2018 LKR
Less than 1 year	9,731,499	–
Between 1 and 5 years	345,051,391	–
More than 5 years	236,875,125	–
Total lease liabilities as at 31 December	591,658,015	–

30 Stated capital

	2019 LKR	2018 LKR
Ordinary shares – Issued and fully paid	5,921,538,126	5,921,538,126
Total	5,921,538,126	5,921,538,126

30.1 Details of ordinary shares issued and fully paid

	Opening balance as at 1 January 2019 Number	Issued for script during the year Number	Redemptions/ Transfers Number	Closing balance as at 31 December 2019 Number
Ordinary shares – Voting	56,308,252	–	–	56,308,252
	56,308,252	–	–	56,308,252

	Opening balance as at 1 January 2019 LKR	Issued for cash during the year LKR	Redemptions/ Transfers LKR	Closing balance as at 31 December 2019 LKR
Ordinary shares value – Voting	5,921,538,126	–	–	5,921,538,126
	5,921,538,126	–	–	5,921,538,126

31 Statutory reserve fund

	2019 LKR	2018 LKR
Opening balance as at 1 January	215,611,469	197,763,963
Transfer during the period	12,670,255	17,847,506
Closing balance as at 31 December	228,281,724	215,611,469

32 Retained earnings

	2019 LKR	2018 LKR
Opening balance as at 1 January	1,280,762,267	1,340,503,862
Impact of adoption of SLFRS 9 as at 1 January	–	(37,054,387)
Profit for the year	223,461,894	323,833,499
Transfers to other reserves	(12,670,255)	(17,847,506)
Scrip dividend	–	(191,726,035)
Cash dividend	–	(136,947,168)
Closing balance as at 31 December	1,491,553,906	1,280,762,267
Dividend per share	–	5.8

33 Other reserves

2019	Opening balance as at 1 January 2019 LKR	Movement/ transfers LKR	Closing balance as at 31 December 2019 LKR
General reserve	46,656,973	–	46,656,973
Available for sale/fair value through OCI reserve	(15,842,090)	(3,209,534)	(19,051,624)
Total	30,814,883	(3,209,534)	27,605,349
2018	Opening balance as at 1 January 2018 LKR	Movement/ transfers LKR	Closing balance as at 31 December 2018 LKR
General reserve	46,656,973	–	46,656,973
Available-for-sale/fair value through OCI reserve	(12,453,979)	(3,388,111)	(15,842,090)
Total	34,202,994	(3,388,111)	30,814,883

34 Contingent liabilities and commitments**34.1 Bank guarantees**

	2019 LKR	2018 LKR
Bank guarantees	177,752,357	182,986,032
Total	177,752,357	182,986,032

34.2 Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year end, the Bank had several unresolved legal claims.

Following cases are filed against the Bank:

Legal status	Case numbers
1. Cases filed against the Bank with respect to mortgaged property and title of property – District courts	L 17/11, DMR 496/15, M/10238, MB/1935 6940/P, 218/L, 7628/T
2. Cases filed against the Bank to restraining the payment of Bank Guarantee Bonds – District Court	SPL 252/11, 2440/M
3. Appeals filed by the customers against the court orders delivered in favour of the Bank – District Court – High Court Civil Appeal	DMB 5/2016 WP/HCCA/ COL/272/15(F) HCCA/82/2017 (F)
4. Cases filed by customers to obtain injunction orders to restraining the auction of property mortgaged – Commercial High Court – Supreme Court	CHC/629/19/MR SC/HC/LA/83/2019
5. Cases filed against the Bank over the repossession of vehicles – District Court	DSP 178/09

For the year ended 31 December

Legal status	Case numbers
6. Cases filed against the Bank over the loan facilities to claiming right for the ceased assets by the guarantors	
– District Court	207/CL, 31/18 CL, 17615/M/17 17613/M/17, 13/17/CL, 53/CL 551/CL, 552/CL, 553/CL
7. Cases filed against the Bank by the employees and former Directors	
– District Court	DMR/4015/17, 6495/SPL
– Labour Tribunal	LT/BT/344/2017

Other than those disclosed above there is no case filed against the Bank which would have material impact on the financial position of the Bank.

35 Events occurring after the reporting date

There are no material events after the reporting date that require adjustments to or disclosure in the Financial Statements.

36 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 (“Related Party Disclosures”), the details of which are reported below:

36.1 Transactions with other related parties

According to the LKAS 24, FMO consider as a related party (Significant investor) and all transaction with FMO are given below.

	2019 LKR	2018 LKR
Interest and capital repayment	526,112,499	240,127,258
Reimbursement of expenses	889,181	2,465,459

36.2 Transactions with key management personnel (KMP)

Key Management Personnel include: the Chairman, the Board of Directors, and Chief Executive Officer, Deputy Chief Executive Officer of the Bank. Transactions with close family members of Key Management Personnel are also taken into account in the transactions with Key Management Personnel. The Same term, including interest/commission rates & 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 unfavourable features.

36.2.1 Key management personnel compensation

	2019 LKR	2018 LKR
Short-term employee benefits	50,627,995	33,113,000
Post employment benefits	2,100,000	2,080,800

36.2.2 Other transactions (loans and receivables) with key management personnel – Balance outstanding

	2019 LKR	2018 LKR
Opening balance as at 1 January	2,029,183	2,352,976
Granting	–	–
Repayments	(427,240)	(323,793)
Closing balance as at 31 December	1,601,943	2,029,183
Interest income	253,941	300,885

36.2.3 Deposits and investment from key management personnel – Balance outstanding

	2019 LKR	2018 LKR
Deposits accepted and reviewed during the period	39,587,156	2,982,512
Balance as at 31 December	16,630,438	163,274
Interest expenses	349,401	10,138

36.2.4 Other payment to key management personnel

	2019 LKR	2018 LKR
Cash dividend	–	157,494

36.2.5 Shareholdings by key management personnel

	2019 Number	2018 Number
Number of shares held by KMP	199,450	75,243

36.2.6 Term and conditions of transaction with related parties

All related party transaction are carried out in the normal course of business and transacted at normal business terms. Transaction from related parties are made on terms equivalent to those that prevail in arm's length transaction and comparable with those that would have been charged from unrelated companies. All related party outstanding balances at the year-end are secured and are to be settled in cash.

37 Assets pledged

Bank has pledged from the lease portfolios sum of LKR 1,222,145,124/- (2018 – LKR 1,892,536,929/-) for the Securitised Borrowings.

38 Analysis of financial instruments by measurement basis

As at 31 December 2019	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total LKR
Financial assets				
Cash and cash equivalents	2,429,790,570	–	–	2,429,790,570
Placements with banks	5,628,094,545	–	–	5,628,094,545
Financial assets at fair value through profit or loss	–	3,527,310,141	–	3,527,310,141
Financial assets at amortised cost				
– Loans and receivables to other customers	85,823,334,862	–	–	85,823,334,862
– Debt and other instruments	6,998,924,881	–	–	6,998,924,881
Financial assets measured at fair value through other comprehensive income	–	–	56,938,514	56,938,514
Total financial assets	100,880,144,858	3,527,310,141	56,938,514	104,464,393,514
Financial liabilities				
Due to other customers	72,431,923,465	–	–	72,431,923,465
Other borrowings	20,299,717,968	–	–	20,299,717,968
Debt Securities issued	1,014,034,248	–	–	1,014,034,248
Subordinated term debts	4,210,565,525	–	–	4,210,565,525
Total financial liabilities	97,956,241,206	–	–	97,956,241,206

As at 31 December 2018	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total LKR
Financial assets				
Cash and cash equivalents	4,171,938,630	–	–	4,171,938,630
Placements with banks	9,528,425,565	–	–	9,528,425,565
Financial assets at fair value through profit or loss		146,103,330	–	146,103,330
Financial assets at amortised cost				
– Loans and receivables to other customers	77,507,021,162	–	–	77,507,021,162
– Debt and other instruments	3,405,600,286	–	–	3,405,600,286
Financial assets measured at fair value through other comprehensive income	–	–	60,148,048	60,148,048
Total financial assets	94,612,985,642	146,103,330	60,148,048	94,819,237,021
Financial liabilities				
Due to other customers	67,474,821,535	–	–	67,474,821,535
Other borrowings	15,420,967,962	–	–	15,420,967,962
Debt Securities issued	4,198,547,716	–	–	4,198,547,716
Subordinated term debts	1,008,027,823	–	–	1,008,027,823
Total financial liabilities	88,102,365,036	–	–	88,102,365,036

39 Fair value of financial instruments

39.1 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

Fair value through OCI valued using valuation techniques or pricing models primary consist of unquoted.

Fair value through profit and loss

Quoted equities, Sri Lanka Government securities – Treasury bonds and unit trust included in financial assets fair value through profit or loss are valued using market price.

39.2 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.

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

	As at 31 December 2019			Total LKR
	Level 1 LKR	Level 2 LKR	Level 3 LKR	
Financial assets fair value through profit or loss				
Sri Lanka Government securities – Treasury bills	–	46,519,350	–	46,519,350
Unit trusts	–	3,480,790,791	–	3,480,790,791
Fair value through other comprehensive income				
Unquoted equity securities	–	–	56,938,514	56,938,514
Total	–	3,527,310,141	56,938,514	3,584,248,655

	As at 31 December 2018			
	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	–	146,103,330	–	146,103,330
Fair value through other comprehensive income				
Unquoted equity securities	–	–	60,148,048	60,148,048
Total	–	146,103,330	60,148,048	206,251,378

The following table shows the total gains/(losses) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	2019 LKR	2018 LKR
Net gain/(loss) from trading	1,264,727	–
Net fair value gain/(loss) of financial assets at fair value through profit or loss		
Sri Lanka Government securities – Treasury bonds	(58,050)	(942,414)
Unit trusts	114,947,499	281,114,474
Total gain/(loss)	116,154,176	280,172,060

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

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

	Level	As at 31 December 2019	
		Carrying Value LKR	Fair Value LKR
Financial assets			
Cash and cash equivalents	Note*	2,429,790,570	2,429,790,570
Placements with banks	Note*	5,628,094,545	5,628,094,545
Financial assets at amortised cost			
– Loans and receivables to other customers	2	85,823,334,862	92,356,556,375
– Debt and other instruments	Note*	6,998,924,881	6,998,924,881
Total financial assets		100,880,144,858	107,413,366,371
Financial liabilities			
Due to other customers	2	72,431,923,465	66,969,704,982
Other borrowings	2	20,299,717,968	21,651,988,374
Debt securities issued	2	1,014,034,248	1,014,034,248
Subordinated term debts	2	4,210,565,525	4,210,565,525
Total financial liabilities		97,956,241,206	93,846,293,129

	Level	As at 31 December 2018	
		Carrying value LKR	Fair value LKR
Financial assets			
Cash and cash equivalents	Note*	4,171,938,630	4,171,938,630
Placements with banks	Note*	9,528,425,565	9,528,425,565
Financial assets at amortised cost			
– Loans and receivables to other customers	2	77,507,021,162	77,781,165,229
– Debt and other instruments	Note*	3,405,600,286	3,405,600,286
Total financial assets		94,612,985,643	94,887,129,710
Financial liabilities			
Due to other customers	2	67,474,821,535	57,889,168,348
Other borrowings	2	15,420,967,962	15,418,148,997
Debt securities issued	2	4,198,547,716	4,198,547,716
Subordinated term debts	2	1,008,027,823	1,008,027,823
Total financial liabilities		88,102,365,036	78,513,892,884

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.

40 Segment reporting

	As at 31 December 2019				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	12,509,868,962	1,090,964,365	1,239,351,727	239,138,751	15,079,323,806
Interest expenses	(6,977,189,168)	(573,254,531)	(1,674,257,285)	(157,827,936)	(9,382,528,920)
Net interest income	5,532,679,794	517,709,835	(434,905,558)	81,310,816	5,696,794,886
Fee and commission income	201,937,822	35,718,639	-	-	237,656,461
Fee and commission expenses	(6,012,622)	(494,004)	-	-	(6,506,626)
Net fee and commission income	195,925,201	35,224,634	-	-	231,149,835
Net gains/(losses) from trading	-	-	1,264,727	-	1,264,727
Net fair value gains/(losses) of financial assets at fair value through profit or loss	-	-	114,889,449	-	114,889,449
Net other operating income	90,727,985	-	240,800	-	90,968,785
Total operating income	5,819,332,979	552,934,468	(318,510,583)	81,310,815	6,135,067,682
Impairment for loans and other losses	(809,523,806)	(112,639,820)	4,594,178	135,942	(917,433,506)
Net operating income	5,009,809,173	440,294,648	(313,916,405)	81,446,757	5,217,634,176
Depreciation and amortisation expenses	(390,191,470)	(32,058,616)	(116,161)	(8,826,350)	(431,192,597)
Segment result	4,619,617,703	408,236,032	(314,032,566)	72,620,406	4,786,441,579
Un-allocated expenses					(3,536,420,975)
Value Added Tax (VAT) on financial services					(386,522,109)
Nation Building Tax (NBT) on financial services					(51,106,360)
Debt repayment Levy					(226,564,695)
Profit before tax					585,827,440
Tax expenses					(332,422,344)
Profit for the year					253,405,096
Other comprehensive income					
Other comprehensive income for the year net of tax					(33,152,736)
Total comprehensive income for the year					220,252,360
Segment assets	77,683,515,936	6,382,574,185	18,641,058,651	1,757,244,741	104,464,393,513
Un-allocated assets	-	-	-	-	3,319,230,816
Total assets	77,683,515,936	6,382,574,185	18,641,058,651	1,757,244,741	107,783,624,329
Segment liabilities	74,448,885,176	6,116,812,903	17,864,871,567	1,684,075,578	100,114,645,224
Total equity	-	-	-	-	7,668,979,105
Total liabilities	74,448,885,176	6,116,812,903	17,864,871,567	1,684,075,578	107,783,624,329
Addition to non-current assets	448,506,665	36,849,865	-	10,145,473	495,502,003

	As at 31 December 2018				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income*	10,977,258,277	827,449,414	1,161,471,770	180,607,695	13,146,787,156
Interest expenses	(6,611,642,530)	(474,369,619)	(1,221,112,089)	(116,633,491)	(8,423,757,729)
Net interest income	4,365,615,747	353,079,794	(59,640,319)	63,974,204	4,723,029,427
Fee and commission income*	164,143,138	32,618,933	–	–	196,762,071
Fee and commission expenses	(4,102,534)	(294,347)	–	–	(4,396,881)
Net fee and commission income	160,040,604	32,324,586	–	–	192,365,190
Net fair value gain/(loss) of financial assets at fair value through profit or loss	–	–	280,172,060	–	280,172,060
Net other operating income	20,334,514	–	476,587	–	20,811,101
Total operating income	4,545,990,865	385,404,381	221,008,326	63,974,204	5,216,377,778
Impairment for loans and other losses	(470,940,030)	(51,990,820)	(6,127,309)	3,214,279	(525,843,880)
Net operating income	4,075,050,835	333,413,561	214,881,017	67,188,484	4,690,533,898
Depreciation and amortisation expenses	(205,765,548)	(14,763,188)	(101,863)	(3,629,832)	(224,260,432)
Segment result	3,869,285,287	318,650,373	214,779,154	63,558,651	4,466,273,466
Un-allocated expenses					(3,353,205,201)
Value Added Tax (VAT) on financial services					(362,940,818)
Nation Building Tax (NBT) on financial services					(52,702,722)
Debt repayment levy					(53,282,253)
Profit before tax					644,142,473
Tax expenses					(287,192,354)
Profit for the year					356,950,119
Other comprehensive income					
Other comprehensive income for the year net of tax					(36,504,731)
Total comprehensive income for the year					320,445,388
Segment assets	71,147,289,913	5,104,648,758	13,140,277,228	1,255,082,491	90,647,298,390
Un-allocated assets	–	–	–	–	6,170,468,795
Total assets	71,147,289,913	5,104,648,758	13,140,277,228	1,255,082,491	96,817,767,185
Segment liabilities	70,144,010,272	5,032,665,831	12,954,980,323	1,237,384,014	89,369,040,440
Total equity	–	–	–	–	7,448,726,745
Total liabilities	70,144,010,272	5,032,665,831	12,954,980,323	1,237,384,014	96,817,767,185
Addition to non-current assets	199,134,282	14,287,411	–	3,512,853	216,934,546

* Late fee charged from overdue rentals classified under net fee and commission income in 31 December 2018 has been reclassified to interest income and comparative figure in this Financial Statement is amended. (Refer Note 44)

41 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 2019			As at 31 December 2018		
	Within 12 months LKR	After 12 months LKR	Total LKR	Within 12 months LKR	After 12 months LKR	Total LKR
Assets						
Cash and cash equivalents	2,429,790,570	–	2,429,790,570	4,171,938,629	–	4,171,938,629
Placements with banks	4,177,742,545	1,450,352,000	5,628,094,545	9,528,425,565	–	9,528,425,565
Financial assets fair value through profit or loss	3,527,310,141	–	3,527,310,141	146,103,330	–	146,103,330
Financial assets at amortised cost						
– Loans and receivables to other customers	18,200,097,573	67,623,237,289	85,823,334,862	17,213,381,317	60,293,639,845	77,507,021,162
– Debt and other instruments	6,948,924,881	50,000,000	6,998,924,881	3,316,920,287	88,680,000	3,405,600,287
Financial assets measured at fair value through other comprehensive income						
Property, plant and equipment	–	56,938,514	56,938,514	–	60,148,048	60,148,048
Right of use assets	11,907,855	639,362,893	651,270,748	–	–	–
Investment properties	–	21,278,600	21,278,600	–	22,334,630	22,334,630
Intangible assets	–	308,444,541	308,444,541	–	3,727,725	3,727,725
Deferred tax assets	–	232,481,661	232,481,661	–	69,414,926	69,414,926
Other assets	1,460,523,822	–	1,460,523,822	1,198,314,392	–	1,198,314,392
Total assets	36,756,297,388	71,027,326,942	107,783,624,329	35,575,083,520	61,242,683,665	96,817,767,185
Liabilities						
Due to other customers	51,618,024,041	20,813,899,425	72,431,923,466	47,596,788,688	19,878,032,846	67,474,821,534
Other borrowings	8,444,199,647	11,855,518,321	20,299,717,968	6,221,139,240	9,199,828,723	15,420,967,963
Debt securities issued	1,014,034,248	–	1,014,034,248	3,233,987,716	964,560,000	4,198,547,716
Subordinated term debts	10,243,764	4,200,321,761	4,210,565,525	15,058,060	992,969,761	1,008,027,823
Retirement benefit obligation*	–	479,575,300	479,575,300	–	354,854,450	354,854,450
Current tax liabilities	187,069,978	–	187,069,978	143,987,553	–	143,987,552
Other liabilities*	909,832,224	581,926,516	1,491,758,740	767,833,402	–	767,833,402
Total liabilities	62,183,403,902	37,349,314,806	100,114,645,225	57,978,794,659	31,390,245,780	89,369,040,440
Net asset/(liability)	(25,427,106,514)	33,678,012,136	7,668,979,105	(22,403,711,138)	29,852,437,885	7,448,726,745

* Defined benefit liability classified under other liability in 31 December 2018 has been reclassified and separately recorded as retirement benefit obligation and comparative figure in this Financial Statement is amended. (Refer Note 44)

42 Risk management

42.1 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 continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk and operational risk.

The independent risk control process does include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the bank's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed the Board subcommittee which has the responsibility to monitor the overall risk process within the Bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a quarterly basis.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on a periodically, where necessary, to the Risk Committee and the relevant actions are taken to address exceptions and any areas of weakness.

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure.

It is also primarily responsible for the funding and liquidity risks of the Bank.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits 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, with additional emphasis on selected industries. In addition, the bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board subcommittee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to the CEO and all other relevant members of the bank on the utilisation of market limits, proprietary investments, liquidity and any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses several strategies and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks and exposures arising from forecast transactions. In accordance with the Bank's policy, the risk profile of the Bank is assessed by the appropriate level of seniority within the Bank. The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

42.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk evaluation system, which assigns each counterparty a risk. The credit quality review process aims to allow the Bank to assess the potential losses a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

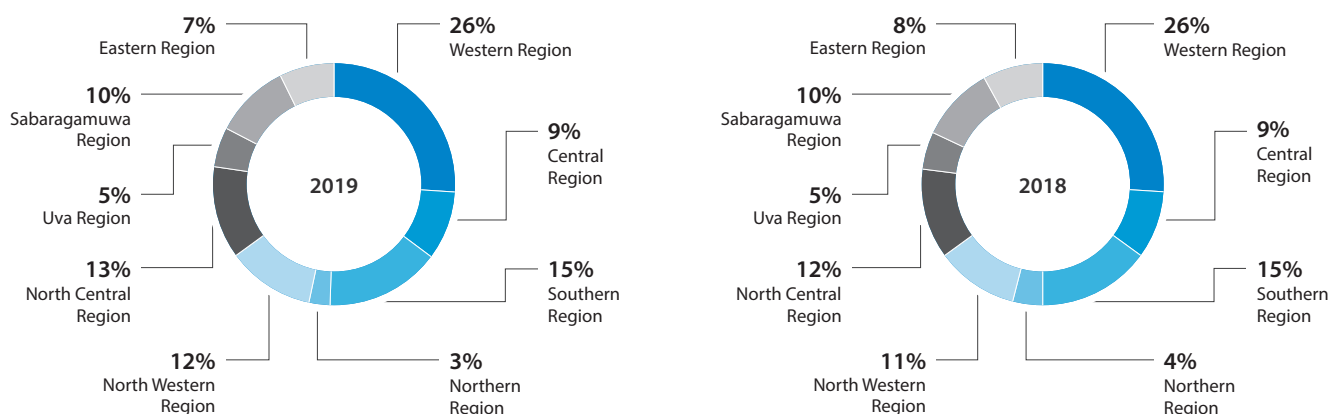
The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

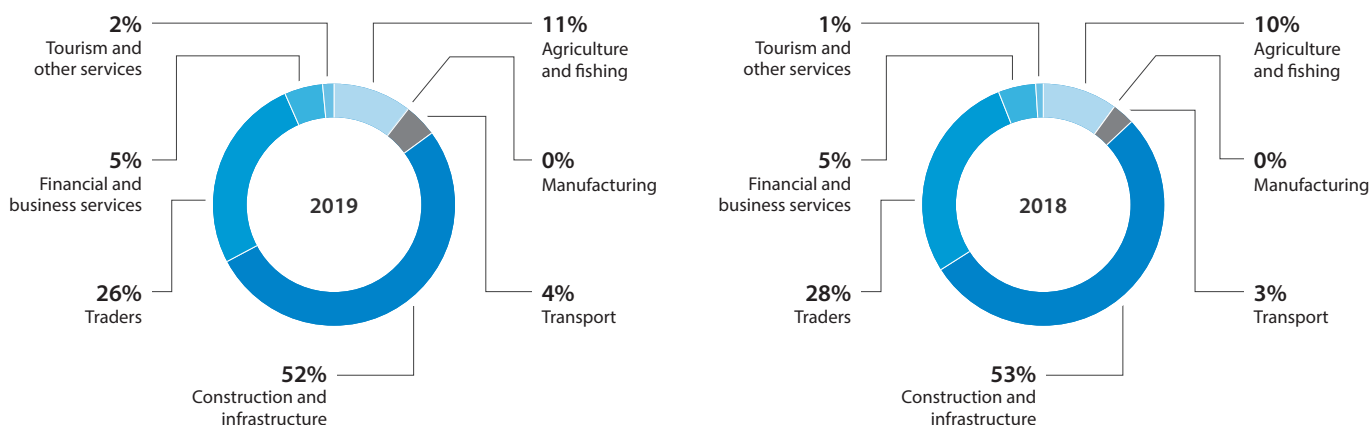
The Bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2019 was LKR 313 Mn.

The following table shows the maximum exposure to credit risk for the components of the Statement of Financial Position, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Geographical analysis



Industry analysis



Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash or securities
- Real estate properties
- Mortgages over residential properties
- Movable assets – Motor vehicle
- Gold

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

42.2.1 Maximum exposure credit risk by class of financial assets

	As at 31 December 2019		As at 31 December 2018	
	Maximum exposure to credit risk LKR	Net exposure LKR	Maximum exposure to credit risk LKR	Net exposure LKR
Cash and cash equivalents	2,429,790,570	2,429,790,570	4,171,938,630	4,171,938,630
Placements with banks	5,628,094,545	5,628,094,545	9,528,425,565	9,528,425,565
Financial assets fair value through profit or loss	3,527,310,141	3,527,310,141	146,103,330	146,103,330
Financial assets at amortised cost				
– Loans and receivables to other customers	88,720,800,911	74,451,537,819	79,482,459,527	65,213,196,435
– Debt and other instruments	6,998,924,881	2,666,271,222	3,405,600,286	471,378,656
Total	107,304,921,048	88,703,004,297	96,734,527,338	79,531,042,616

Credit quality by class of financial assets

	As at 31 December 2019			Total LKR
	Neither past due nor impaired LKR	Past due but not impaired LKR	Individually impaired LKR	
Cash and cash equivalents	2,429,790,570	–	–	2,429,790,570
Placements with banks	5,628,094,545	–	–	5,628,094,545
Financial assets fair value through profit or loss	3,527,310,141	–	–	3,527,310,141
Financial assets at amortised cost				
– Loans and receivables to other customers	71,008,197,804	14,935,693,040	2,776,910,068	88,720,800,912
– Debt and other instruments	3,405,600,287	–	–	3,405,600,287
Total	85,998,993,348	14,935,693,040	2,776,910,068	103,711,596,455

	As at 31 December 2018			Total LKR
	Neither past due nor impaired LKR	Past due but not impaired LKR	Individually impaired LKR	
Cash and cash equivalents	4,171,938,630	–	–	4,171,938,630
Placements with banks	9,528,425,565	–	–	9,528,425,565
Financial assets fair value through profit or loss	146,103,330	–	–	146,103,330
Financial assets at amortised cost				–
– Loans and receivables to other customers	64,662,927,979	13,673,100,463	1,146,431,087	79,482,459,528
– Debt and other instruments	3,405,600,287	–	–	3,405,600,287
Total	81,914,995,791	13,673,100,463	1,146,431,087	96,734,527,340

	As at 31 December 2019 Past due but not impaired				Total LKR
	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	
Loans and receivables to other customers (without impairment)	7,201,475,238	3,784,482,626	538,536,434	3,411,198,742	14,935,693,040

	As at 31 December 2018 Past due but not impaired				Total LKR
	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	
Loans and receivables to other customers (without impairment)	6,081,797,677	4,413,998,529	222,108,245	2,955,196,012	13,673,100,463

Impairment assessment

definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three instalments in arrears due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events (among others) include;

- When contractual payments of a customer are more than 30 days past due;
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful. Limits shall be set and documented by licensed banks;
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.;
- When the customer is deceased/insolvent;
- When the Bank is unable to contact or find the customer;

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 default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Probability of default (PD) estimation process

Probability of Default is the estimate of the likelihood of default over a given time horizon. A default may only happen at a time horizon if the facility has not been previously derecognised and is still in the portfolio.

An early exit (EE) may occur in case of default unless the facility reverts to performing without significant modification of the contractual terms. The marginal probability of default for the period is then adjusted from the probability that an early exit occurred during the previous period.

12 Months PD

This is the estimated probability of default occurring within the next 12 months.

The 12 month PD is applied for the "Current" and "1-30 days" buckets since there is no significant deterioration in credit risk.

Lifetime PD

This is the estimated probability of default occurring over the remaining life of the financial instrument.

The lifetime PD is applied for the "31-60" days and "61-90" days buckets since there is a significant deterioration in credit risk.

The PD for the "Above 90" days category is 100% since there is objective evidence of impairment as the default has occurred.

Exposure at default (EAD)

The exposure at default 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.

These components will all need to be estimated based on past experience and future expectations, for sections of the portfolio that are segmented so that they have similar credit characteristics.

Loss given default (LGD)

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.

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 12 months ECL or life time ECL the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account having been restructured. In certain cases, the Bank may also consider that events as a significant increase in credit risk as opposed to a default. When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the following in the categorisation of credit facilities/exposures in to stages for computation of expected credit loss.

Stage 1

- All credit facilities, which are not categorised under Stages 2 or 3 below.

Stage 2

- Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9.
- All restructured loans, which are restructured up to two times (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest instalment post-restructure).
- Under-performing credit facilities/exposures.

Stage 3

Credit facilities where contractual payments of a customer are more than 90 days past due or 3 instalments in arrears, subject to the rebuttable presumption as stated in SLFRS 9.

- All restructured loans, which are restructured more than twice.
- All rescheduled loans, other than credit facilities/exposures (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest instalment post-restructure).
- All credit facilities/customers classified as non-performing as per CBSL Directions.
- Non-performing credit facilities/customers.

Grouping financial assets measured on a collective basis

As explained in Note 2.3.2 dependent on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

An individual impairment assessment is performed for exposures over the Individually Significant Threshold of LKR 5 Mn. for which there is objective evidence of expected loss based on the current status of the customer, i.e. based on whether customer is performing, non-performing, rescheduled or watch-listed.

Exposures that are assessed for individual impairment and for which an impairment provision has been recognised are not included in the collective assessment of impairment. If it is determined that no objective evidence of expected loss exists for an individually assessed exposure, or assessed for objective evidence and there is no requirement for individual impairment, whether significant or not, this is included in a group of exposures with similar credit risk characteristics that are collectively assessed for impairment under the relevant bucket.

A collective assessment is performed for exposures as follows:

- Exposures that have not been individually assessed i.e. falling below the individually significant threshold
- Exposures that have been assessed for Objective Evidence of Incurred Loss and were found to have no such evidence of expected loss
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation

The bank groups these exposure in to homogeneous portfolios to extent possible so as ensure that data point available for meaningful calculations.

For accounting purposes, the bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the bank grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel III.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and other debt investments that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired. The Bank generally bases its analyses on historical experience.

The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy. Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

Commitments and guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. Financial statement has separately disclosed the bank's maximum credit risk exposure for commitments and guarantees.

42.3 Liquidity risk and funding management

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the bank might 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 managing assets with liquidity in mind and of 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 that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access 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 specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Liquid assets consist of cash, short-term bank deposits and treasury bills available for immediate sale.

The Bank stresses the importance of term accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer savings accounts, together with term funding with a remaining term to maturity.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	As at 31 December 2019							Total LKR
	Less than 7 Days LKR	7-30 Days LKR	1-3 Months LKR	3-12 Month LKR	1-3 Years LKR	3-5 Years LKR	Over 5 Years LKR	
Financial assets								
Cash and cash equivalents	2,429,790,570	-	-	-	-	-	-	2,429,790,570
Investments	1,361,134,010	6,758,727,196	6,545,608,637	70,869,472	55,625,000	1,977,374,902	-	16,769,339,217
Loans and receivables to other customers	1,497,786,878	2,335,054,001	3,452,678,744	17,283,911,199	26,605,051,230	18,194,066,707	29,417,331,304	98,785,880,063
Total financial assets	5,288,711,458	9,093,781,197	9,998,287,382	17,354,780,671	26,660,676,230	20,171,441,609	29,417,331,304	117,985,009,850
Financial liabilities								
Due to other customers	2,712,403,307	4,888,405,210	12,755,524,393	32,944,756,647	13,385,221,583	5,329,197,253	4,197,664,703	76,213,173,096
Other borrowings	15,000,000	1,892,506,764	1,613,684,555	5,259,571,899	13,397,973,026	10,479,601,943	23,195,192	32,681,533,379
Debt securities issued	-	-	-	1,013,630,925	-	-	-	1,013,630,925
Total financial liabilities	2,727,403,307	6,780,911,974	14,369,208,948	39,217,959,471	26,783,194,610	15,808,799,196	4,220,859,895	109,908,337,400
Net Financial assets/(liabilities)	2,561,308,151	2,312,869,223	(4,370,921,567)	(21,863,178,800)	(122,518,380)	4,362,642,413	25,196,471,409	8,076,672,450
As at 31 December 2018								
	Less than 7 Days LKR	7-30 Days LKR	1-3 Months LKR	3-12 Month LKR	1-3 Years LKR	3-5 Years LKR	Over 5 Years LKR	Total LKR
Financial assets								
Cash and cash equivalents	4,171,938,630	-	-	-	-	-	-	4,171,938,630
Investments	3,466,827,144	5,764,834,724	3,834,399,122	30,599,084	96,802,800	60,148,048	-	13,253,610,920
Loans and receivables to other customers	1,416,410,358	2,117,141,125	3,269,857,395	15,520,336,642	23,958,709,739	17,900,396,885	25,835,847,050	90,018,699,193
Total financial assets	9,055,176,132	7,881,975,849	7,104,256,516	15,550,935,727	24,055,512,540	17,960,544,933	25,835,847,050	107,444,248,744
Financial liabilities								
Due to other customers	2,782,918,433	4,192,909,422	10,733,966,507	31,340,676,236	12,710,070,042	5,875,048,928	3,345,510,561	70,981,100,128
Other borrowings	-	283,182,271	1,809,763,544	4,089,634,458	9,417,061,777	5,606,886,353	45,854,456	21,252,382,859
Debt securities issued	-	-	-	1,013,630,925	-	-	-	1,013,630,925
Total financial liabilities	2,782,918,433	4,476,091,692	12,543,730,051	36,443,941,619	22,127,131,819	11,481,935,281	3,391,365,017	93,247,113,912
Net financial assets/(liabilities)	6,272,257,699	3,405,884,156	(5,439,473,535)	(20,893,005,893)	1,928,380,720	6,478,609,652	22,444,482,033	14,197,134,832

42.4 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. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The market risk for the portfolio is managed and monitored using sensitivity analyses.

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 table below analyses the Bank's interest rate risk exposure on financial assets and liabilities.

The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

Interest rate sensitivity assets and liabilities as at 31 December 2019							
Asset or liability	Carrying amount LKR	On demand LKR	1-3 Months LKR	3-12 Months LKR	over 1 Year LKR	Non-interest LKR	Total LKR
Cash and cash equivalents	2,429,790,570	301,666,356	-	-	-	2,128,124,214	2,429,790,570
Placements with banks	5,628,094,545	1,500,000,000	2,600,000,000	77,742,545	1,450,352,000	-	5,628,094,545
Financial assets fair value through profit or loss	3,527,310,141	1,201,481,867	2,325,448,774	379,500	-	-	3,527,310,141
Loans and receivables to other customers	85,823,334,862	3,291,228,229	2,964,786,201	11,944,083,143	63,729,040,814	3,894,196,475	85,823,334,862
Debt and other instruments	6,998,924,881	2,915,851,982	3,957,838,592	75,234,306	50,000,000	-	6,998,924,884
Interest bearing assets	104,407,454,999	9,210,228,434	11,848,073,567	12,097,439,494	65,229,392,814	6,022,320,689	104,407,454,999
Due to other customers	72,431,923,465	6,904,761,138	11,587,431,644	33,125,831,259	20,813,899,424	-	72,431,923,465
Other borrowings	20,299,717,968	1,903,296,614	1,564,984,548	4,975,918,485	11,855,518,321	-	20,299,717,968
Debt securities issued	1,014,034,248	-	-	1,014,034,248	-	-	1,014,034,248
Subordinated term debts	4,210,565,525	-	-	10,243,764	4,200,321,761	-	4,210,565,525
Interest bearing liabilities	97,956,241,206	8,808,057,752	13,152,416,192	39,126,027,756	36,869,739,506	-	97,956,241,206
Interest rate sensitivity gap	6,451,213,793	402,170,682	(1,304,342,625)	(27,028,588,261)	28,359,653,308	6,022,320,689	6,451,213,793

	If market interest rate go up by 1% effect to interest Income	If market interest rate drop by 1% effect to interest Income
Effect on rate sensitive assets	1,044,074,550	(1,044,074,550)
Effect on rate sensitive liabilities	(979,562,412)	979,562,412
Sensitivity of profit or loss	64,512,138	(64,512,138)

Interest rate sensitivity assets and liabilities as at 31 December 2018							
Asset or liability	Carrying amount LKR	On demand LKR	1-3 Months LKR	3-12 Months LKR	over 1 Year LKR	Non-interest LKR	Total LKR
Cash and cash equivalents	4,171,938,630	301,146,575	-	-	-	3,870,792,055	4,171,938,630
Placements with banks	9,528,425,565	6,100,000,000	3,250,000,000	178,425,565	-	-	9,528,425,565
Loans and receivables to other customers	77,507,021,162	3,040,896,001	2,813,966,720	11,358,518,596	58,256,775,070	2,036,864,775	77,507,021,162
Interest bearing assets	91,207,385,357	9,442,042,576	6,063,966,720	11,536,944,161	58,256,775,070	5,907,656,830	91,207,385,357
Due to other customers	67,474,821,535	6,322,925,433	9,729,321,198	31,544,542,057	19,878,032,847	-	67,474,821,535
Other borrowings	15,420,967,962	282,415,255	1,791,301,041	4,147,422,945	9,199,828,722	-	15,420,967,962
Debt securities issued	4,198,547,716	3,035,440,000	-	198,547,716	964,560,000	-	4,198,547,716
Subordinated term debts	1,008,027,823	-	-	15,058,060	992,969,763	-	1,008,027,823
Interest bearing liabilities	88,102,365,036	9,640,780,687	11,520,622,239	35,905,570,778	31,035,391,332	-	88,102,365,036
Interest rate sensitivity gap	3,105,020,321	(198,738,111)	(5,456,655,519)	(24,368,626,617)	27,221,383,738	5,907,656,830	3,105,020,321

	If market interest rate go up by 1% effect to interest Income	If market interest rate drop by 1% effect to interest Income
Effect on rate sensitive assets	912,073,854	(912,073,854)
Effect on rate sensitive liabilities	(881,023,650)	881,023,650
Sensitivity of profit or loss	31,050,203	(31,050,203)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as fair value through other comprehensive income.

43 Capital

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.

Capital management

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 maintains strong 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 issue capital securities.

44 Comparative reclassification

The presentation and classification of following item in these financial statements are amended to ensure comparability with the current year.

Accounting Policy

The accounting policies have been consistently applied by the Bank with those of the previous financial year in accordance with the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" Comparative information is reclassified wherever necessary to comply with the current presentation. The presentation and classification of the following items in these financial statements are amended to ensure the comparability with the current year.

	As disclosed in previous year (2018)	Classification	As disclosed in this year (2019)
Statement of comprehensive income			
Interest income	13,116,781,577	30,005,579	13,146,787,156
Net fee and commission income	222,370,769	(30,005,579)	192,365,190
Statement of financial position			
Defined benefit liability	–	354,854,450	354,854,450
Other liabilities	1,122,687,852	(354,854,450)	767,833,402

The above reclassification did not have any impact on Statement of Comprehensive Income, earnings per share, operating, investing and financing cash flows for the year ended 31 December 2018.

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Ten Years at a Glance

Statement of Comprehensive Income

	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000	2014 LKR '000	2013 LKR '000	2012 LKR '000 (Restated in 2013)	2011 LKR '000 (Restated in 2012 – Bank)	2010 LKR '000 (Bank)
Interest income	15,079,324	13,146,787	10,829,333	8,177,187	6,609,248	4,850,170	4,389,385	3,782,126	3,017,607	2,940,692
Interest expenses	(9,382,529)	(8,423,758)	(6,941,841)	(4,846,840)	(3,240,875)	(2,400,763)	(2,525,580)	(1,879,248)	(1,200,514)	(1,222,848)
Net interest income	5,696,795	4,723,029	3,887,493	3,330,347	3,368,374	2,449,406	1,863,805	1,902,878	1,817,094	1,717,844
Fee and commission income	237,656	196,762	278,770	212,540	217,475	164,626	122,423	71,767	73,908	16,548
Fee and commission expenses	(6,507)	(4,397)	(3,511)	(9,596)	(2,966)	(2,283)	(2,272)	(496)	(258)	(173)
Net fee and commission income	231,150	192,365	275,258	202,944	214,510	162,343	120,151	71,271	73,650	16,375
Net gains/(losses) from trading	1,265	-	-	-	-	-	-	-	-	-
Net gains/(losses) from financial instruments at fair value through profit or loss	114,889	280,172	211,759	17,351	5,095	53,942	102,444	(10,661)	(48,790)	4,325
Net other operating income/Other operating income	90,969	20,811	50,845	40,046	52,027	168,428	63,289	52,012	22,145	62,368
Total operating income	6,135,068	5,216,378	4,425,356	3,590,687	3,640,005	2,834,119	2,149,689	2,015,500	1,864,099	1,800,913
Impairment for loans and other losses	(917,434)	(525,844)	(293,537)	(125,044)	(49,594)	(204,390)	(324,621)	(60,866)	(27,231)	(64,615)
Net operating income	5,217,634	4,690,534	4,131,819	3,465,643	3,590,410	2,629,730	1,825,068	1,954,634	1,836,868	1,736,298
Personnel expenses	(2,116,348)	(1,827,073)	(1,474,146)	(1,266,115)	(1,114,754)	(767,848)	(540,777)	(447,637)	(399,026)	(268,760)
Depreciation and amortisation expenses	(431,193)	(224,260)	(191,577)	(176,032)	(148,829)	(147,918)	(164,925)	(212,210)	(176,091)	(176,091)
Other expenses	(1,420,073)	(1,526,132)	(1,364,051)	(1,113,816)	(942,628)	(772,510)	(703,625)	(681,625)	(570,170)	(443,163.89)
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services	1,250,021	1,113,068	1,102,045	909,680	1,384,199	941,454	415,741	613,162	691,581	848,283
Value added tax (VAT) on financial services*	(386,522)	(362,941)	(300,962)	(292,254)	(273,641)	(190,275)	(82,382)	(96,665)	(110,086)	(201,679)
Nation building tax (NBT) on financial services	(51,106)	(52,703)	(48,482)	-	-	-	-	-	-	-
Debt repayment levy (DRL)	(226,565)	(53,282)	-	-	-	-	-	-	-	-
Operating profit after VAT, NBT and DRL on financial services	585,827	644,142	752,601	617,425	1,110,559	751,179	333,359	516,497	581,495	646,603
Profit before tax	585,827	644,142	752,601	617,425	1,110,559	751,179	333,359	516,497	581,495	646,603
Tax expenses	(332,422)	(287,192)	(244,778)	(213,704)	(389,984)	(246,732)	(85,175)	(175,781)	(199,453)	(323,123)
Profit for the year	253,405	356,950	507,824	403,722	720,575	504,447	248,184	340,716	382,042	323,480

	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000	2014 LKR '000	2013 LKR '000	2012 LKR '000 (Restated in 2013)	2011 LKR '000 (Restated in 2012 – Bank)	2010 LKR '000 (Bank)
Other comprehensive income										
Gains/(losses) on defined benefit plans	(41,588)	(45,995)	2,885	(49,639)	(2,688)	(27,091)	(5,464)	12,733	(1,865)	–
Deferred tax relating to defined benefit plans	11,645	12,879	(808)	13,899	753	7,586	1,530	(4,188)	–	–
Gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income	(3,210)	(3,388)	–	(12,454)	–	–	1,973	(27,621)	–	–
Other gains/(losses) for the year net of tax	(33,153)	(36,505)	2,077	(48,194)	(1,935)	(19,506)	(1,961)	(19,077)	(1,865)	–
Total comprehensive income for the year	220,252	320,445	509,901	355,528	718,639	484,941	246,222	321,639	380,177	323,480
Basic earnings per share on profit (LKR)	4.50	6.34	9.87	9.60	17.90	13.36	9.39	13.73	15.78	19.95

* NBT on financial service expense is included in VAT on financial services expense up to the year 2016 and it is separately recorded after the year 2017 onwards.

Statement of Financial Position

	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000	2014 LKR '000	2013 LKR '000	2012 LKR '000 (Restated in 2013)	2011 LKR '000 (Restated in 2013 – Bank)	2010 LKR '000 (Restated in 2012 – Bank)
Assets										
Cash and cash equivalents	2,429,791	4,171,939	1,190,390	1,044,725	5,057,791	661,651	399,385	503,541	419,998	262,966
Placements with banks	5,628,095	9,528,426	6,014,704	6,919,027	4,757,401	2,223,162	2,530,598	2,070,307	1,603,884	613,754
Financial assets fair value through profit or loss	3,527,310	146,103	4,473,806	244,911	–	–	1,210,673	184,419	245,981	68,775
Other financial asset classified under loans and receivables	–	–	1,479,950	1,503,539	1,926,055	4,164,273	1,701,091	470,099	349,575	1,713,590
Financial assets at amortised cost – loans and receivables to other customers	85,823,335	77,507,021	66,687,416	53,632,539	45,830,499	32,060,498	22,116,645	19,712,033	16,602,735	12,513,906
Financial assets at amortised cost – debt and other instruments	6,998,925	3,405,600	–	–	–	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	56,939	60,148	–	–	–	–	–	–	–	–
Financial investments – available for sale	–	–	63,536	566,935	79,679	29,734	165,699	171,696	29,980	26,085

	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000	2014 LKR '000	2013 LKR '000	2012 LKR '000 (Restated in 2013)	2011 LKR '000 (Restated in 2013 – Bank)	2010 LKR '000 (Restated in 2012 – Bank)
Financial investments – held to maturity	–	–	599,551	492,268	1,192,440	298,545	443,408	709,365	960,263	1,558,580
Investments in subsidiaries	–	–	–	–	–	–	–	–	200	250
Asset classified as held for sale	–	–	37,175	37,175	37,175	–	–	–	–	–
Property, plant and equipment	645,231	704,738	726,473	637,263	549,172	513,592	506,771	603,233	629,070	453,978
Right-of-use assets	651,271	–	–	–	–	–	–	–	–	–
Investment properties	21,279	22,335	23,391	24,447	25,503	26,559	27,615	28,671	29,727	30,783
Intangible assets	308,445	3,728	8,148	16,938	47,141	77,344	107,744	127,677	151,692	156,440
Deferred tax assets	232,482	69,415	–	–	–	–	40,081	–	–	–
Other assets	1,460,524	1,198,314	1,070,175	913,030	787,138	517,187	482,895	318,516	336,617	286,445
Total assets	107,783,624	96,817,767	82,374,713	66,032,799	60,289,994	40,572,547	29,732,605	24,899,556	21,359,722	17,685,551
Liabilities										
Due to other customers	72,431,923	67,474,822	59,904,734	45,691,758	43,023,393	30,249,434	23,594,768	18,947,514	15,756,918	13,083,414
Other borrowings	20,299,718	15,420,968	8,827,610	9,482,950	6,600,339	4,602,233	1,878,643	1,557,329	1,538,767	1,342,040
Debt securities issued	1,014,034	4,198,548	4,189,812	4,182,653	3,979,111	–	–	–	–	–
Subordinated term debts	4,210,566	1,008,028	1,004,355	–	–	–	–	–	–	–
Retirement benefit obligation	479,575	354,854	257,476	212,494	127,307	108,056	67,706	52,571	55,306	17,311
Current tax liabilities	187,070	143,988	32,153	23,110	260,733	113,192	–	70,561	44,014	191,215
Deferred tax liabilities	–	–	58,000	46,629	66,411	53,513	46,005	24,122	18,433	22,752
Other liabilities	1,491,759	767,833	769,413	873,924	935,350	750,144	765,237	987,558	756,891	729,566
Total liabilities	100,114,645	89,369,040	75,043,553	60,513,519	54,992,643	35,876,573	26,352,358	21,639,655	18,170,328	15,386,299
Equity										
Stated capital	5,921,538	5,921,538	5,758,689	4,062,962	3,794,095	3,533,545	2,526,532	2,526,532	2,427,532	1,820,268
Statutory reserve fund	228,282	215,611	197,764	172,373	154,596	118,664	94,417	82,106	65,070	47,803
Retained earnings	1,491,554	1,280,762	1,340,504	1,249,742	1,302,003	997,107	489,355	433,926	575,288	384,523
Other reserves	27,605	30,815	34,203	34,203	46,657	46,657	269,943	217,337	121,504	46,657
Total equity	7,668,979	7,448,727	7,331,160	5,519,280	5,297,351	4,695,974	3,380,247	3,259,901	3,189,394	2,299,252
Total equity and liabilities	107,783,624	96,817,767	82,374,713	66,032,799	60,289,994	40,572,547	29,732,605	24,899,556	21,359,722	17,685,551
Contingent liabilities and commitments	177,752	182,986	166,260	148,030	136,574	129,507	144,378	143,214	141,262	100,815
Other information										
Number of accounts (CIF numbers)	1,384,175	1,310,198	1,230,406	1,131,355	1,068,345	992,782	903,476	858,454	697,227	585,508
Number of customer centres	94	94	91	88	87	82	82	81	79	72
Number of employees	1,475	1,504	1,363	1,248	1,198	1,004	856	823	884	735

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

Template 1

Key regulatory ratios – Capital and liquidity

Item	As at 31 December 2019	As at 31 December 2018
Regulatory capital (LKR '000)		
Common Equity Tier I (CET I) capital	7,146,580	7,419,999
Tier I capital	7,146,580	7,419,999
Total capital	11,208,615	8,462,226
Regulatory capital ratio (%)		
Common Equity Tier I capital ratio (Minimum requirement – 2019: 7.00%, 2018: 6.375%)	9.43	11.00
Tier I capital ratio (Minimum requirement – 2019: 8.50%, 2018: 7.875%)	9.43	11.00
Total capital ratio (Minimum requirement – 2019: 12.50%, 2018: 11.875%)	14.80	12.54
Leverage ratio (%) (Minimum requirement – 3%)	6.61	7.32
Regulatory liquidity		
Statutory liquid assets (LKR '000)	14,831,478	14,811,217
Statutory liquid assets ratio (Minimum requirement – 20%)		
Domestic banking unit (%)	21.74	23.22
Off-shore banking unit (%)	–	–
Total stock of high-quality liquid assets (LKR '000)	5,822,317	3,460,374
Liquidity coverage ratio (%) (Minimum requirement – 2019: 100%, 2018: 90%)		
Rupee (%)	123.77	142.15
All currency (%)	123.77	142.15
Net stable funding ratio (%) (Minimum requirement – 100%)	130.09	129.48

Template 2

Basel III computation of capital ratios

Item	Amount (LKR '000)	
	As at 31 December 2019	As at 31 December 2018
Common Equity Tier I (CET I) capital after adjustments	7,146,580	7,419,999
Common Equity Tier I (CET I) capital	7,687,506	7,448,727
Equity capital (stated capital)/assigned capital	5,921,538	5,921,538
Reserve fund	228,282	215,612
Published retained earnings/(accumulated retained losses)	1,510,081	1,280,762
Published accumulated other comprehensive income (OCI)	–	–
General and other disclosed reserves	27,605	30,815
Unpublished current year's profit/(losses) and gains reflected in OCI	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to CET 1 capital	540,926	28,728
Goodwill (net)	–	–
Intangible assets (net)	308,445	3,728
Deferred tax assets (net)	232,482	25,000
Investments in the capital of banking and financial institutions	–	–
Additional Tier I (AT I) capital after adjustments	–	–
Additional Tier I (AT I) capital	–	–

Item	Amount (LKR '000)	
	As at 31 December 2019	As at 31 December 2018
Qualifying additional Tier I capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to AT I capital	-	-
Investment in own shares	-	-
Others	-	-
Tier II capital after adjustments	4,062,035	1,042,227
Tier II capital	4,112,035	1,067,227
Qualifying Tier II capital instruments	3,479,793	711,628
Revaluation gains	-	-
Loan loss provisions	632,241	355,599
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier II	50,000	25,000
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	50,000	25,000
CET I capital	7,146,580	7,419,999
Total Tier I capital	7,146,580	7,419,999
Total capital	11,208,615	8,462,226
Total risk weighted assets (RWA)	75,757,837	67,474,294
RWAs for credit risk (Templates 7 and 8)	69,464,792	62,660,450
RWAs for market risk (Template 9)	6,013	-
RWAs for operational risk (Template 10)	6,287,032	4,813,844
CET I capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	9.43	11.00
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier I capital ratio (%)	9.43	11.00
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	14.80	12.54
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-

Template 3

Computation of leverage ratio

Item	Amount (LKR '000)	
	As at 31 December 2019	As at 31 December 2018
Tier I capital	7,146,580	7,136,608
Total exposures	108,121,304	97,558,072
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	107,242,698	96,878,083
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	878,606	679,989
Basel III leverage ratio (%) (Tier I/total exposure)	6.61	7.32

Template 4

Basel III computation of liquidity coverage ratio

Item	Amount (LKR '000)			
	As at 31 December 2019		As at 31 December 2018	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of high-quality liquid assets (HQLA)	5,860,411	5,822,317	3,482,290	3,460,374
Total adjusted Level 1 assets	3,882,941	3,882,941	3,336,186	3,336,186
Level 1 assets	4,141,468	4,141,468	3,336,186	3,336,186
Total adjusted Level 2A assets	1,977,469	1,680,849	146,103	124,188
Level 2A assets	1,977,469	1,680,849	146,103	124,188
Total adjusted Level 2B assets	-	-	-	-
Level 2B assets	-	-	-	-
Total cash outflows	69,964,170	11,844,994	68,601,375	9,737,202
Deposits	48,834,924	4,883,492	50,445,248	5,044,525
Unsecured wholesale funding	19,676,689	6,341,099	17,085,209	4,271,302
Secured funding transactions	66,862	66,862	47,835	47,835
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,385,694	553,541	1,023,083	373,539
Additional requirements	-	-	-	-
Total cash inflows	15,453,640	7,140,921	19,479,079	10,518,710
Maturing secured lending transactions backed by collateral	4,625,498	282,028	3,482,290	21,915
Committed facilities	1,600,000	-	1,250,000	-
Other inflows by counterparty which are maturing within 30 days	7,728,142	6,108,893	14,746,790	10,496,795
Operational deposits	-	-	-	-
Other cash inflows	1,500,000	750,000	-	-
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) * 100		123.77		142.15

Template 5

Main features of regulatory capital instruments

Description of the capital instrument	Stated capital	Subordinated term debt (2016)	Subordinated term debt (2016)	Subordinated term debt (2019)	Subordinated term debt (2019)
Issuer	SANASA Development Bank PLC	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V.	Belgian Investment Company for Developing Countries NV/SA – (BIO)
Unique identifier	LK0412N00003	N/A	N/A	N/A	N/A
Governing Law of the instrument	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions
Original date of issuance (agreement signed date for subordinated term debts)	May 2012 to May 2018	December 2016	December 2016	March 2019	September 2019
Par value of instrument (LKR)	100	N/A	N/A	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	December 2021	December 2021	March 2024	September 2024
Amount recognised in regulatory capital (in LKR '000 as at 31 December 2019)	5,921,538	343,115	158,482	1,552,017	1,426,179
Accounting classification (equity/liability)	Equity	Liability	Liability	Liability	Liability
Issuer call subject to prior supervisory approval					
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends					
Fixed or floating dividend/coupon	Floating dividend	Floating coupon	Floating coupon	Floating coupon	Floating coupon
Coupon rate and any related index (%)	N/A	6 months T-bill rate + 450bps	6 months T-bill rate + 550bps	6 months T-bill Rate + 700bps	6 months LIBOR + 550bps
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible					
If convertible, conversion trigger(s)	N/A	N/A	N/A	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016
If convertible, fully or partially	N/A	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital
If convertible, mandatory or optional	N/A	Optional	Optional	Mandatory upon the occurrence of a trigger event	Mandatory upon the occurrence of a trigger event
If convertible, conversion rate	N/A	LKR 140 or 1.1 x of book value per share which ever is lower in the event if Bank issues new shares to any new investor	LKR 140 or 1.1 x of book value per share which ever is lower in the event if Bank issues new shares to any new investor	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the Colombo Stock Exchange during the three (3) months period, immediately preceding the date of the trigger event	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the Colombo Stock Exchange during the three (3) months period, immediately preceding the date of the trigger event

N/A – not applicable

Template 6

Summary discussion on adequacy/meeting current and future capital requirements

Overview

A proper “capital management process” is vital in ensuring the long-term stability of the business, the capital adequacy ratio is a measure used to determine whether the Bank has sufficient capital to withstand unexpected losses arising from various risks during the course of the business. Therefore, it acts as a layer of cushion in absorbing potential losses arising from the course of the business and safeguarding the depositors’ funds. At present, capital adequacy position of the banks are computed based on banking Act Direction No. 01 of 2016 and subsequent amendments thereto issued by Central Bank of Sri Lanka. SANASA Development Bank has continued to maintain capital adequacy ratios at healthy levels by keeping a significant margin over and above the regulatory minimum requirements.

Capital management process

In order to comply with the new Basel III guidelines, SANASA Development Bank’s capital management process is under supervision of Board Strategic Planning Committee. The three year (2020-2022) Capital Management Plan rolled out has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank’s Strategic Plan. Efforts have taken to comply with the Basel III regulations saw the Bank increases its capital levels by issuing Basel III compliant Tier II debt instruments. Steps were also taken to optimise the capital ratios by rebalancing the risk weighted assets (RWA).

Moving forward

Moving forward with the Capital Management Plan, the Bank will execute specific medium-term and long-term strategies to raise both Tier I and Tier II capital in line with Basel III minimum regulatory requirements. In addition, timely actions have been identified and will be executed during the coming years to optimise the risk weighted assets for the purpose of improving the capital allocation of the Bank.

Template 7

Credit risk under standardised approach – credit risk exposures and credit risk mitigation (CRM) effects

Asset class	Amount (LKR '000) as at 31 December 2019					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On- balance sheet amount	Off-balance sheet amount	On- balance sheet amount	Off-balance sheet amount	RWA	RWA density (%)
Claims on Central Government and CBSL	6,073,691	–	6,073,691	–	–	0
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	–	–
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	7,719,595	–	7,719,595	–	1,555,523	20
Claims on financial institutions	–	–	–	–	–	–
Claims on corporates	4,340,881	–	4,340,881	–	1,156,248	27
Retail claims	78,938,348	–	73,713,764	–	59,065,806	80
Claims secured by residential property	4,987,399	–	4,987,399	–	3,030,653	61
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)	1,753,459	–	1,753,459	–	1,543,160	88
Higher-risk categories	–	–	–	–	–	–
Cash items and ther assets	3,041,941	878,606	3,041,941	385,977	3,113,401	91
Total	106,855,313	878,606	101,630,729	385,977	69,464,792	68

Note:

(i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition and provisioning.

(ii) RWA density – Total RWA/exposures post CCF and CRM.

Template 8

Credit risk under standardised approach – exposures by asset classes and risk weights

Description	Risk weight	Amount (LKR '000) as at 31 December 2019 (Post CCF & CRM)								Total credit exposures amount
		0%	20%	50%	60%	75%	100%	150%	>150%	
Asset classes										
Claims on Central Government and CBSL	6,073,691	-	-	-	-	-	-	-	-	6,073,691
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	7,680,915	38,680	-	-	-	-	-	-	7,719,595
Claims on financial institutions	-	-	-	-	-	-	-	-	-	-
Claims on corporates	-	3,480,791	800,000	-	-	60,090	-	-	-	4,340,881
Retail claims	107,644	1,495,769	-	-	53,374,792	18,735,559	-	-	-	73,713,764
Claims secured by residential property	-	-	3,913,492	-	-	1,073,907	-	-	-	4,987,399
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	444,910	-	-	1,284,238	24,311	-	-	1,753,459
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Cash items and other assets	272,257	52,825	-	-	-	3,102,836	-	-	-	3,427,918
Total	6,453,592	12,710,299	5,197,082	-	53,374,792	24,256,630	24,311	-	-	102,016,706

Template 9

Market risk under standardised measurement method

Item	RWA amount (LKR '000) As at 31 December 2019
(a) RWA for interest rate risk	-
General interest rate risk	-
(i) Net long or short position	-
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
(b) RWA for equity	752
(i) General equity risk	752
(ii) Specific equity risk	-
(c) RWA for foreign exchange and gold	-
Capital charge for market risk {(a) +(b) + (c) } * CAR	6,013

Template 10

Operational risk under basic indicator approach

Business lines	Capital charge factor	Gross income (LKR '000) as at 31 December 2019			Amount (LKR '000)
		1 st year	2 nd year	3 rd year	
The basic indicator approach	15%	6,103,802	5,206,861	4,406,918	
Capital charges for operational risk (LKR '000)					
The basic indicator approach					785,879
Risk-weighted amount for operational risk (LKR '000)					
The basic indicator approach					6,287,032

Template 11

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories

Template 12

Explanation for differences between accounting and regulatory reporting

Item	Amount (LKR '000 as at 31 December 2019)					
	a	b	c	d	e	
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital	
Assets						
Cash and cash equivalents	2,429,791	2,430,144	2,430,144	–	–	Impairment of financial assets under SLFRS 9.
Placements with banks	5,628,095	5,575,852	5,575,852	–	–	Interest receivable on placements with banks is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9.
Financial assets fair value through profit or loss	3,527,310	3,526,931	3,526,931	–	–	In regulatory reporting these investments are classified as investments – trading account. Interest receivable on these investments is classified as other assets in regulatory reporting.
Financial assets at amortised cost						
– Loans and receivables to other customers	85,823,335	86,644,597	85,679,206	–	(632,241)	In regulatory reporting loans and receivables to customers arrived after netting off CBSL time based provisions. However, in published financial statements loans and receivables to customers arrived after netting off impairment allowances as per SLFRS 9.
– Debt and other instruments	6,998,925	6,962,371	6,866,173	46,198	50,000	Interest receivable on debt and other instruments is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9.
Financial assets measured at fair value through other comprehensive income	56,939	60,148	60,148	–	–	
Property, plant and equipment	645,231	645,231	645,231	–	–	
Right-of-use assets	651,271	–	–	–	–	In regulatory reporting Right-of-use asset as per SLFRS 16 is not recognised.
Investment properties	21,279	21,279	21,279	–	–	

Item	Amount (LKR '000 as at 31 December 2019)					
	a	b	c	d	e	
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital	
Intangible assets	308,445	308,445	-	-	308,445	
Deferred tax assets	232,482	219,859	-	-	232,482	In regulatory reporting deferred tax assets are recorded in other assets.
Other assets	1,460,524	980,403	2,050,349	-	-	The difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
Total assets	107,783,624	107,375,259	106,855,313	46,198	(41,315)	
Liabilities						
Due to banks	-	-	-	-	-	
Due to other customers	72,431,923	69,233,918	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	20,299,718	20,040,017	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Debt securities issued	1,014,034	964,560	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	4,210,566	4,200,322	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	479,575	429,860	-	-	-	
Current tax liabilities	187,070	168,920	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	1,491,759	4,518,490	-	-	-	Interest payable on borrowings and deposits added to the other liabilities in regulatory reporting.
Total liabilities	100,114,645	99,556,086	-	-	-	
Off-balance sheet liabilities						
Guarantees	177,752	177,752	177,752	-	-	
Undrawn loan commitments	-	700,854	700,854	-	-	
Shareholders' equity						
Equity capital (stated capital)/assigned capital	5,921,538	5,921,538	-	-	-	
of which amount eligible for CET I	5,921,538	5,921,538	-	-	-	
of which amount eligible for AT I	-	-	-	-	-	
Retained earnings	1,491,554	1,651,208	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(19,052)	-	-	-	-	
Other reserves	274,939	246,426	-	-	-	
Total shareholders' equity	7,668,979	7,819,172	-	-	-	

Sources and Utilisation of Income

Sources of income

For the year ended 31 December	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000
Interest	13,839,972	11,985,315	9,757,778	7,229,388	6,123,438
Investments	1,239,352	1,161,472	1,071,555	947,799	485,811
Commission and other	438,273	493,349	537,863	260,340	271,631
Total	15,517,597	13,640,136	11,367,196	8,437,527	6,880,880

Utilisation of income

For the year ended 31 December	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000
Employees					
Salaries and other payments to staff	2,116,348	1,827,073	1,474,146	1,266,115	1,114,754
Suppliers					
Interest paid	9,382,529	8,423,758	6,941,841	4,846,840	3,240,875
Other expenses	2,768,699	2,276,236	1,849,165	1,414,892	1,141,051
	12,151,228	10,699,994	8,791,006	6,261,732	4,381,926
Net income before government taxes	1,250,021	1,113,069	1,102,044	909,680	1,384,200
Government					
Income tax, VAT on FS, NBT on FS and DRL	996,616	756,118	594,221	505,958	663,625
Shareholders					
Dividends	-	-	136,947	131,249	100,617
Retained profit	253,405	356,950	370,876	272,473	619,958
	253,405	356,950	507,823	403,722	720,575
Total	15,517,597	13,640,136	11,367,196	8,437,527	6,880,880

Quarterly Performance of the Bank

	2019				2018			
	31 December	30 September	30 June	31 March	31 December	30 September	30 June	31 March
Regulatory capital adequacy ratio								
Common equity Tier I capital ratio (%)	9.43	9.98	10.24	10.87	11.00	10.76	11.70	12.01
Tier I capital ratio (%)	9.43	9.98	10.24	10.87	11.00	10.76	11.70	12.01
Total capital ratio (%)	14.80	13.81	14.21	12.32	12.54	12.39	13.82	14.12
Leverage ratio (%)	6.61	7.12	7.38	7.74	7.32	N/A	N/A	N/A
Regulatory liquidity								
Statutory liquid asset (LKR Mn.)	14,831	14,750	13,962	13,624	14,811	13,526	12,991	12,268
Statutory liquid asset ratio (%)	21.74	21.96	20.74	20.67	23.22	21.32	21.15	21.02
Total stock of high quality liquid assets (LKR Mn.)	5,822	4,574	2,553	4,091	3,460	4,314	3,280	2,145
Liquidity coverage ratio (%)	123.77	164.41	111.56	162.90	142.15	167.66	126.49	91.59
Net stable funding ratio (%)	130.09	125.82	111.70	129.94	129.48	N/A	N/A	N/A
Asset quality								
Gross non-performing advances ratio (%)	4.38	4.21	3.69	3.25	2.56	2.59	2.46	2.35
Net non-performing advances ratio (%)	1.87	2.23	0.61	0.46	1.48	0.24	0.17	0.11
Profitability								
Interest margin (%)	5.88	5.74	5.78	5.81	5.50	5.53	5.33	5.26
Return on assets (%)	0.57	0.31	0.64	0.52	0.72	0.83	0.86	0.86
Return on equity (%)	3.35	1.72	4.03	2.56	4.83	5.91	6.16	6.33
Share information								
Market value per share (LKR)	63.90	61.10	60.00	60.00	75.00	71.70	94.00	107.60
Highest price per share for the period (LKR)	65.80	74.00	67.90	75.00	112.90	93.50	110.00	112.90
Lowest price per share for the period (LKR)	59.30	59.50	58.00	60.00	70.00	70.10	88.00	101.00
Debenture information								
Debt to equity ratio (Times)	12.77	12.36	11.75	11.58	11.83	11.34	11.10	10.36
Interest cover (Times)	1.06	1.03	1.07	1.06	1.08	1.09	1.09	1.09
Quick assets ratio (Times)	0.59	0.68	0.67	0.63	0.65	0.70	0.70	0.61
Interest rate for comparable Government security (%)								
Type A	-	-	-	-	11.42	11.03	9.94	10.10
Type B	9.72	10.22	9.88	10.91	11.58	11.40	10.32	10.30
Type C	-	-	-	-	11.42	11.03	9.94	10.10
Type D	9.72	10.22	9.88	10.91	11.58	11.40	10.32	10.30

Abbreviations

A		D		ICT	Information and Communications Technology
AC	Air Conditioner	DFI	Development Financial Institutions	IFA	Investment Fund Account
ACA	Associate Chartered Accountant	DGM	Deputy General Manager	IFRS	International Financial Reporting Standards
ADB	Asian Development Bank	DMS	Document Management System/ Delinquency Monitoring System	IIRC	International Integrated Reporting Council
AFS	Available for Sale	DPS	Dividend per Share	IND	Independent Director
AGM	Assistant General Manager/Annual General Meeting (as appropriate)	DRP	Disaster Recovery Plan	IRMC	Integrated Risk Management Committee
ALCO	Assets and Liability Management Committee	DGGF	Dutch Good Growth Fund (Stichting fundsbeheer DGGF lokaal MKB)	IRMU	Integrated Risk Management Unit
AML	Anti-Money Laundering			ISMS	Information Security Management System
ATI	Additional Tier I	E		ISO	International Organization for Standardization
ATM	Automated Teller Machine	EAR	Earnings at Risk	IT	Information Technology
AWPLR	Average Weighted Prime Lending Rate	EIR	Effective Interest Rate	K	
		EPF	Employees' Provident Fund	kg	Kilograms
B		EPS	Earnings per Share	km	Kilometre
BAC	Board Audit Committee	ERM	Enterprise Risk Management	KMP	Key Management Personnel
BCP	Business Continuity Plan	ESC	Economic Service Charges	KPI	Key Performance Indicator
BIA	Business Impact Analysis	ESOP	Employee Share Option Plan	KRI	Key Risk Indicators
BIRMC	Board Integrated Risk Management Committee	ETF	Employees' Trust Fund	kWh	Kilowatt-hour
BIS	Bank for International Settlements	EUR	Euro	KYC	Know Your Customer
BIO	Belgian Investment Company for Developing Countries NV/SA	EVA	Economic Value Addition		
Bn.	Billions	EWS	Early Warning Signals	L	
BNO	Bank Notes Operation	F		LCB	Local Commercial Bank
BOD	Board of Directors BRPTRC Board Related Party Transaction Review Committee	FSVAT	Financial Services Value Added Tax	LCR	Liquidity Coverage Ratio
BRC	Business Registration Certificate			LGD	Loss Given Default
BSS	Baseline Standard	G		LKAS	Sri Lanka Accounting Standards
		GDP	Gross Domestic Product	LTV	Ratio Loan to Value Ratio
C		GHG	Green House Gas	M	
CAR	Capital Adequacy Ratio	GL	General Ledger	m³	Cubic meter
CASL	Chartered Accountants of Sri Lanka (ICASL)	GRI	Global Reporting Initiative	MIS	Management Information Systems
CBSL	Central Bank of Sri Lanka	GRO	Group Risk Officer	MoM	Month on Month
CCB	Capital Conservation Buffer	H		Mn.	Millions
CEO	Chief Executive Officer	HO	Head Office	MSME	Micro, Small and Medium Scale Entrepreneur
CET 1	Common Equity Tier I	HQLA	High Quality Liquid Assets	MW	Megawatt
CFO	Chief Financial Officer	HR	Human Resources		
CO₂e	Carbon Dioxide Equivalent, is a standard unit for measuring carbon footprints	HRD	Human Resources Development	N	
CRIB	Credit Information Bureau of Sri Lanka	HTM	Held to Maturity	N/A	Not Applicable
CRMU	Credit Risk Management Unit			NBT	Nation Building Tax
CRRF	Credit Risk Review Function	I		NED	Non-Executive Director
CSE	Colombo Stock Exchange	IBSL	Institute of Bankers of Sri Lanka	NIC	National Identity Card
CSR	Corporate Social Responsibility	ICAAP	Internal Capital Adequacy Assessment Process	NID	Non-Independent Director
		ICASL	Institute of Chartered Accountants of Sri Lanka		
		ICC	International Chamber of Commerce		
		ICOFR	Internal Control Over Financial Reporting		

NII Net Interest Income
NIM Net Interest Margin
NPA Non-Performing Assets
NPL Non-Performing Loans

O

OBS Off-Balance Sheet
OCI Other Comprehensive Income
ORMU Operational Risk Management Unit
OTC Over-the-Counter

P

p.a. Per Annum
P/E Price Earnings Ratio
PAT Profit After Tax
PBT Profit Before Tax
PD Probability of Default
PoS Point of Sale

Q

Q&A Question and Answer

R

RCSA Risk and Control Self Assessments
RMU Risk Management Unit
ROA Return on Assets
ROCE Return on Capital Employed
ROE Return on Equity
RPT Related Party Transaction
RPTRC Related Party Transactions Review Committee
RSA Rate Sensitive Assets
RSL Rate Sensitive Liabilities
RWA Risk Weighted Assets

S

SAFA South Asian Federation of Accountants
SBU Strategic Business Unit
SDF Standing Deposit Facility
SEC Securities and Exchange Commission of Sri Lanka

SLA Statutory Liquid Assets
SLAR Statutory Liquid Asset Ratio
SLAS Sri Lanka Accounting Standards
SLDB Sri Lanka Development Bonds
SLF Standing Lending Facility
SLFRS Sri Lanka Financial Reporting Standards
SLIBOR Sri Lanka Inter Bank Offered Rate
SLIPS Sri Lanka Interbank Payments System
SME Small and Medium Enterprises
SMS Short Message Service
SREP Supervisory Review Process
SWIFT Society for Worldwide Interbank Financial Telecommunication

T

Tn. Trillion
ToR Terms of Reference
TRWCR Total Risk Weighted Capital Ratio
TT Telegraphic Transfer

V

VAR Value at Risk
VAT Value Added Tax

W

WHT Withholding Tax

Y

YoY Year on Year

Glossary of Terms

A

Accounting policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Asset and Liability Committee (ALCO)

A Risk Management Committee in a bank that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Average Weighted Deposit Rate (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest-bearing deposits of commercial banks and the corresponding interest rates.

Average Weighted Prime Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks lending rates offered to their prime customers during the week.

B

Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the "International Convergence of Capital Measurement and Capital Standards".

Basel III

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

C

Capital adequacy ratio

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Cash flows are inflows and outflows of cash and cash equivalents.

Cash Generating Unit (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Collectively assessed loan impairment provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

Commitment to extend credit

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees.

Commitments

Credit facilities approved but not yet utilised by the clients as at the reporting date.

Contingencies

A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Contractual maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Control

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

E

Earnings Per Share (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective interest rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate (ETR)

Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity instrument

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue

Expected Loss (EL)

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

F

Fair value

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial asset or financial liability at fair value through profit or loss

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as "at fair value through profit or loss".

Financial instrument

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Firm commitment

A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

Financial risk

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to the party to the contract.

Foreign exchange income

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

G**Global Reporting Initiative (GRI)**

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Going concern

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

Gross dividends

The portion of profit inclusive of tax withheld distributed to shareholders.

Group

A Group is a parent and all its subsidiaries.

Guarantees

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet his/her financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H**Held-to-maturity investments**

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

High Quality Liquid Assets (HQLA)

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

I**Impaired loans**

Loans where the Bank does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment provisions

Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Impairment allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

Individually significant loans

Exposures which are above a certain threshold decided by the Bank's Management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

Individually significant loan impairment provisions

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the corporate banking business of the Group are assessed individually.

Intangible asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

Interest cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest margin

Net interest income as a percentage of average interest earning assets.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

K**Key Management Personnel**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L**Liquidity Coverage Ratio (LCR)**

Banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash to meet their liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. LCR is computed by dividing the stock of HQLA by the total net cash outflows over the next 30 calendar days.

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills.

Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M**Market capitalisation**

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

N**Net asset value per share**

Shareholders' funds divided by the number of ordinary shares in issue.

Net-interest income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter bank borrowings.

Non-controlling interest

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

O**Operational risk**

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P**Power**

The Power is the existing rights that give the current ability to direct the relevant activities.

Price Earnings Ratio (P/E Ratio)

The current market price of the share is divided by the earnings per share of the Bank.

Probability of Default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R**Relevant activities**

Relevant activities are activities of the investee that significantly affect the investee's returns.

Repurchase agreement

This is a contract to sell and subsequently repurchase Government Securities at a given price on a specified future date.

Return on Average Assets (ROAA)

Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Average Equity (ROAE)

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue reserve

Reserves set aside for future distribution and investment.

Reverse repurchase agreement

Transaction involving the purchase of Government Securities by a bank or dealer and resale back to the seller at a given price on a specific future date.

Rights issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Risk-weighted assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

S**Segmental analysis**

Analysis of financial information by segments of an enterprise specifically-the different industries and the different geographical areas in which it operates.

Segment reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

Shareholders' funds

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

Single borrower limit

30% of Tier II Capital.

Specific impairment provisions

Impairment is measured individually for loans that are individually significant to the Bank.

Statutory reserve fund

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

Substance over form

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T**Transaction costs**

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Tier I capital

Consists of the sum total of paid up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

Tier II capital

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

Total capital

Total capital is the sum of Tier I capital and Tier II capital.

U**Useful life**

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V**Value added**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y**Yield to maturity**

Discount rate which the present value of future cash flows would equal the security's current price.

23rd Annual General Meeting

Agenda

Date

15 July 2020

Venue

"Lavender Hall" Bandaranaike Memorial International Conference Hall,
Buddhaloka Mawatha, Colombo 7

Time

9.00am – 10.00am	Registration
10.00am – 10.05am	Twenty-third Annual General Meeting call to order
10.05am – 10.10am	Notice of Meeting – Company Secretary
10.10am – 10.25am	Confirmation of the minutes of 22nd Annual General Meeting held on 30 May 2019, Extraordinary General Meetings held on 30 May 2019 and 5 November 2019
10.25am – 11.55am	To pass General Resolutions
11.55am – 12.10pm	Address by the Chairman
12.10pm – 12.25pm	Vote of Thanks – Chief Executive Officer

Feedback Form

Dear Stakeholder,

We welcome your valuable comments, query and feedback on our commitment, performance and Annual Report 2019. Please complete the following and return to:

Company Secretary,
SANASA Development Bank PLC,
No. 12, Edmonton Road, Kirulapone, Colombo 6
Phone: +94 11 283 2500 Fax: +94 11 251 4256

1. Which stakeholder group(s) do you belong to?

Shareholder	<input type="checkbox"/>	Employee	<input type="checkbox"/>
Investor	<input type="checkbox"/>	Supplier	<input type="checkbox"/>
Customers	<input type="checkbox"/>	Service Provider	<input type="checkbox"/>
Regulator	<input type="checkbox"/>	SANASA Society	<input type="checkbox"/>
Public Authority	<input type="checkbox"/>	Co-operative Society	<input type="checkbox"/>
Finance Analyst	<input type="checkbox"/>	NGO	<input type="checkbox"/>
Other	<input type="checkbox"/>	Community	<input type="checkbox"/>
Student	<input type="checkbox"/>	Journalist	<input type="checkbox"/>

2. Rate our Annual Report in terms of:

	Excellent	Very Good	Good	Average	Poor
Informative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Design and Layout	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall Impression	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comprehensive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Finance Analyst	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Which section do you find most useful?

4. Which section do you find least useful?

5. What is the area that need more improvement?

6. Any other comments/queries

Your details

Name:

Address:

Contact No.:

Email:

Mobile:

Corporate Information

Name of Company

SANASA Development Bank PLC

Legal Form

A Public Quoted Company with Limited Liability incorporated under the Companies Act No.17 of 1982 on 6 August 1997 and re-registered under Companies Act No. 07 of 2007 and registered as a Licensed Specialised Bank by Central Bank of Sri Lanka under the Banking Act No. 30 of 1988 (as amended by the Banking Amendment Act of 1995) and approved Credit Agency under the Mortgage (Amendment) Act No. 53 of 1949 and Trust Receipt Ordinance No 12 of 1947.

Date of Incorporation

06 August 1997

Company Registration Number

PB 62 PQ

Central Bank Registration Number

Central Bank License No. 6
(Under Banking Act No. 30 of 1988 on 21 August 1997)

Accounting Year End

31 December

Registered Office and Principal Place of Business

Address:
No. 12, Edmonton Road, Kirulapone,
Colombo 06

Tele : + 94 112 832 500

Fax : + 94 112 514 256

Email : comsec@sdb.lk

Web : www.sdb.lk

Colombo Stock Exchange Listing

The ordinary voting shares of the Company were quoted on the Main Board of the Colombo Stock Exchange (CSE) on 31 May 2012

Chief Executive Officer

Mr Thilak Piyadigama

Compliance Officer

Ms S N T Igalagamage

Company Secretary

Ms Tamarika Rodrigo

Auditors

Messrs Ernst & Young
Chartered Accountants
No. 201, De Seram Place
P O Box 101, Colombo 10

Bankers

People's Bank
Bank of Ceylon
NDB Bank PLC
Nations Trust Bank PLC
Hatton National Bank PLC
Sampath Bank PLC

Board of Directors

Ms Samadanie Kiriwandeniya
(Chairperson)
Mr Lakshman Abeysekera
(Senior Director)
Prof Sampath Amaratunge
(Director)
Mr Prabhask Subasinghe (Director)
Mr S Lionel Thilakarathne (Director)
Mr Arnoldus de Vette (Director)
(Resigned on 18 December 2019)
Mr K G Wijerathne (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr B R A Bandara (Director)

Board Subcommittee Directors

Board Audit Committee

Mr Lakshman Abeysekera
(Chairman/Senior Director)
Prof Sampath Amaratunge
(Director)
Mr K G Wijerathne (Director)
Mr Chaaminda Kumarasiri (Director)

Board Human Resources and Remuneration Committee

Mr Chaaminda Kumarasiri
(Chairman)
Ms Samadanie Kiriwandeniya
(Chairperson)
Mr Lakshman Abeysekera
(Senior Director)

Board Credit Committee

Mr Prasanna Premaratna (Chairman)
Ms Samadanie Kiriwandeniya
(Chairperson)
Mr S Lionel Thilakarathne (Director)
Mr Arnoldus de Vette (Director)
(Resigned on 18 December 2019)

Board Selection and Nomination Committee

Mr Lakshman Abeysekera
(Chairman/Senior Director)
Ms Samadanie Kiriwandeniya
(Chairperson)
Prof Sampath Amaratunge
(Director)

Board Integrated Risk Management Committee

Prof Sampath Amaratunge
(Chairman)
Mr Prabhask Subasinghe (Director)
Mr Chaaminda Kumarasiri (Director)
Mr B R A Bandara (Director)

Board Related Party Transactions Review Committee

Mr Chaaminda Kumarasiri (Chairman)
Prof Sampath Amaratunge
(Director)
Mr Prasanna Premaratna (Director)

Board ICT and Business Strategic Committee

Ms Samadanie Kiriwandeniya
(Chairperson)
Mr Lakshman Abeysekera
(Senior Director)
Prof Sampath Amaratunge
(Director)
Mr Prabhask Subasinghe (Director)
Mr Arnoldus de Vette (Director)
(Resigned on 18 December 2019)

Board Co-operative Development Committee

Mr K G Wijerathne (Chairman)
Mr Lakshman Abeysekera
(Senior Director)
Mr S Lionel Thilakarathne (Director)
Mr B R A Bandara (Director)

Membership in Associations

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

Credit Rating

BB+(lka) with Stable outlook
by Fitch Ratings Lanka Ltd.
(SL)BBB- with Stable outlook
by ICRA Lanka Limited



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At SDB bank we are committed to assisting every man, woman and child as they strive to move closer to realising their dreams for a better, more prosperous future. We especially focus on segments of society that are unbanked or under-banked – particularly women and young people – reaching out to advance financial literacy, further financial inclusion, and nurture the latent entrepreneurship skills within these hard-working, innovative individuals.

The trust and loyalty we have worked hard to win in our customers and the communities within which we operate will be put to the test in the trying times ahead. Yet, we are confident that our current strategy will see us through.

We will continue to be... the bank they can bank on.