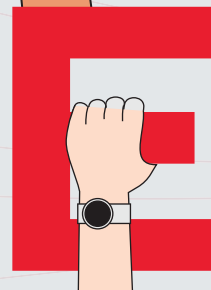


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ASPIRATIONS

IN STEP WITH ASPIRATIONS

We at Seylan Bank have always aligned our business strategies with the aspirations of our stakeholders. Powering opportunities and possibilities with our wide spectrum of services delivered through our network of branches together with all the channels including digital platforms and our team we strived to create a customer-centric experience for our customers. Moving ahead with tenacity in step with aspirations of our stakeholders, we are committed to creating and delivering sustainable value.

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SUSTAINABLE RESULTS

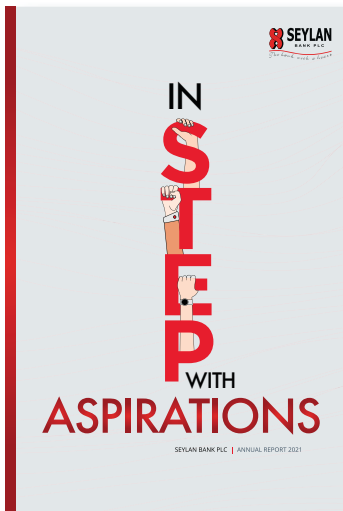
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About this Report

Seylan Bank is pleased to present its ninth Integrated Annual Report for the calendar year of 2021.



The theme for the Annual Report 2021, 'In Step with Aspirations' resonates strongly with our commitment to deliver sustainable value across our diverse groups of stakeholders. This has been our core purpose which has shaped our journey thus far.

As always we have been a constant source of inspiration and a guiding force of strength to all our stakeholders during this challenging phase. As we pivot to be a technologically transformed Bank with a strong customer-centric mandate we are committed to uphold the highest standards of transparency and accountability to maintain the trust garnered over the years.

Forward Looking Narrative

This Integrated Annual Report (IAR) 2021, presents a transparent view of the financial performance and position of the Bank which integrated with Investor, Employee, Customer, Business Partner, Environment and Community capitals. The Bank's strategy, its business model, risk management and corporate governance illustrate the holistic picture of the Bank and its value creation efforts towards its stakeholders

Scope and Boundary of Reporting

Reporting Period

The scope of the Annual Report 2021 covers the 12-month period from 1 January to 31 December 2021 and is consistent with the annual reporting cycle for financial and sustainability reporting. Any material events after this date and up to the Board approval date of 22 February 2022 have also been included. There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent Annual Report, covered the 12-month period ended 31 December 2020. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

Reporting Boundary

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

Compliance

Both financial and non-financial information contained in this Report comply with applicable rules and guidelines stipulated by the Central Bank of Sri Lanka, the Companies Act No. 07 of 2007, Listing

Rules of the Colombo Stock Exchange and the Institute of Chartered Accountants of Sri Lanka.

Sustainability Reporting Framework

In addition, this Report includes details of the Bank's relationship with its key stakeholders in creating sustainable value and these are described in the relevant sustainability sections. The Bank's Report is based on the Global Reporting Initiative (GRI) and is prepared in accordance with "core" criteria.

Content of the Report with comparative information and limitations

This Report presents performances of the Bank in a way our stakeholders can get a comprehensive view of the Bank's policies, operations and processes. Transparency in reporting helps the Bank identify and address its weaknesses, while building on its strengths. Key Performance Indicators are presented with comparative data relating to the previous year.

Independent Assurance

The Bank engaged Messrs KPMG to obtain an independent assurance of its sustainability report. Their Sustainability Assurance Report appears on pages 61 to 62 in this Annual Report. Further, Messrs KPMG has given their opinion on the financials given on pages 140 to 144 of this Annual Report.



This integrated report can be accessed through the Bank's website at <https://www.seyilan.lk/about-us/investor-relation>

Feedback may be directed to :

Ms Champika Dodanwela
Chief Financial Officer

Seylan Bank PLC
Tel: (94)-(11)-2456358
Fax: (94)-(11)-2452583
Email: champikad@seylan.lk

Seylan Bank at a Glance

Seylan Bank is a licensed commercial bank and a public limited liability company incorporated in Sri Lanka and listed on the Colombo Stock Exchange. The Bank offers a comprehensive suite of products and services to its corporate, Medium and Small Enterprises (SME) and retail customers. Seylan Bank is focussed on delivering a positive societal and environmental impact underpinned by a unique customer-centric and people-driven culture.

The Bank's strategic pivot in response to the changes occurred by the pandemic has resulted in the acceleration of its digital initiatives. Thus, the Bank is well-positioned to be a 'future ready' bank by harmonising its wide physical and unparalleled reach with digital capabilities to provide a differentiated service.

There were no significant changes in the size, structure, ownership or supply chain of the Bank during 2021.



Vision

To be Sri Lanka's leading financial services provider as recognised by all our stakeholders



Mission

We provide our customers with financial services that meet their needs in terms of value, pricing, delivery and services. We will do so through a team of Seylan bankers who are recognised and rewarded for results orientation. We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.



Our suite of banking services consists of Branch Banking, Retail Banking, Corporate and Foreign Currency Banking, International/Trade Finance and Treasury are the main business lines.

The service delivery is ably supported by the functions of marketing, information technology, branch credit, human resource, credit administration, risk management, finance, etc.



Seylan Developments PLC (SDP)

is a public liability company established in Sri Lanka on 3 September 1992, quoted in the Colombo Stock Exchange on the same day and re-registered under the Companies Act No. 07 of 2007 on 22 May 2008. Seylan Bank PLC is the parent company which holds 70.51% as at 31 December 2021. SDP reported profit after tax of LKR 350.8 Mn during 2021.

For more details (Please refer note 28.1)

Key Financial Highlights

	Bank			Group		
	2021	2020	Change	2021	2020	Change
	LKR'000	LKR'000	%	LKR'000	LKR'000	%
For the Year						
Gross Income	54,767,049	57,224,196	(4.29)	54,750,691	57,227,750	(4.33)
Profit before Income Tax	6,027,776	4,111,247	46.62	6,184,680	4,295,636	43.98
Income Tax Expense	1,447,236	1,099,947	31.57	1,449,010	1,197,578	21.00
Profit Attributable to Equity Holders of the Bank	4,580,540	3,011,300	52.11	4,653,003	3,038,629	53.13
Other Comprehensive Income for the Year, net of Tax	(1,521,020)	1,832,025	(183.02)	(1,479,099)	1,865,107	(179.30)
Total Comprehensive Income Attributable to Equity Holders of the Bank	3,059,520	4,843,325	(36.83)	3,161,541	4,893,981	(35.40)
Revenue to Government	3,382,048	2,628,243	28.68	3,383,822	2,725,874	24.14
Gross Dividend *	1,602,572	775,535	106.64	1,602,572	775,535	106.64
At the Year End						
Total Equity Attributable to Equity Holders of the Bank	52,053,009	48,966,975	6.30	53,958,234	50,769,823	6.28
Retained Earnings	29,196,617	24,683,224	18.29	29,967,349	25,381,609	18.07
Customer Deposits	488,653,328	440,303,126	10.98	488,653,328	440,303,126	10.98
Customer Loans and Advances	441,976,662	393,766,147	12.24	441,976,662	393,766,147	12.24
Total Assets	607,576,911	557,707,420	8.94	608,090,133	558,005,932	8.98
Information per Ordinary Share						
Basic/Diluted Earnings per Share (LKR) **	8.57	5.64	51.95	8.71	5.69	53.08
Dividend per Share (LKR) *	3.00	1.50	100.00	3.00	1.50	100.00
Net Assets Value per Share (LKR)	97.44	94.71	2.88	101.01	98.20	2.86
Market Value (LKR) - As at End of the Year						
Voting Shares	44.00	46.00	(4.35)	-	-	-
Non-Voting Shares	33.30	34.00	(2.06)	-	-	-
Statutory Ratios (%)						
Capital Adequacy						
Common Equity Tier 1 Capital Ratio (%) (Minimum Requirement - 7.00 %)	10.72	11.46	(6.46)	10.92	11.70	(6.67)
Total Tier 1 Capital Ratio (%) (Minimum Requirement - 8.50 %)	10.72	11.46	(6.46)	10.92	11.70	(6.67)
Total Capital Ratio (%) (Minimum Requirement - 12.50 %)	14.11	14.30	(1.33)	14.28	14.49	(1.45)
Liquidity						
Statutory Liquid Assets Ratio - Domestic Banking Unit Operations (%) (Minimum Requirement - 20 %)	22.84	31.31	(27.05)	-	-	-
Statutory Liquid Assets Ratio - Foreign Currency Banking Unit Operations (%) (Minimum Requirement - 20 %)	23.30	22.47	3.69	-	-	-
Liquidity Coverage Ratio - Rupee (%) (Minimum Requirement - 2021 - 100 %, 2020 - 90 %)	163.02	176.95	(7.87)	-	-	-
Liquidity Coverage Ratio - All Currency (%) (Minimum Requirement - 2021 - 100 %, 2020 - 90 %)	132.70	142.75	(7.04)	-	-	-
Other Ratios						
Price Earnings Ratio - Voting (Times)	5.13	8.16	(37.13)	-	-	-
Price Earnings Ratio - Non-Voting (Times)	3.89	6.03	(35.49)	-	-	-
Dividend Cover (Times) *	2.86	3.88	(26.29)	-	-	-

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

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



Leveraging on Emerging Opportunities

Chairman's Message

Dear Stakeholders,

The financial year 2021 was a relatively successful year for the Bank, driven by our focussed approach to maintain viable operations in an operating environment marked by converging challenges. The COVID-19 pandemic transformed the socio-economic landscape dramatically whilst creating an impact on economic development and progress. In this backdrop, Seylan Bank remained steadfast, adopting proactive strategies in response to the emerging dynamics of the economic landscape. Resultantly, the Bank's focussed efforts have delivered the anticipated growth and performance during the year under review. In this context, I wish to present to you the Integrated Annual Report under the theme 'In Step with Aspirations,' which sets out our performance for the Financial Year 2021.

A Changing Banking Ecosystem

The global pandemic in the last two years fast-tracked the adoption of technology. The integration of innovative technology in banking operations together with the evolving needs of our stakeholders have significantly transformed the banking industry. Traditional modes of banking have been continually replaced with more digitised processes, leading to enhanced

efficiencies in both the internal and external fronts. It is satisfying to note that accelerated digitalisation initiatives have been well received and continue to meet the evolving needs of stakeholders.

Developments and changes in the macroeconomic environment have also resulted in volatility in the banking ecosystem. Due to its strength and agility, the Bank was able to overcome these disruptive macroeconomic challenges in the year under review. The Bank being mindful of the challenges brought about by the pressure on the rupee and the slowdown in foreign currency inflows had aligned strategies to face such conditions. The resilience of the Sri Lankan banking industry has been tested during 2021 and Seylan Bank demonstrated its strength and stability through its consistent performance.

Performance Overview

The Bank created multi-stakeholder value despite elevated uncertainty and risks prevalent in the operating environment. This is reflected in the Bank's financial performance during the year, which resonates with the strength of our operational model and the ability of the management to adapt to dynamic operating situations.

“It is satisfying to note that accelerated digitalisation initiatives have been well received and continue to meet the evolving needs of stakeholders”

We successfully navigated through the challenges by pivoting to adaptive strategies aligned to the Bank's revitalised corporate strategy, thereby achieving notable portfolio growth and bottom-line achievement. These strategic initiatives supported the Bank's operations and further strengthened its operations amidst the prevailing macroeconomic challenges. This enabled us to improve overall operational cost efficiency and sustained business growth whilst improving our profitability and delivering customer-centric experiences supported by innovative technology and digital platforms, backed by our committed team.

Leveraging on Emerging Opportunities

The upheavals and challenges during the year presented many opportunities to rethink and reinvent business processes. We witnessed an accelerated focus on remote working and innovation in digital banking solutions, resulting in fast-paced changes that would otherwise have taken longer years to realise. As a result, we saw an acceleration in migration to alternative channels from our mainstream banking solutions.

The Bank utilised its extensive experience in responding to the distinctive needs of our diverse customers to satisfy evolving expectations, which also reveals the true benefit of a customer-centric approach to banking. Resultantly, we were able to approach the targeted market segments with the right approach and support them every step of the way.

Maintaining Good Governance Practices

The Bank remained dedicated to adopting and implementing best banking practices while maintaining commitment to strengthen the corporate governance structure and processes. The unprecedented changes in the macroeconomic environment required us to spend time and effort in complying with the changing regulations and policy directions. The foundations on good governance practices coupled with the Bank's stable financial fundamentals helped us to manage regulatory changes during the year under review. I am pleased to say that we fully support sustainable banking and regulatory initiatives that focus on the overall advancement of the Banking industry.

Our Sustainable Stewardship

Our array of lending products and services helped Small and Medium Enterprises revive their businesses and maintain their momentum, contributing to the national economy. Moratoria extended together with our advocacy helped most affected industries during the pandemic, especially tourism, agriculture, construction and trading, where we believe our stewardship translated into ground reality.

Further, being mindful of our commitment to our nation and the community, the Bank continued to focus on ensuring the health and safety of our staff and customers, by strictly following all COVID-19 protocols. Emphasising our broader commitment to the nation, Seylan Bank donated an ICU to the Colombo East Base Hospital, a project of which we are very proud of as it will lead to long-term benefits to the community.

Aspiring for 2022 and Beyond

As we move forward in 2022, we will rely on our corporate strategy to guide our banking activities to adapt to changing customer needs which integrate well with evolving changes. Digitalisation will remain the bedrock for propelling future growth and positioning Seylan Bank as a customer-centric bank while supporting the evolving banking ecosystem. We will continue to focus on the drivers of value creation by leveraging the strategic foundations that have placed us in good stead during the last few years, focusing on prioritising stakeholder expectations and needs.

Appreciations and Acknowledgements

I take this opportunity to extend my gratitude to the entire Seylan Bank team for their unwavering commitment and dedication displayed in navigating through these uncertain times. I wish to especially commend the Director/Chief Executive Officer Mr Kapila Ariyaratne and the Management team who have driven the Bank's strategies amidst an extraordinary business environment.

I wish to extend my sincere appreciation to my colleagues on the Board for their continued support, wise counsel and strategic insights. I express my gratitude to our valued customers, shareholders and all other stakeholders for their unstinted support, trust and confidence placed in the Bank. I extend my appreciation to the officials of the Central Bank of Sri Lanka for the advice and support extended to the Bank throughout the year.

We at Seylan Bank look to the future positively as we charter our journey of growth in step with the aspirations of all our stakeholders.



W M R S Dias
Chairman

22 February 2022



Delivering value for our stakeholders

Message From Director/ Chief Executive Officer

“A year of challenges and opportunity, directing us to a bold future in an evolving operating environment”

The year under review has been challenging, yet successful. Despite the prevailing conditions in the country, the Bank reported one of the best performances in its 34-year history. A key reason for this was the new approach established through our rejuvenated and sharpened corporate strategy, which focused on five key strategic objectives to build and sustain the business. This approach has borne fruit and reinforces my belief that we are stepping in the right direction at the right pace.

Our performance should please our stakeholders, as we endeavored to meet stakeholders' expectations despite the many macroeconomic challenges. Difficulties arising from foreign currency liquidity issues and the downturn in international trading activities & expatriate remittances as well as the continued challenges from the COVID-19 pandemic negatively impacted the Bank's progress in 2021. On the

other hand, the successful management of the pandemic aided by a very laudable vaccination programme and a vibrant export sector and construction industry together with a steady uptick in tourism in the latter part of the year, all contributed positively to our performance and a growing optimism for an economic revival in the upcoming year.

Through all this, we were supported by our stakeholders. The Bank's LKR 6 Bn debenture issue was oversubscribed on the opening day, which is testimony to the faith the investor community has in us.

We will continue to remain steadfast on this path, holding the hand of our customers and nurturing mutually-beneficial relationships, ready to face and perform amidst any unexpected developments and support the revival of our nation's economy and fortunes.

Safety and Wellbeing at the Forefront

While the pandemic was the single key factor in shaping people's lifestyles and livelihoods in the past two years or so, we as an organisation remained focused on ensuring the health and wellbeing of our staff and our customers through diligent adherence to health and safety protocols and proactively adopting appropriate changes as required. Encouraged by the Bank, our staff exceeded a 96% level of

vaccination at each stage of administering the first two doses, the rest being mainly made up of those who refrained from being vaccinated under medical advice at the time. This gave us the confidence and the ability to continue to offer uninterrupted services to our customers within the confines of existing guidelines and to often go above and beyond the call of duty to support our customers in need.

The Bank's Human Resource Management (HRM) team played a pivotal role in ensuring the wellbeing of our employees and their families by supporting them in instances where they tested positive for COVID-19. Assistance was provided by way of essentials to those who were required to be quarantined and those infected were provided relief by way of a financial grant to assist with their medical and other expenses in a scheme that was introduced in the latter part of the year.

In turn Team Seylan rallied together to ensure that branch operations continued with limited interruption even at the height of the crisis, with staff members covering up for colleagues who were unable to attend work.

During the year, the Bank together with Great Place to Work® conducted a comprehensive survey amongst our staff with a view to understand and improve

A noteworthy mention is the growth of the Bank's Advances & CASA Portfolios in difficult conditions and a bottom line which is the highest recorded by the Bank

various aspects of our workplace. With this feedback, a comprehensive action plan has been developed in consultation with a wide cross-section of our employees and the consultants from Great Place to Work and will be put in to effect during the current year.

Financial Performance Overview

The overall performance of the Bank for the year under review was very satisfying considering the difficult operating environment. Profit after tax amounted to LKR 4.58 Bn, the highest recorded in the Bank's history, realising a 52.11% growth compared to the profit after tax in 2020. The overall advances portfolio grew by 12.24% to LKR 442 Bn despite the lockdowns and constrained economic activity, while the deposits grew by 10.98% to LKR 489 Bn. The CASA ratio further improved to 35.41%, aided by a focused effort backed by product and service improvements. The non-performing loans of the Bank have marginally grown in line with the industry trend.

The net interest income (NII) continued to improve throughout 2021 recording year-on-year growth of 20.98% supported by the portfolio growth, improvement in CASA as well as the low-interest regime prevalent in the market. The net fees and commission income replicated a similar trend, achieving 24.44% growth despite the lockdowns and limited economic activities in the year ended 31st December 2021.

It is noteworthy to mention our improved Key Performance Indicators where the Provision Cover Ratio (Stage 3) stood at 47.84% compared to 37.32% in the corresponding year followed by an improved Cost to Income Ratio of 41.53% in 2021 compared

to 50.30% in 2020. Further, our Dividend Payout ratio stood at 34.99% in 2021 compared to 25.75% in 2020.

Brand Positioning

Though the Seylan corporate brand carries significant weight through a journey spanning over three decades, we set out this year to re-evaluate certain elements, in order to strengthen our standing.

We studied the findings of a multitude of ongoing research projects commissioned by the Bank. Then, with the help of a team of external consultants, we revisited our purpose, our vision and the perception of our brand, from the perspective of a cross section of our staff and our customers. Based on the outcomes, changes to our overall direction in communications, our people strategy and our product adaptations will all be re-visited and we are confident that these improvements will place the Seylan brand in a stronger position.

Operational Excellence

From an operational perspective, the key focus was process improvement, efficiency and on digitising our day-to-day operations. The efforts proved to be successful, with many operational activities being centralized and/or streamlined and upgraded to operate in a more robust digitised environment. Digitalisation will remain a primary focus of the Bank while we continue to think innovatively to overcome the emerging challenges in the industry. The vastly improved turnaround time for credit evaluation and approvals, which bears testimony to the success of these efforts, was a result of a multitude of process improvements, streamlining of the operation of regional credit hubs focusing on SME business development and digitalisation of the entire credit approval process.

The Bank's branches showed much improved results during the year under review. It is worth mentioning that 51 banking centres out of a total of 171 successfully met their seven KPI targets while increasingly contributing to the Bank's performance. These exceptional results are in one part due to the implementation of our revitalised corporate strategy which focused on optimal ways for branches to maximize profitability, contain costs, and enhance other income sources to improve profitability

and growth and in the other part due to the exceptional effort and commitment of our staff members.

The strategic move by the Bank to revive the SME market segment and focus on CASA accounts succeeded in driving new-to-bank customer growth enabling us to meet our annual objectives. These efforts were aligned to changes in the operating environment, which promoted Sri Lankan home-grown business development.

Digitalisation as a Force for Change

Technology adoption and digitalization have been leading the changes within the banking environment over the past few years and we were successful in implementing many process automation and improvement initiatives within the internal working environment. The Bank is now more focused on promoting customer-oriented digital solutions to comprehensively fulfill customer needs and improve convenience. This trend will remain relevant in the years ahead as technology evolves and becomes even more ingrained within our lifestyles. However, digital adoption will only reach the desired levels that justify the investments made when the Bank and our stakeholders make this journey collaboratively and maximise usage of digital services and we spared no effort to achieve this goal and will continue to do so.

Ethical and Sustainable Banking Solutions

The Bank's Environmental, Social, and Governance (ESG) Framework has always been a fundamental pillar to create value across our stakeholder groups and develop Seylan Bank's green and sustainable banking operations. We use this framework to guide us to bring about sustainable development and opportunity for the Bank and all our stakeholders. The Bank's Environmental and Social Management System (ESMS) supports our endeavours to operate ethically while fulfilling stakeholder needs. Our efforts to develop a green banking culture in Sri Lanka will continue in the year 2022 and beyond. The Bank is actively participating in developing a Green Finance Taxonomy for Sri Lanka and proactively contributing to the Sustainable Banking Initiative led by the Sri Lanka Banks Association (SLBA).

Message From Director/Chief Executive Officer

Rewards and Achievements

Over the years, the Bank has received many accolades that motivate our journey to continue in a more sustainable manner. The year under review also realised many rewarding achievements for Seylan Bank. Being considered as the No.1 in Customer Service Excellence in the Banking sector for the third consecutive year by the LMD Magazine survey and being rated among the top 10 corporates as a Women-Friendly Workplace in Sri Lanka by CIMA – Satyn Magazine are both noteworthy achievements, of which we are extremely proud.

Aspirations for 2022 and Beyond

We, as a Bank, are optimistic about the coming year as the pandemic situation improves with the successful implementation of the vaccination drive and the expectation that no further lockdowns will be required. In this environment, the Bank expects to continue the growth momentum while supporting the aspirations of our stakeholders.

We remain steadfast in our belief that our customers should benefit from banking services and solutions, resulting in the concurrent contribution to the betterment of the Sri Lankan economy. This premise will remain one of the considerations on which we build more customer-centric banking propositions in the coming years.

Some critical focus areas for enhancement in the short term will be even more robust credit evaluation processes and further improvement in turnaround time for credit

approvals leading to better credit quality, portfolio growth and customer satisfaction. These will be supported by artificial intelligence and automation. Continuous innovation will become more critical in maintaining our competitive advantage, and the Bank will emphasise this aspect in our strategic imperatives and encourage employees to actively participate in the process. As a responsible and ethical corporate entity, we will enhance our green banking solutions, offer equal opportunities to all and promote financial inclusion across all segments of our economy.

The banking industry and the banking operating environment will continue to be challenged in 2022. We will continue to overcome these challenges and harness opportunities by implementing synergistic and well-researched strategies which will lead Seylan Bank to the future, making us a sustainable banking brand of choice in the Sri Lankan marketplace.

Appreciations and Acknowledgments

The progress made by the Bank is a collective effort and I take this opportunity to thank all our stakeholders for supporting us in these challenging times.

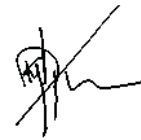
My sincere appreciation to the Chairman and Board of Directors for their support and guidance. I must thank the Bank's investors for maintaining confidence in our ability to successfully navigate the challenges.

Our customers are the bedrock of our operation and their loyalty to Seylan Bank over the years, especially in the last few challenging years, is a great encouragement

for the Bank and a testament to our diligent efforts to keep them at the forefront of our efforts and create value amidst challenges. On behalf of Team Seylan, I thank our customers for the confidence and trust bestowed on us to carry through in such tough times.

Finally, I must place on record my heartfelt appreciation to the Management team and employees. It is your dedication to the Bank and your courage and tireless efforts despite the difficulties faced in these operating conditions which enabled us to successfully serve our customers while fulfilling the Bank's strategic objectives and emerge triumphant in 2021.

Let us continue to work together and move forward as one family to overcome challenges and take advantage of opportunities to fulfil our vision and continue to successfully create value for all our stakeholders.



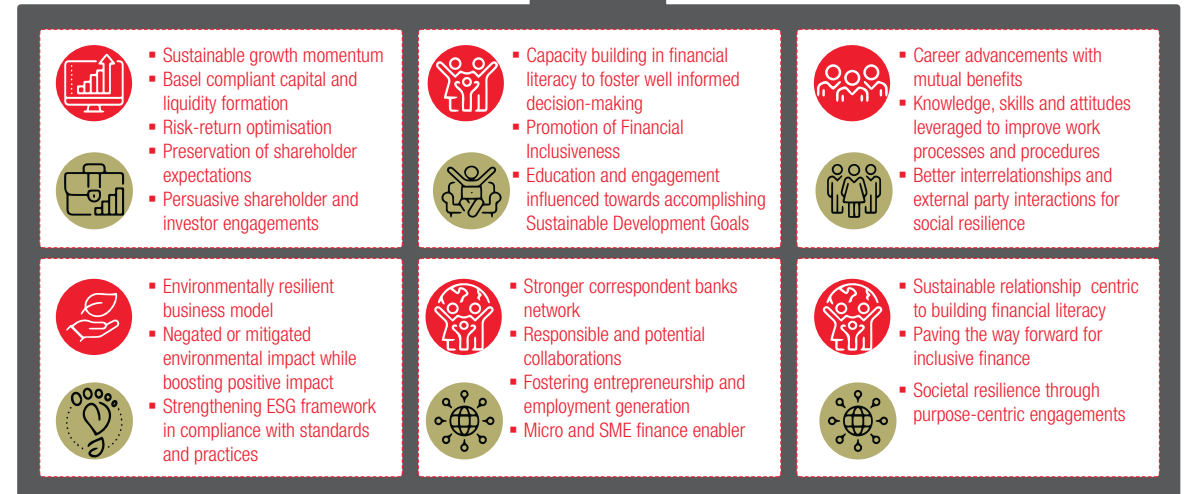
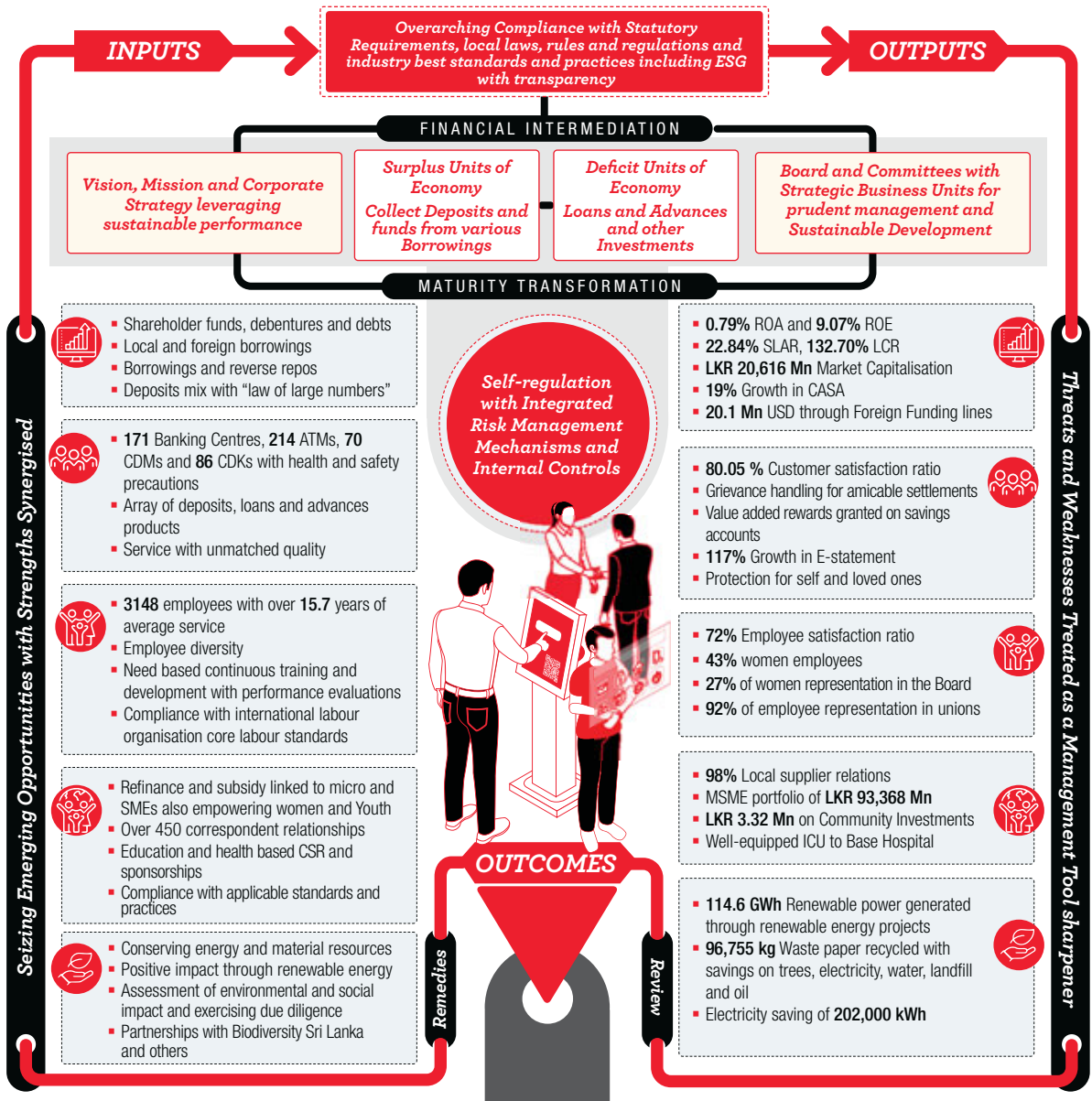
Kapila Ariyaratne
Director/Chief Executive Officer

22 February 2022

OUR VALUE CREATION STORY

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Value Creation Model



Having determined distinctions of volatile environment through space of corporate business strategy aligned to the vision and mission of our Bank and also following the directions of the governing Board and its subcommittees, we are well in step with aspirations to create sustainable value to all our stakeholders namely investors, employees, customers, suppliers and business partners and the Environment.

As shown in the pictograph, we combine respective capitals namely Financial, Human, Customer, Social and Relationship and Environment therein as enablers which

help us steer our journey with win-win forward momentum.

In our responsible role of financial intermediation to the nation's economy, collecting deposits and other means of funds channelled to grant loans and advances and acquire various investments prudently, we are in compliance with statutory requirements, local laws, rules and regulations and industry best practices and standards together with self-regulation and internal controls that are aimed at providing sustainable benefits in an equitable and sustainable manner as desired by every stakeholder.

Our overarching value creating thought process is operationalised through an Environmental, Social and Governance framework where resilient economic performance is materialised while nurturing and delivering the best of value to every social circle within which we operate our business model and also assessing the business impact in a risk responsive business practice and behaviour.

The following table depicts the management response when dealing with each stakeholder engagement respectively.

Stakeholder in relation to the Capital	Focus	Management Discussion and Approach
Investors	Capacity	Formation of high quality capital and return, ensuring readiness for unprecedented future risks and uncertainties together with adequate liquidity and robust and solvent business model
Employees	Commitment	Inculcating a culture rich in attitudes and learning together with commitment beyond fulfilling a mere financial transaction and tangibilised service with supreme quality and professionalism
Customers	Consistency	Unwavering provision of equitable service of unmatched quality to delight and develop them to be self-sufficient
Suppliers and Business Partners	Collaboration	Foster potential and prudent partnerships and collective treaties to build up synergy required to accomplish macro level targets pooling the strength of each financial participant along sustainable finance and development attributes
Community	Confidence	Establish a feeling of trust, safety and resilience with greater sense of integrity and dependability besides financial inclusiveness
Environment	Coexistence	Influence making persuasive calls as suitable to take action to preserve the resource base we all share in common while helping to achieve related Sustainable Development Goals in every possible and progressive step

Capital and stakeholder engagement is detailed in the pages running from no. 12 to no. 57

Stakeholder Engagement for Lasting Relationships



Our Bank’s stakeholders are identified based on their significance to the business model taking into consideration the different roles they play across the upstream and downstream value chain of the business. Similar to the roots of a tree which support its nourishment and growth, our stakeholder engagement process provides the information and guidance to enable the Bank to consider and satisfy the various financial




and non-financial expectations of every stakeholder group in a sustainable manner.

As shown below, we use numerous communication channels transparently and create mutually-beneficial relationships with continuous feedback gathered from our stakeholders. This interaction helps the Bank to foster financial literacy and other capacity-building requirements necessary as part of our approach to fulfilling obligations

as a financial intermediary, serving the nation’s Sustainable Development Goals. Our two-way dialogue also equips every stakeholder with the ability to make fully informed and independent decisions.

Our stakeholder engagement process helps us to engage with and empower our stakeholders either individually or as a group with similar interests in a mutually-beneficial manner.

Stakeholder	Aspirations	Our Approach	Engagement	
			Mechanism	Frequency
 <p>Investors Refer page 20 for more details</p>	<ul style="list-style-type: none"> The Bank’s adaptability to fulfil investor needs while operating within unprecedented environment dynamics Sustainable economic growth while considering environmental and social due diligence within a stable governance framework Managing risks to garner increasing returns with a visionary focus Maintain the right blend of capitals to capture emerging opportunities Transitioning towards sustainable financing 	<ul style="list-style-type: none"> Corporate strategic plan 2021-2023 with flexible margins to manage and adapt to unprecedented changes Integrated risk management practices to mitigate emerging threats and make the most of opportunities Compliance to Basel recommendations on capital adequacy and liquidity management Digital tools and disaster management readiness and robustness to ensure business continuity Environmental and social management system (ESMS) to assess business impact and exercise environmental and social due diligence 	<ul style="list-style-type: none"> Annual Reports and AGM Interim Financial Statements Extraordinary General Meetings Investor fora, CSE notices, press articles, surveys and other similar communication mechanisms One-to-one meetings Corporate website and online feedback 	<ul style="list-style-type: none"> A Q WR WR WR R
 <p>Customers Refer page 25 for more details</p>	<ul style="list-style-type: none"> Capacity building to foster balanced decision-making Advocacy on moratoria granted Inclusive financing Ensure increased customer security and privacy in the digital banking sphere Product and service innovation based on rapidly altering buying decisions Transparency and attentiveness in grievance handling Sustainable relationship management 	<ul style="list-style-type: none"> Foster well-informed and independent financial decision-making Use of technology in a more user-friendly manner and process simplifications to enhance proximity to formal financial channels and inclusive finance Ensure customer satisfaction beyond mere financial transaction Strict adherence to internal control measures, customer charter, code of conduct and other policies and procedures together with customer due diligence Effective engagement in both remote and in-person situations to close gaps in financial literacy and information asymmetry Help with future cash flow forecasts and prudent decision-making to manage settlement of liabilities easily Provide education on managing environmental and social risks through ESMS Conduct market research to identify buyer behaviour despite unprecedented challenges in environment Continuous education on due diligence and maintenance of digital channels 	<ul style="list-style-type: none"> Enhanced virtual media and safe day-to-day dialogue at the branches Emails via internet banking platform and corporate website and other direct mails and telephone conversations Customer surveys and other indirect interactions Customer gatherings across the branch network Feedback via forms in the annual report Emails to Director/CEO and communications with the service quality department across the branch network and head office departments Social media and other forms of digital communications Media advertisements and other forms of printed communiques 	<ul style="list-style-type: none"> R R A R A WR WR WR

Stakeholder	Aspirations	Our Approach	Engagement	
			Mechanism	Frequency
 <p>Employees</p> <p>Refer page 35 for more details</p>	<ul style="list-style-type: none"> Ensure a safe and conducive working environment in the midst of the pandemic affected operating environment Need-based training and development tailor-made to furthering service quality despite a volatile socio-economic environment Promote diversity and gender equality Strengthen the grievance handling mechanism Facilitate freedom of association and collective bargaining power 	<ul style="list-style-type: none"> Engage employees in strategic planning and process improvements Recruit employees from the local vicinity of operations based on merits without any discrimination Offering equal opportunity for senior management positions. Use of audit trails and performance evaluation mechanisms to detect gaps of learning and support progressive self-development Continuous update and awareness creation on pandemic repercussions while maintaining safe movements of employees for normal business operations Mentoring and counselling to derive amicable settlement of grievances Accept employee unions and their right to collective bargaining Record-keeping on the vaccination programme and monitoring of every staff member 	<ul style="list-style-type: none"> Internal and external training programmes and e-learning opportunities Performance and appraisal review discussions Treatment of all employees impartially and equally Trade union discussions Communication of values through leading by example Communication with employees including satisfaction surveys, newsletter and the intranet Social media engagement 	<ul style="list-style-type: none"> R A and BA R WR WR R WR
 <p>Suppliers and Business Partners</p> <p>Refer page 45 for more details</p>	<ul style="list-style-type: none"> Uninterrupted provision of services during unprecedented situations Ensure quality of products and services and delivery modes despite the unprecedented operating environment Long-term connectivity based on merits Foster a sustainable growth momentum Promote local entrepreneurship and employment generation Provide education and due diligence in managing upstream environmental and social risks 	<ul style="list-style-type: none"> Promote more local supplier relations without compromising service quality standards Assessments on readiness with state-of-the-art delivery attributes, contingency planning including buffer stock maintenance with flexible and appropriate alternatives Feasible agreements and MOUs backed by collaborations and partnerships Reviews on performance and remedial actions to be taken, if any Amicable dialogue to understand environmental and social risks and exercising due diligence with relevant screening checks, the perusal of certification validity and adherence to industry best standards and practices Insisting on guarantees and after-sales service propositions, wherever appropriate 	<ul style="list-style-type: none"> On-site visits and meetings, advertisements and press releases Procurement policy Tender invitations Registration of suitable suppliers and delivery of quality products and services Bank product development and approval process 	<ul style="list-style-type: none"> R R WR WR WR
 <p>Community</p> <p>Refer page 54 for more details</p>	<ul style="list-style-type: none"> Capacity building and enhancement of financial literacy across a wider segment of the community Work and contribute towards nationally determined Sustainable Development Goals Foster communal benefit through sponsorships and engagement in various community circles, events and projects 	<ul style="list-style-type: none"> CSR initiatives aligned to focus on “education” and “health” Philanthropic sponsorships and various other engagements to support mandates of Sustainable Development Goals Participation in environmental and social related policy formulations and other engagements Engagement with foreign development finance institutions to channel green funding lines at cost effective rates 	<ul style="list-style-type: none"> One-on-one discussions Internet banking, e-wallet and various other virtual service delivery interfaces Implementation of ESMS across the Bank Promoting SLBA SBI principles Targeted investments in projects and community sponsorships 	<ul style="list-style-type: none"> WR R R R WR

Materiality as a Compass of Stakeholder Engagement

In assessing materiality, our Bank follows a workable management approach to best address the overall impact arising from our business model. This is not limited to the financial gain each stakeholder is associated with but expands to explore the interconnected impact thereto on the environment and society at large.

By leveraging on every single feedback and learning gathered through numerous stakeholder engagements, the relevant materiality topic is ascertained against the magnitude of the impact and the chance of its occurrence in a backdrop of how past and present situations have triggered and would influence both the determinable and the unexpected future. This process enables our Bank's management to respond across stakeholder groups by creating sustainable value for the identified material topics.

Notably, the socio-economic impact caused due to the pandemic outbreak has been keeping our Bank's attention on radical shifts in materiality based on how repercussions would impact stakeholders both individually and as a group. Accordingly, during the year under review, we changed our materiality classification on 'Occupational Health and Safety' and 'Customer Health and Safety' as 'High' from 'Medium' from the perspective of both the Bank and the affected stakeholders as tabulated below.

Furthermore, our Bank's commitment to carrying forward the mandates of accomplishing our chosen Sustainable Development Goals is factored into the assessment of 'materiality' in a responsible and synergistic manner based on each stakeholder's diverse roles put together.

Staying abreast with guidance of the Board of Directors and the management, good governance and best business practices are implemented while the Bank's policies and commitments are documented and periodically reviewed to enable the deployment of resources dealing with 'materiality' prudently.

The Bank's materiality analysis meets a two-fold approach where the Bank and our stakeholder perspectives are put on a matrix as tabulated below.

The magnitude and interconnectedness of our material topics are captured throughout this annual report to maintain a transparent dialogue and open stakeholder feedback.

Materiality		Topic	GRI Standard (GRI) Reference	Boundary		Reported (Yes) / Not Reported (No)	Core triple bottom line connected to
Overall Economic Performance	Stakeholders interconnected with Environmental and Social Impact			External	Internal		
High	High	Economic performance	201-1,3,4	X		Yes	EC
		Market presence	202-1,2	X			
		Anti-corruption	205-1,2	X			
		Employment	401-1,2,3		X		SO
		Labour/management relations	402-1		X		
		Occupational health and safety	403-1		X		
		Training and Education	404-1,2		X		
		Diversity and equal opportunity	405-1,2		X		
		Non-discrimination	406-1		X		
		Freedom of association and collective bargaining power	407-1		X		
		Child labour	408-1		X		
		Marketing and labelling	417-3	X			
		Customer health and safety	416-1,2	X			
		Customer privacy	418-1		X		
		Socio-economic compliance	419-1	X			
Medium	High	Indirect economic impact	203-1,2	X		EC	
		Local communities	413-1	X		SO	

Materiality	Topic	GRI Standard (GRI) Reference	Boundary		Reported (Yes) / Not Reported (No)	Core triple bottom line connected to	
			External	Internal			
Overall Economic Performance	Stakeholders interconnected with Environmental and Social Impact						
Medium	Medium	Procurement practices	204-1	X	Yes	EC	
		Anti-competitive behaviour	206-1	X			
		Energy	302-1,4	X			
		Water	303-1	X			
		Environmental compliance	307-1	X			
		Forced or compulsory labour	409-1			X	SO
		Security practices	410-1			X	
Low	Medium	Effluent and waste	306-2	X			
Low	Low	Materials	301	X	No		
		Biodiversity	304	X		EN	
		Emissions	305	X			
		Supplier environment assessment	308	X			
		Rights of indigenous people	411	X			
		Human rights assessments	412			X	
		Supplier social assessment	414	X			SO
		Public policy	415	X			

● EC – Economic
 ● SO – Social
 ● EN – Environment
 * Not assessed, not reported or merely reported

Changes in Materiality Mapping				
Topic	GRI Standard Reference	Previous Year Classification	Current Year Classification	Rationale
Occupational health and safety	403-1	Medium – Medium	High - High	The pandemic outbreak warranted that the unprecedented future events need a more effective and efficient management response to deal with a worst-case scenario over and above business continuity and growth momentum.
Customer health and safety	416-1,2	Medium – Medium	High - High	

Economic Overview

Global Economic Outlook

The global economic recovery continues at a slow pace, with the pandemic continuing to maintain its grasp. GDP growth in the first half of 2021 was largely in line with expectations. Turnout for the first quarter global GDP emerged stronger than expected, indicating continued adaptation of economic activity to the pandemic and associated restrictions, as well as ongoing policy support in many countries. However, this momentum weakened in the second quarter, weighed down by increasing the number of infections. Global growth is estimated at 5.9% for 2021 and is expected to average at 4.4% in 2022.

As the new Omicron COVID-19 variant spreads, showing signs of being more transmissible than the Delta variant, countries have reimposed mobility restrictions to contain the rapid spread, thus leading to supply disruptions and volatile energy prices. While the vaccine rollouts have proven to be effective, unequal access to vaccines, vaccine hesitancy and increased infectiousness continue to fuel the pandemic. Furthermore, it seems likely that vaccinations alone will not be able to completely eradicate the virus transmission, even though they remain effective against severe health effects of the pandemic. Adherence to strict health precautions combined with improved access to vaccines worldwide may prove to be the ultimate blend in curbing the spread of the virus.

Concerns over inflation are mounting across the world and with the expectation of remaining elevated in the near term. The increase in inflation reflects a combination of post-pandemic supply-demand mismatches, rising commodity prices and policy-related developments. Food prices have increased significantly in some countries amidst local shortages and the rise in global food prices. Core inflation has also risen in many countries but to a lesser extent. The global food shortage due to the pandemic may settle in 2022 when the spending patterns switch back to services from dominant food and beverages industries.

Global oil prices fluctuated in alignment with external market factors which reflected in the reduced prices in early December 2021 due to the rise of the new Omicron COVID-19 variant. The average Brent price increased by 58.3% compared to the corresponding period of 2020.

On a positive note, the pandemic has accelerated change across many sectors of the economy through greater automation and transformation of workplaces that rely more on technology platforms to conduct work remotely and with greater levels of efficiency. As a result of these changes in production, distribution and payment systems, the productivity growth could gain right momentum.

Future Outlook

The importance of an effective global health strategy is now more salient than ever. Worldwide access to vaccines, tests and healthcare is essential to minimise the risk of more serious COVID-19 variants. This necessitates increased production of supplies, better management of resource delivery systems and fairer international distribution. International cooperation will be essential to preserve access to liquidity and expedite orderly debt restructurings where needed. Monetary policy measures in many countries may need to continue on a tightening path to curb inflation pressures, while fiscal policy measures may need to be aimed towards prioritizing health and social spending with support focussed on the worst affected.

Sri Lankan Economic Outlook Overview

Sri Lanka is facing back-to-back challenging years, being hit hard by the Easter Sunday attack followed by the COVID-19 pandemic. Nevertheless, it relentlessly continues its uphill journey towards achieving its economic milestones. The third wave of the COVID-19 pandemic, which began in late April 2021 intensified and peaked by August and the quarantine curfew imposed throughout the island to control the spread of the pandemic was extended from time to time. This led to the economy, especially sectors such as tourism and international and domestic trade to have a late recovery in fully returning to pre-pandemic levels. The government allowed agricultural

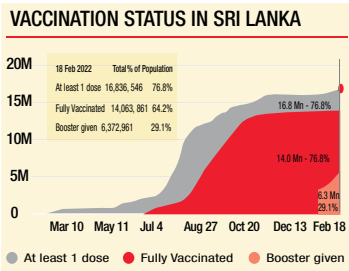
activities, many manufacturing industries, construction and selected services, to continue even during the quarantine curfew period. Increased input prices of producers due to import restrictions imposed as a solution for declining foreign exchange reserves also contributed to the slowdown in economic activities. Such circumstances dampened the initial positive sentiment that recovery was fast approaching, which was encouraged by the activity in several sectors and the levels of confidence displayed throughout the latter part of 2020 and 2021.

Management of COVID and Post COVID Impact

With the third wave, the Government's efforts were focussed on enforcing prevention measures, strengthening COVID-19 treatment facilities around the country and deploying the COVID-19 vaccination programme, particularly in high-risk areas and among vulnerable populations. Despite current fiscal constraints, the pandemic demanded additional resources and urgent steps were taken by the Government together with its development partners to mobilise resources to respond to the health and economic challenges posed by the pandemic.

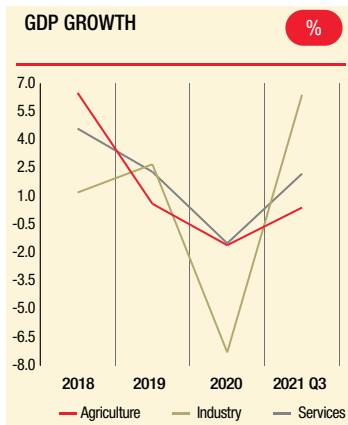
Despite the turbulent conditions which disrupted economic activities, some macro-economic factors seem very promising as economic recovery emerges as a high priority of Sri Lanka. The post-pandemic economic effect has been underpinned by the policy stimuli provided by the Central Bank of Sri Lanka (CBSL) and the Government. CBSL has taken immediate actions to ensure the stability of the external sector by closely focusing on the near-term horizon.

The nationwide vaccination programme has largely supported economic rebound and its progress has been recognised and commended by many organisations and countries. At the time of writing this report, out of the total population, 76.8% have received at least one dose, 64.2% have received both doses and 29.1% have received the booster dose, in support of the battle against the COVID-19 pandemic.



GDP and Sector Contributions

The economy contracted by 1.5% year-on-year in the third quarter of 2021, following a 12.3% expansion in the previous quarter. This was the first drop in economic output since the second quarter of 2020, as the country reimposed quarantine curfews and other restrictions amid its worst virus wave since the onset of the pandemic. The shortfall was mainly attributed to a contraction in the output of industrial activities and services, which was partly offset by agricultural activities.



While apparel manufacturing and textile industries emerged as key contributors towards the industrial sector growth, the negative outcome was mainly due to the contractions recorded in certain manufacturing activities, construction, mining and quarrying industries.

The slowdown in the services sector was mainly due to the disruption in the transportation of goods and passenger services and other personal services resulting from restricted public gatherings under the quarantine curfew. The accommodation and food serving industry and professional services also suffered a setback during the reference period. However, telecommunications services, IT services, financial services and human health activities recorded positive growth rates of 11.3%, 16.1%, 12.9% and 12.3% respectively compared to the third quarter of corresponding year.

As of 31st December 2021, 194,495 international tourists had visited Sri Lanka during the year. This marks a decline of 61.7% over the previous year which recorded 507,704 arrivals. India, Russia, the United Kingdom, Germany and Ukraine were Sri Lanka’s top five international tourist-generating markets from January to December this year. The increase in arrivals suggests a slight revival of leisure tourism, possibly enabled by factors such as the steady improvement of traveller confidence, lifting of travel restrictions and the increased rollout of COVID-19 vaccine programmes across the globe.

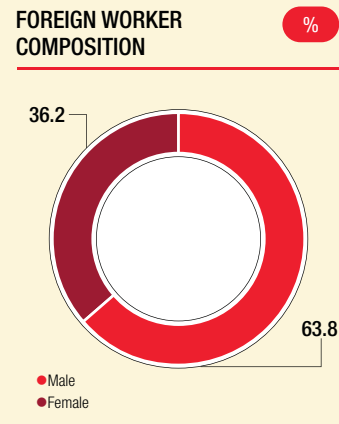
Expansion of agricultural activities were backed by the growing of cereals, spices, tea, rubber, coconuts and other animal productions. Production of some major cereal crops reported a notable expansion, recording an overall growth rate of 38%. Earnings from tea exports increased due to improvement in export volumes while the export unit value declined. Further, earnings from exports of coconut, spices and unmanufactured tobacco increased. The gross value added of latex production recorded a decrease of 8.1%. The average price received for a kilogramme of latex recorded an increase of 102% during Q3 2021.

During the year, the Government also introduced subsidy schemes to promote organic farming. A financial incentive of LKR 12,500 per hectare up to a maximum of two hectares has been promised to farmers to encourage organic fertiliser production. Accordingly, a considerable amount out of the money spent on the importation of chemical fertilisers will remain with the farmers in the country, a win-win in terms of managing import costs and encouraging local organic farming culture.

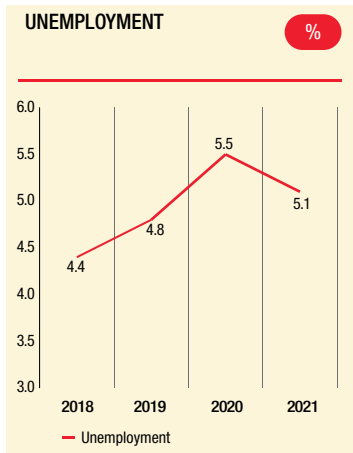
Labour Market

The local labour market index improved when compared to the corresponding year 2020 mainly as a result of the stability achieved through the vaccination programme. While the labour market faced challenging conditions during the second and third waves of the pandemic, these challenges were overcome within a very short period. Accordingly, the labour force, which is the economically active population, increased by 1.5% to 8.594 Mn in the first half of 2021 from 8.469 Mn recorded in the first half of 2020.

The foreign employment population continued on a declining path, dropping by 24.1% to 30,797 during the first half of 2021 from 40,581 recorded during the corresponding period of 2020. Out of the total departures, the male population accounted for 63.8% while 36.2% comprised the female population.



The unemployment rate dropped to 5.1% in the second quarter of 2021 from 5.7% in the first quarter. Compared to the first half of 2020, the unemployed population declined from 0.471 Mn to 0.463 Mn in the first half of 2021.



Inflation

The overall inflation rate of the country has been on an increasing trajectory throughout the year 2021. Constrained economic activity as a result of the COVID-19 outbreak has been the leading cause of the increasing inflation rate. The Colombo Consumer Price Index (CCPI) based food and non-food inflation reported similar upward trends where food inflation remained significant levelling at double-digit figures.

Economic Overview

Foreign Exchange Market and Forex Liquidity

The Sri Lankan rupee depreciated further against the US Dollar in 2021 mainly due to the loss of foreign currency income derived through worker remittances and the tourism industry. The detrimental impact on the tourism industry as a result of the spread of the pandemic coupled with continuous foreign currency debt servicing activities and high import expenditure led to further depreciation of the local currency. At the start of the year 2021, the average foreign exchange rate for LKR to USD reported LKR 186 per a USD which further depreciated to LKR 203 per USD towards the latter part of the year. Additionally, the Sri Lankan Rupee also depreciated against the Australian Dollar, Euro and Indian Rupee and appreciated against the Japanese Yen.

Imports and Exports

Total import expenditure for Q3 2021 increased by 29.9% with the value of consumer goods import expenditure increasing by 35%. In April 2021 the Government imposed restrictions on the imports of over 600 items including various food items, dairy products and chemical fertilisers. According to the trade indices released by the CBSL the total import volume index recorded a drop of 3.4% while the import volume index of consumer goods decreased by 1.7%.

Total export value increased by 15.6% during Q3 of 2021 compared to the prior year Q3. As per the CBSL indices, agriculture exports and industrial exports have expanded by 1.5% and 1.9% respectively during the 3rd quarter contributing to the overall 1.9% increase in the total export volume index.

Debt Management

Despite the challenging conditions, Sri Lanka managed to repay its loan instalments on time. The Government together with CBSL has initiated various strategies including installing systems to monitor forex flows and strengthen compliance with repatriation and conversion regulations, pursuing efforts to attract foreign investments into government securities, preparing the entire country for the resumption of tourism and introducing appropriate tax adjustments to promote domestic value addition of exports and ensure conversion of export earnings.

Aspirations for 2022 and Beyond

- To achieve economic stability, Sri Lanka will have to face tough trade-offs between managing its fiscal policies and maintaining supportive strategies. On the plus side, as vaccine rollouts accelerate, investor confidence will pick up. Simultaneously if policy goals are translated into solid projects and programmes with visible benefits for all Sri Lankans, the end of the COVID-19 crisis could mark the beginning of a resurgent phase of economic development and numerous measures were taken.
- The banking sector at this stage, plays a crucial role in maintaining a healthy credit system and supporting the country's journey towards economic recovery and with its capital strength is well positioned to do so. Backed by effective debt servicing initiatives the country will focus on reversing the continuous sovereign downgrades by the rating agencies in the hope of enhancing stakeholder confidence, upholding human capital achievements and long-term growth prospects.
- Striking the right balance between banking, the equity market and debt market will further enhance economic activities and support funding requirements. The low-interest-rate regime introduced has promoted the equity market and debt market during 2021 and this trend is expected to continue due to the high volume of transactions.
- Furthermore, the first phase of the Colombo Port City is already complete and the first hospitality plot is expected to be completed by 2023 followed by other facilities such as education, healthcare and a convention centre reaching completion by 2025. Right capitalisation of the Colombo Port City project will have significant spill-over effects to the economy through the attraction of foreign direct investments, providing additional backing for Sri Lanka's new journey.



Banking Sector Review

Overview

The overall banking sector has demonstrated sustainable and strong results during the year 2021 amidst challenging external market conditions and the Key Performance Indicators (KPIs) of the sector are a testament to this growth. Foreign exchange liquidity management, adapting to new regulatory changes and diverting anticipated benefits to customers, technical and technological enhancements and mobility issues due to the travel restrictions are some of the main challenges this sector faced during the year. Despite these challenges, the resilience of the sector has been phenomenal implying the stability of the country's financial sector which is backed by adequate levels of capital, statutory liquid assets ratios and provision coverage ratios during 2021. These capital ratios will further improve with the accumulation of year-end profits and through capital injecting initiatives carried out by the banks.

Year 2021 has been a year of digital banking, with people increasingly re-focusing and depending on digital capabilities provided by Banks. Even though the digital drive within the Sri Lankan banking industry has been gaining momentum over the years, its adoption by customers remained rather lower than anticipated. However, with the onset of the pandemic, this mindset changed and

an increasing number of clients began relying on digital means to carry out their transactions.

Profitability

Banks have been able to remain fairly profitable as a result of decent net interest margins (NIMs) enabled by systemic interest rates. The adverse impact of import restrictions on the sector's fee income from letters of credit was somewhat offset by fee income from other sources.

Asset growth

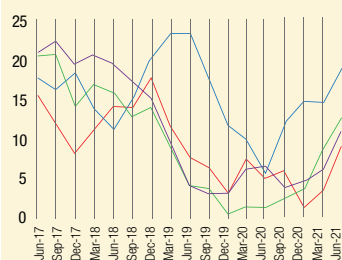
The banking sector asset growth improved during the eight months ending August 2021 expanding by 12.1% to LKR 16.4 Tn compared to a growth of 10.5% during the comparative period of 2020. Asset quality showed a slight decline in terms of increasing non-performing loans but remained manageable.

Credit growth

Year-on-Year credit growth, which declined to 5.6% at the end of 2019, increased to 11.9% at the end of 2020 and picked up further during the eight months ending August 2021 reaching 18.0% by the end of August 2021. Industrial growth driven by the fund allocation of the banking system has helped regain traction towards anticipated economic growth. As of Half Year 2021, 40% out of the total advances were disbursed towards industrial development while services and retail credit stood at 27.4% and 24.5% respectively.

Growth of Sectorial Credit (y-o-y)

(As per the Quarterly Survey of Loans and Advances)

**% Share of Total (Jun-21)**

Agriculture and Fishing	7.7
Industry	40.4
Services	27.4
Personal Loans and Advances	24.5

Regulatory Developments

Subsequent to the outbreak of the pandemic, the Government and CBSL implemented a series of monetary and fiscal policy directions to safeguard borrowers, strengthen the economy, alleviate external sector risks and support the banking sector.

- Monetary policy measures including an increase in the Standing Deposit Facility Rate and Standing Lending Facility Rate by 50 bps and the upward revision of the Statutory Reserve Ratio to 4% commencing from September 2021.

- Measures to safeguard borrowers including debt moratoria for SMEs and affected sectors, extension of the grace period of "Saubagya" COVID-19 Renaissance facility, restrictions on pursuing repossession and litigation on non-performing loans as means of recovery and discontinuation of late payment fees on credit cards and other credit facilities. The tourism sector impacted by the COVID-19 pandemic has been given a further extension until 30 June 2022
- Based on the Banking Act Directions, Classification, Recognition and Measurement of Financial Assets Other than credit facilities in License Banks have adopted directions given by SLFR 9 – Financial Instruments. The directions in effect from 1 January 2022.

Capital and Liquidity

As a result of the implementation of prudent regulatory requirements, the banking sector continued to maintain a comfortable level of liquidity and capital buffers stipulated by the regulatory authority despite continuous stress faced in terms of foreign currency liquidity. Quality of capital also remained favorable from a risk standpoint.

Moratorium arrangements

In order to facilitate the industries that were affected by the COVID-19 pandemic, CBSL has instructed licensed commercial banks to further extend the moratoria granted. Special attention was given to the passenger transportation industry and business and individuals in the tourism industry. Accordingly, an extension was given to these industries for a further period of nine months to 30 June 2022.

Foreign Currency arrangements

Banking Act Directions were issued from time to time with the view of preventing excess volatility in the foreign exchange market. Some of the arrangements made are as follows.

- Temporary restraints in entering into forward contracts of foreign exchange
- Closely monitor forex positions while prudently screening forex outflow
- Temporary suspension of the purchase of Sri Lanka International Sovereign Bonds
- Revoking the limits on short-term foreign currency borrowings

Aspirations for 2022 and Beyond

- The banking sector remains cautious of the direct and indirect impacts of the economic slowdown, together with the impact of the debt moratorium. While the outlook remains positive for provisions for credit and other assets, the sector remains prepared to face any potential negative impacts arising with resurgence of new strains of the virus. The outlook for loans to the private sector remains favorable and all policies point towards unrestrained credit growth.
- Digitisation is rapidly changing customer expectations and behaviour. The rise of digitisation also leads to enormous pressure on banks to cope with the expansion in volume, velocity and cyber threats and respond to new demands from within the business as well as increased regulatory expectations. To minimise disruption and maximise benefits, banks in Sri Lanka should cautiously adapt policies on digital data and international policies to face emerging realities.

Financial Viability and Investor Security

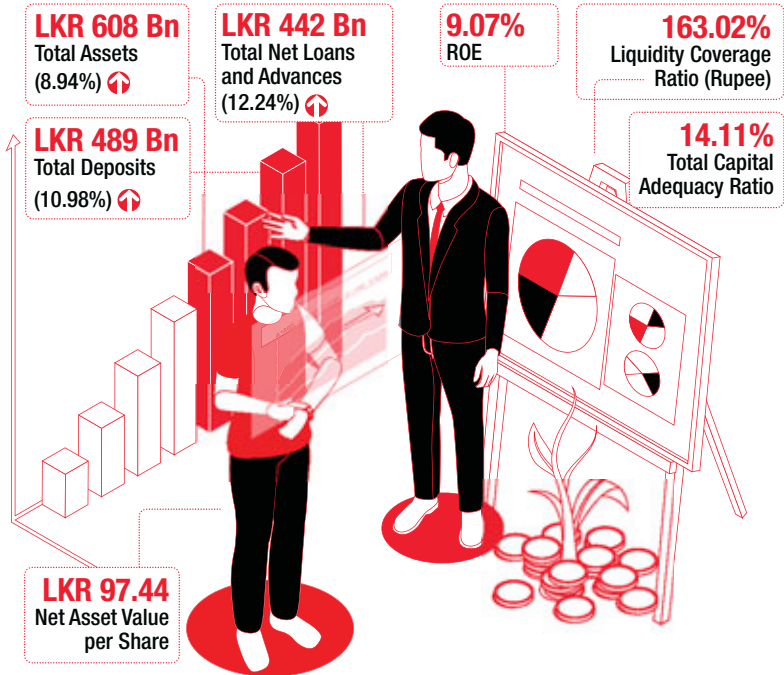
Seylan Bank aims to deliver maximum returns and long-term sustainable value to our investors. We make every effort to provide a detailed and transparent analysis of our current and future strategies and performance to enable investors to make valuable decisions. Our business models and strategies are built to capture the opportunities inherent in our unique footprint by bonding with investors.

Our Approach

Financial capital is the economic resource which enables the Bank to pursue business growth and prosperity by executing investment strategies and planned expenditure to create value for the Bank and all our stakeholders. A primary goal of creating financial capital value is to satisfy shareholder and investor needs to nurture the future financial viability of the business. By adopting good governance practices and implementing a rigorous risk management system the Bank has been able to increase the trust amongst all stakeholders.

To foster the financial capital expansion of the Bank, all internal stakeholders understand and apply the rules of the banking industry, financial feasibility and ethical business principles. To encourage cohesive and collaborative communications with our shareholders and investors we work as one team with one vision and cater to the spectrum of business and banking needs to manage the impact on the financial resources of these stakeholders and to create lasting value.

To cascade business performance progress transparently and honestly, the Bank has voluntarily adopted integrated reporting principles and the GRI Standard for sustainability reporting, in addition to following the principles of triple-bottom-line reporting and information sharing according to the requirements of regulatory authorities. This approach delivers a clear picture of the Bank's business model and strategic imperatives while enabling the dissemination of useful information for timely and enduring decision-making.



Assuring shareholder and investor returns is paramount to sustainable banking operations

Economic Policy

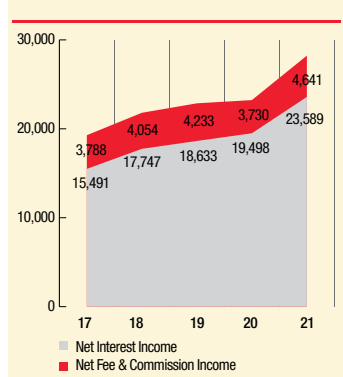
Seylan Bank is committed to delivering economic value to all its stakeholders. As such, our core activities are structured and managed to create economic prosperity through value addition.

Income Statement Analysis

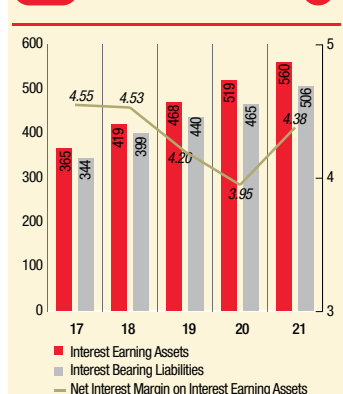
Net Interest Income and Net Interest Margin

The Bank's overall interest income for the period under review recorded a decrease of LKR 4.3 Bn to record LKR 46.8 Bn in 2021 compared to LKR 51.1 Bn recorded in 2020, reduction of 8.48%. However, interest expense for the financial year decreased by a higher percentage of 26.66% amounting to LKR 23.2 Bn compared to LKR 31.6 Bn recorded in 2020. As a result, the Net Interest Income (NII) also recorded an impressive growth of 20.98% for the period under review compared to 4.64% reported in 2020. An improved Net Interest Margin on Average Interest Earning Assets (NIM) of 4.38% recorded in 2021 compared to 3.95% in 2020 was driven by the timely re-pricing of assets and liabilities, together with the Bank's continual strengthening of the CASA (Current Account and Savings Account) base which grew by 19.00% YoY to LKR 27.6 Bn in 2021.

NII AND NET FEE & COMMISSION INCOME



INTEREST MARGIN



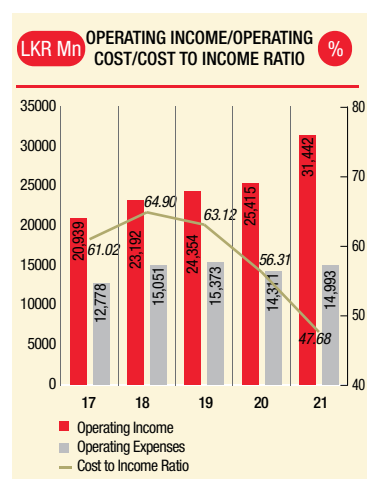
Fee and Commission Income, Other Income and Total Operating Income

The Bank's net fee and commission income recorded a notable growth of 24.44% to LKR 4.6 Bn in 2021 from LKR 3.7 Bn in the previous financial year. The growth in fee and commission income was mainly driven by increasing growth of guarantees, trade and remittances, fee income on loans and cards.

Operating Income

The Bank recorded a total operating income growth of 23.71% amounting to LKR 31.4 Bn in 2021 compared to LKR 25.4 Bn in the previous financial year. This momentous growth was mainly driven by foreign exchange income which amounted to LKR 2.1 Bn in 2021 compared to LKR 0.8 Bn in 2020.

The Bank's net gains/(loss) from trading was 163.02%, a decrease affected by the market loss of trading derivative financial instruments and the loss in government securities during the year under review. Net Gains from the Derecognition of Financial Assets recorded negative growth of 29.28% over the prior year, primarily due to the capital gains realised without increasing interest rate that prevailed during the year under review. Net other operating income of the Bank amounted to LKR 2,877.6 Mn for 2021, an increase of 172.04% compared to the previous year. This improvement is primarily attributed to the increase in foreign exchange income derived from both the revaluation gain/(loss) on the Bank's net open position and realised exchange gain/(loss) from foreign currency transactions.



Impairment Charges

The Bank ensures adequate provisions are made in the Financial Statements for impairment charges and remains committed to continuously assessing the credit quality of the Bank's loan portfolio. In the year under review, the credit quality of the Individually Significant Loans was critically evaluated and appropriate provisions made, although some of those customers were within the debt moratorium. Moreover, adequate provisions were also made under the Collective Impairment category to capture the impact of the sluggish economic conditions prevalent in 2021 where part of the customers still continue on debt moratoria.

Management overlay was built to avoid any potential risk to the moratorium customers, while additional provisions were made to make sure the possible credit risk is addressed.

The Bank recorded an impairment charge of LKR 10.4 Bn in 2021 compared to LKR 7.0 Bn reported in 2020; with a growth of 49.03%. The impairment charges for Stage 3 advances increased from LKR 5.7 Bn in 2020 to LKR 6.5 Bn in 2021. Further, the impairment charges on Stage 1 and Stage 2 advances also increased during the year under review as the Bank made additional provision to avoid potential losses arising due to the moratorium loans. Impairment charge for Stage 1 advances grew to LKR 1,389.1 Mn from LKR 628.4 Mn in 2020, while Impairment charge for Stage 2 advances increased to LKR 1,123.9 Mn from LKR 359.0 Mn in 2020.

The impairment charges for debt and other instruments measured at amortised cost for the period under review was LKR 420.2 Mn, a 64.21% growth compared to previous financial year (LKR 255.9 Mn in 2020).

Impairment (Stage 3) to Stage 3 loans ratio stood at 47.84% as of 31st December 2021.

Operating Expenses and Cost to Income Ratio

The overall operating expenses of the Bank increased by 2.15% from LKR 12.8 Bn in 2020 to LKR 13.1 Bn during the period under review.

The moderate increase in establishment expenses is commendable given the relatively faster volume growth during the year which reflects process improvements and efficiency-enhancing initiatives such as the implementation of workflows, robotic process automation, business

processes re-engineering and transaction migration to digital platforms. As a result the establishment expenses increased from LKR 5.5 Bn in 2020 to LKR 5.8 Bn in 2021. The Bank continues to focus on cost curtailment related to non-value-adding cost and streamline the processes.

The Bank's personnel expenses increased slightly by 0.15% to record LKR 7.3 Bn in 2021 compared to LKR 7.2 Bn in the previous year. Personnel expenses includes a reversal of LKR 437.0 Mn past service cost on defined benefit obligation and if same was excluded, the personnel cost would have been higher with a 6.19% increase over the previous year. This was mainly due to annual increments through collective agreements and promotions given to staff members resulting in increased salary scales.

Moreover, the Bank's cost to income ratio excluding taxation recorded a significant drop and stood at 41.53% at the end of 2021 compared to 50.30% in the previous financial year. The cost to income ratio including tax remains at 47.68%, recording a reduction compared to 56.31% achieved in 2020.

Taxation

The Bank's VAT on financial services increased by 26.60% amounting to LKR 1.9 Bn in FY 2021 compared to LKR 1.5 Bn recorded in the previous financial year. The Bank's reported income tax with a growth of 31.57% amounting to LKR 1.4 Bn for the period under review compared to LKR 1.1 Bn in 2020.

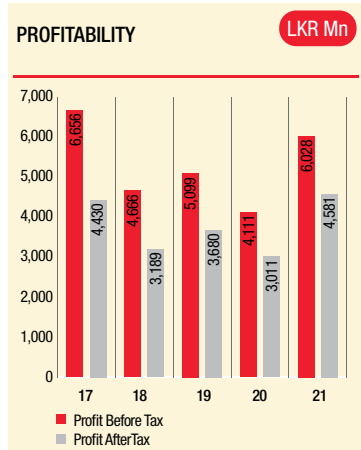
The effective tax rate for 2021 was 24%, but recorded at 32% with the excluding of deferred tax amount.

The current year movement of deferred tax has resulted in the change of income tax rate reduction from 28% to 24% which resulted in LKR 65.7 Mn of net impact on the Income Statement.

Profitability

Despite the extremely challenging operating conditions that prevailed in 2021, the Bank recorded a robust growth of 46.62% in Profit Before Tax (PBT) amounting to LKR 6.0 Bn compared to LKR 4.1 Bn recorded in 2020. Similarly, the Bank's Profit After Tax (PAT) also achieved a 52.11% growth amounting to LKR 4.6 Bn in 2021 compared to LKR 3.0 Bn recorded in the previous financial year. Main contribution to higher profit came from net interest income, fee income, other income and managing the cost despite significant increase in impairment charges as mentioned earlier.

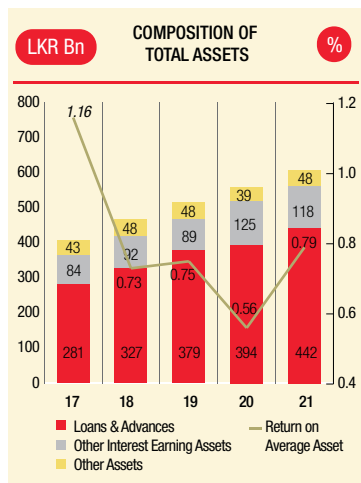
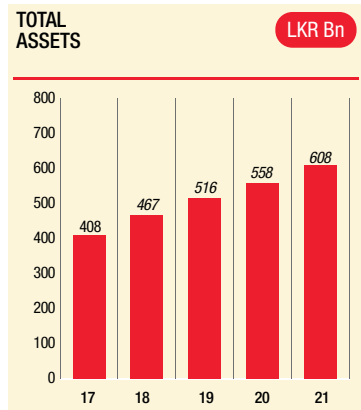
Financial Viability and Investor Security



Statement of Financial Position

Total Assets

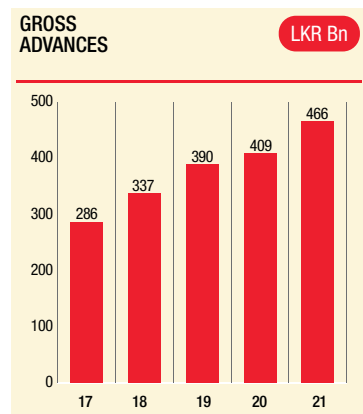
The growth of the Bank’s total assets which surpassed LKR 600 Bn in the year under review is a critical milestone demonstrating the sustained growth the Bank has been managing over the years. This growth in the asset base mainly comprises of growth in loans and advances.



Loans and Advances

The Bank’s loans portfolio grew satisfactorily by 12.24% amounting to LKR 442.0 Bn. The key contributors to this growth were the Bank’s Term Loans, Pawning and Packing Credit Loans products and Overdraft.

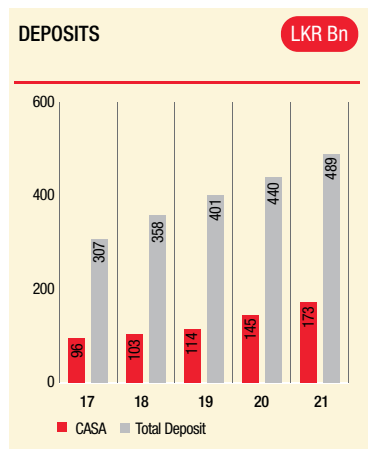
Retaining the asset quality was a challenge for the Bank in the year under review. However, adopting stringent controls mechanisms such as tightened loan approval and disbursement processes, continuous monitoring and strengthened recovery processes and follow up helped to control non-performing loans and manage the viability of the loans portfolio customer base.



Deposits and CASA

The Bank’s dynamic internal campaigns and promotions through digital platforms have enabled the growth of our deposits portfolio in an overall low-interest rate climate in the first half of the year. The total deposits base of the Bank grew by 10.98% during the period under review to LKR 488.7 Bn from LKR 440.3 Bn in 2020. This increase is mainly attributed to the successful uptake of the internal campaign “Rise Up” which was launched in 2021 to promote the savings accounts products. Furthermore, the Bank’s CASA base grew from LKR 145.4 Bn in 2020 to LKR 173.0 Bn in 2021, a 19.00% growth compared to the previous financial year. The Bank’s CASA ratio stood at 35.41% in 2021 compared to 33.03% in 2020.

To supplement business growth and to enhance the lending book, the Bank raised a total of LKR 6 Bn in a debenture issue during the financial year 2021.



Financial Indicators and Ratios

Capital Adequacy Ratio

The Bank continued focussed efforts to maintain sound capital adequacy despite the growth of the risk-weighted assets. The Bank’s Common Equity Tier 1 (CET1) Capital Ratio and Total Tier 1 capital ratio recorded at 10.72%. The Total Capital Ratio recorded by the Bank as of 31st December 2021 was 14.11%. (Please refer page 129 for more details)

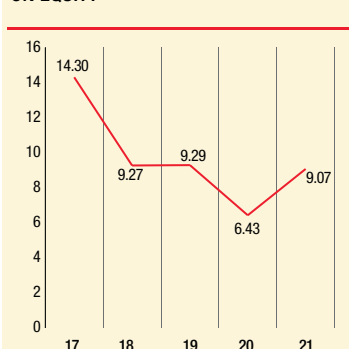
	CBSL Requirement	2021	2020
Risk-weighted Assets	NA	457,466	399,575
Common Equity Tier 1 Capital Ratio (%)	7.00	10.72	11.46
Total Tier 1 Capital Ratio (%)	8.50	10.72	11.46
Total Capital Ratio (%)	12.50	14.11	14.30

Statutory Liquid Asset Ratio (SLAR)

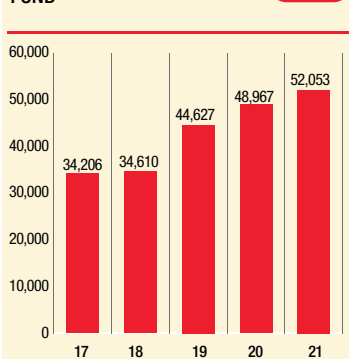
The Bank maintained its liquidity position above the required minimum ratios during the year under review. The SLAR of the domestic banking and the foreign banking units were maintained at 22.84% and 23.30%, respectively as of December 2021.

	CBSL Requirement	2021	2020
Statutory Liquid Assets Ratio			
Domestic Banking Unit (%)	20.00	22.84	31.31
Foreign Banking Unit (%)	20.00	23.30	22.47
Liquidity Coverage			
Ratio – Rupee (%)	2020 - 90.00	163.02	176.95
Liquidity Coverage			
Ratio – All currency (%)	2020 - 90.00	132.70	142.75

RETURN ON EQUITY



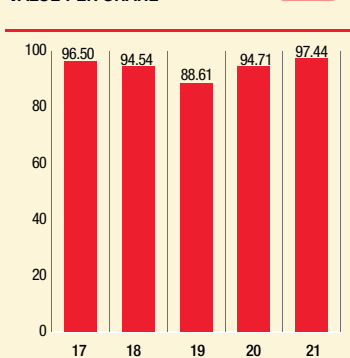
SHAREHOLDER FUND



Earnings Per Share (EPS) and Net Assets Value Per Share

The Bank's Earnings Per Share (EPS) at the end of 2021 amounted to LKR 8.57, compared to LKR 5.64 recorded in the previous financial year. The Net Assets Value Per Share was LKR 97.44 (Group LKR 101.01) at the end of 2021 compared to LKR 94.71 (Group LKR 98.20) recorded at the end of FY 2020.

NET ASSETS VALUE PER SHARE

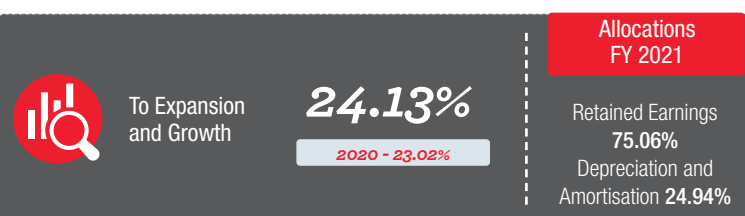
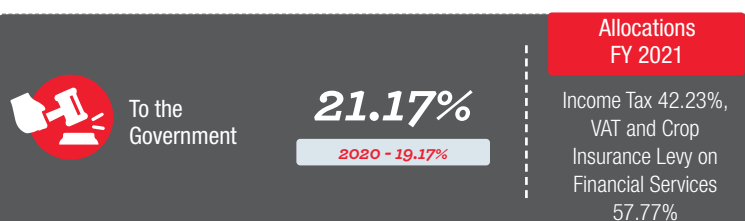
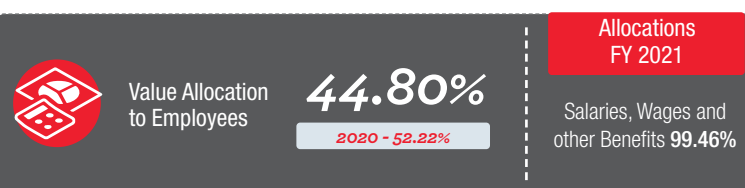


Returns to Investors

The Bank continues to serve our investors to the best of our abilities and to maintain consistency in creating long-term value.

Value Added Statement

	2021 LKR Mn
Value Allocation to Employees	7,252
To Government	3,427
To Shareholders	1,603
To Expansion and Growth	3,907
Total Value Distributed	16,189



Distribution of shareholding with no. of Shares

Year	Type		No. of Shares	%
2021	Type	Voting	264,267,493	49.5
		Non-Voting	269,923,190	50.5
	Geographic	Resident	517,889,896	96.9
		Non-Resident	16,300,787	3.1
Demographic	Corporate	428,771,501	80.3	
	Individual	105,419,182	19.7	
2020	Type	Voting	256,716,994	49.7
		Non-Voting	260,305,975	50.3
	Geographic	Resident	498,934,144	96.5
		Non-Resident	18,088,825	3.5
Demographic	Corporate	403,823,262	78.1	
	Individual	113,199,707	21.9	

Financial Viability and Investor Security

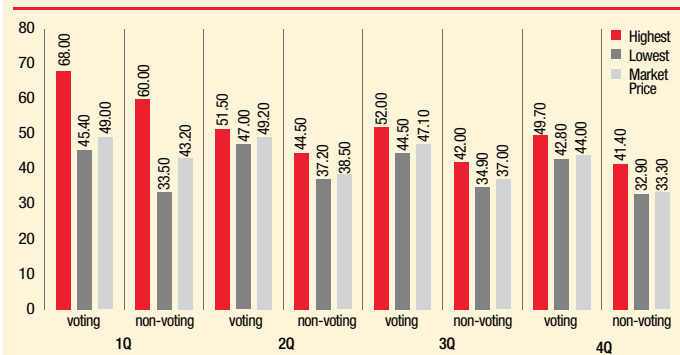
Value Creation for Our Shareholders

	2021	2020	2019	2018	2017
Turnover (LKR Mn)	54,767	57,224	61,370	54,873	49,161
Profit before income tax (LKR Mn)	6,028	4,111	5,099	4,666	6,656
Profit after income tax (LKR Mn)	4,581	3,011	3,680	3,189	4,430
Total assets (LKR Mn)	607,577	557,707	516,294	466,933	408,126
Net assets per share (LKR)	97.44	94.71	88.61	94.54	96.50
Earnings per share (LKR)	8.57	5.64	6.89	5.97	8.29
Dividend per share as at 31 December (LKR)	3.00	1.50	2.00	2.50	3.50

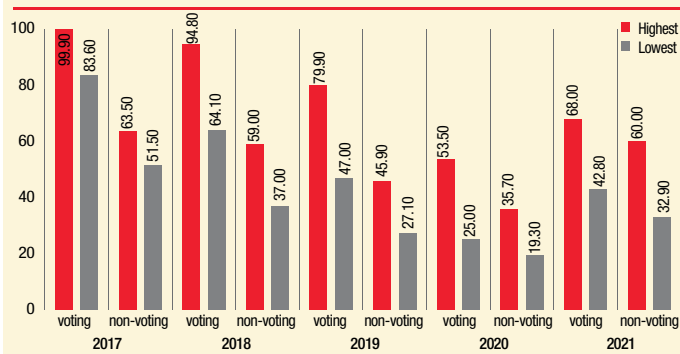
Dividend Payout

The objective of the Bank's dividend policy is to create maximum value for our shareholders and consequently improve market capitalisation, while taking into account prudent profit retention to build the Bank's organic capital.

SHARE PRICE MOVEMENT ACROSS QUARTERS - FY 2021



SHARE PRICE MOVEMENT FOR 5 YEARS



Financial Reporting and Compliance

The annual and interim reports issued by the Bank are the primary media used to keep our shareholders and the general public informed of the Bank's financial position and performance.

The Bank is committed to publishing our Annual Report and interim reports in a timely manner and submitting the required

information to the Colombo Stock Exchange (CSE) on or before the stipulated dates.

The interim Financial Statements for 2021 were published well in advance to assist the investment decisions of investors and other stakeholders.

Awards and Recognition

The Bank was recognised with several awards during the year. Details have been provided under the customer capital section.



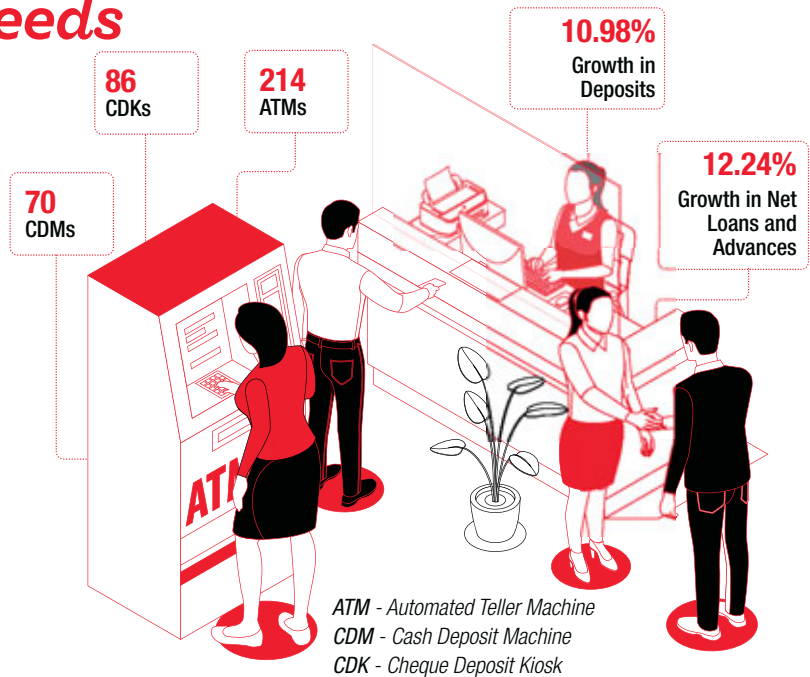
Aspirations for 2022 and Beyond

- In the new normal environment, the Bank's financial resilience remains a key for investors to make decisions accurately. As a result, the Bank will continue to steer its active engagement including creating wealth and value for our investors with consistent and sustainable growth levels, while maintaining the enhanced quality of our products and services.
- Strengthening risk management and other regulatory requirements remains a continuing focus for the Bank and is considered to be a key aspect to creating long term sustainable value for our investors.
- Furthermore, enriching the Bank's functions within an appropriate economic integrated framework based on the country's economic outlook and strategic alliances supports Seylan Bank in gearing towards a performance-oriented future despite the volatility seen in the market.
- As a part of our commitment to enhancing operational efficiency, service quality and optimising returns to shareholders, the Bank is working on several strategic initiatives including centralisation of processes, cost optimisation, business processing re-engineering and digitalisation as mechanisms to move forward and retain our competitive advantage.
- The Bank's actual growth for the years 2020 and 2021 are as follows:

	Actual	Actual
	2021	2020
Total Deposits (LKR Bn)	489	440
Total Net Advances (LKR Bn)	442	394
Total Assets (LKR Bn)	608	558
ROE (%)	9.07	6.43
ROA (%)	0.79	0.56
EPS (LKR)	8.57	5.64

Aspiring to Fulfil Customer Needs

Our customers are the foundation of the Bank's operations. They are the stakeholders for whom we have built our business philosophy. They encourage us to take forward our services and products by giving us the impetus to innovate and think differently to meet their every financial need. They inspire us towards bigger and better services which enables the value creation process and drives the Bank's success in the longer term.



Our Approach

The Bank operates as a customer-centric business where we approach strategic growth by developing new products and services to meet our current and prospective customers' existing and emerging needs, ethically and beneficially. The Bank's culture inculcates customer centricity with an employee empowered culture enabling the Bank to ensure customer satisfaction by focusing on continuously improving service standards, pursuing product innovations and offering uninterrupted and easy access to financial services across customer segments. To meet these aims, the Bank continuously adopts technology within our operations to support efficacy in services and customer reach, while deriving competitive advantage.

Noteworthy Achievements in 2021





The Rise Up campaign brought in **nearly 50,000 CASA and FD** customers during the year

Introduced a mini-statement via SMS

Number one in customer service excellence for the 3rd consecutive year awarded by LMD magazine



Key Focus Areas and How We Performed

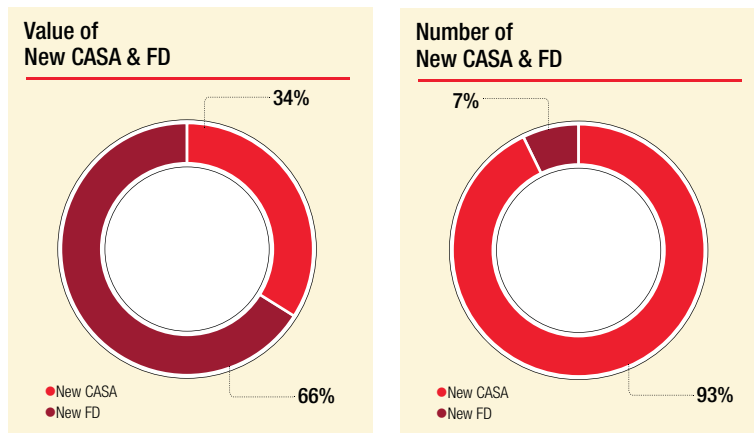
Growth in Customer Base 	
Focus on enhancing the customer base	<ul style="list-style-type: none"> Execution of the Rise Up campaign Carried out an internal campaign to promote the Harasara product which was revamped last year Promotions carried out for Special Deposit Account (SDA)
Product Innovation and New Product Development 	
New product launch	<ul style="list-style-type: none"> Launch of business banking VISA Debit Card
Uninterrupted Services and Easy Access to Financial Services 	
Branch relocations and refurbishment and constant delivering of uninterrupted service across the network	<ul style="list-style-type: none"> Three branches were relocated Two branches were merged Complied with health and safety measures Branches were opened for business during the COVID-19 lockdown to serve the customers and deployed a mobile ATM
Technology to Fulfil Customer Needs and Satisfy Customers 	
Progressive use of online tools to communicate and reach customers	<ul style="list-style-type: none"> Social media has enabled increasing communication to reach across the country
Implementing and improving digital banking operations	<ul style="list-style-type: none"> Installed 10 CDKs On-boarding of customers via digital channeling Deployment of Mobile ATM
Promoting a paperless environment	<ul style="list-style-type: none"> Migrated Seylan Credit Card Statement Customers to e-Statements Introduced a mini-Statement via SMS Reached 81% ratio on E-Statements for Credit Cards
Other value added services	<ul style="list-style-type: none"> Discounts for credit card and debit card purchases - supermarkets, restaurants, clothing, etc Cash-back offers for fuel and supermarkets Partnerships with vendors offering easy payment schemes Revised total incentive payment for worker remittances to LKR 10 per US Dollar equivalent

Aspiring to Fulfil Customer Needs

Growth in Customer Base

The Rise Up campaign was launched by the Bank as an internal employee campaign to acquire new and new-to-bank CASA, long term high-cost deposits and to accelerate and increase the customer onboarding to Digital/Alternate Channels. The campaign was open to all employees of the Bank, including the sales staff and offered recognition and rewards to individuals and to teams that excel and are recognised as winners under pre-determined criteria. The campaign was a success and resulted in acquiring sizeable new CASA and Fixed Deposit (FD) accounts.

Rise Up campaign growth



Product Policy

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

Product Innovation and New Product Development

The Bank continues to bring innovative and relevant products to market to meet our customers' changing needs. While these products must meet the needs of our customers, they must also comply with the strict rules pertaining to the banking and finance industry of Sri Lanka. Some of our product lines are also upgraded and improved to meet emerging financial needs and technology-driven trends within the banking industry.

Special Deposit Account

Intending to improve the foreign currency deposits and LKR conversions, the Central Bank of Sri Lanka introduced a deposit scheme to allow Sri Lankans and well-wishers living in Sri Lanka and abroad to extend a gesture of goodwill towards Sri Lanka by investing in the Seylan Special Deposit Account (SDA). Seylan SDA offers investors competitive interest rates with the freedom to repatriate maturity proceeds to their accounts overseas. The Bank actively conducted SDA promotions via digital channels and other media as indicated below.

- The Bank published SDA promotional material through various social media platforms.
- One-to-one contact with potential customers were tapped and established through the branch network and staff.
- The customer inquiry service centre was enabled to have live chats 24 x 7 x 365 on the SDA product for potential inquiries, to facilitate inquiries from Sri Lankans living overseas across time zones.
- Carried out a television campaign on the SDA product on major local channels for two months.
- Promoting the SDA product via popular digital communication apps such as Imo, Viber, etc.

Incentive on Worker Remittances

To encourage worker remittances into the country through formal fund transferring channels, an incentive of LKR 2 per US Dollar was introduced by the Central Bank of Sri Lanka for worker remittances and conversion of funds from personal foreign currency accounts. This incentive was increased to LKR 10 during the month of December 2021.




The Bank extended this scheme to all eligible customers.

Seylan Bank also sent out notices regarding this benefit to Sri Lankan migrant workers via our digital/social media channels and also through our remittance agents. Further initiatives were taken during 2021 to retain and attract remittance customers towards Seylan Bank.








- Marketing communication through mass media - Bank has advertised the remittance products and offers available, through mass media to get the maximum reach.
- Branch branding - With a view of attracting remittance customers, displayed the remittance products on a specially designed monopole at branch premises according to the branch branding guidelines.
- Digital marketing target campaigns - Bank has advertised through Bank social media targeting Sri Lankan expatriates in potential corridors.
- Mobile reloads for beneficiaries - A mobile reload up to LKR 1,000 is offered for beneficiaries who collects Western Union payments at the Bank counters.




Product Portfolio

Deposit Products	Description	Value Delivered	Markets Served
 Seylan Mega Rewards Rewards for precious moments in life	Offers definite benefits for personal savings, current accounts, personal foreign currency savings and foreign currency fixed deposits	Interest and reward benefits	Individuals aged above 18 years
 Seylan Tikiri A WORLD OF HAPPINESS AND FUN FOR LITTLE ONES	Account for little ones	Interest, reward, gifts and bonus interest benefits	Children below 15 years of age
 Seylan Harasara	Financial solution for senior citizens	Interest, reward, benefits, merchant discounts, pension loan	Senior citizens aged above 55 years
 Seylan Money Market Savings Account	Short-term savings account with higher interest rate	Interest benefit	Corporate, individual clients and collection accounts of institutions
 Millennium 30 30 DAY FIXED DEPOSIT	30-day fixed deposit	Interest benefit	Corporate, SME, retail and individual clients
 Seylan Flexi Deposit FIXED DEPOSIT	Allows depositor to select the time period of the fixed deposit	Interest benefit, flexibility	Corporate, SME, retail and individual clients
 Seylan Shakthi 4 YEAR FIXED DEPOSIT	4-year fixed deposit	Interest and reward benefits (in addition to interest eligible for utility payment vouchers in addition to interest)	Retail clients
 Seylan 5Star FIXED DEPOSIT	5-year fixed deposit	Interest and reward benefits (in addition to interest customers are eligible for utility payment vouchers in addition to interest)	Retail clients
 Seylfie	Youth account	Rupee interest, digital interest and reward benefits	Youth aged between 18-26 years
 Seylan myplan Begin Your Account	Savings account with monthly fixed saving commitment	Interest benefit	SMEs, business clients and individuals
 Income Saver Account	Savings account for monthly regular income earners	Interest and reward benefits	Individuals who earn a regular monthly income

Lending Products	Description	Value Delivered	Markets Served
 Seylan Home Loans සමහර මහා - ජී.කොමර්ස් බැංකු	Home loans up to LKR 100 Mn to purchase a bare land, purchase, construct or renovate a house or to purchase a condominium apartment	Fixed interest rates, documentation support and advisory with doorstep service	Primarily salaried individuals, professionals and businessmen
 Seylan Loan Against Property The multi purpose loan	Loans made available against your residential property to upgrade your lifestyle, grow your business or for investments	Fixed interest rates and doorstep service	Salaried Individuals drawing a monthly fixed income over LKR 50,000 with residential property under their name
 Seylan Leasing සමහර මහා බැංකුවේ සේවාවක්	Finance leases for vehicles, motorcycles, machinery, plant and equipment	Fixed interest rates with a flexible repayment structure and approval within a day	Corporate, SME, retail and individual clients

Aspiring to Fulfil Customer Needs

Lending Products		Description	Value Delivered	Markets Served
	Seylan Personal Loans	Personal loan for any related purpose	Fixed interest rates, doorstep service	Salaried individuals employed at reputed companies, professionals, government servants and armed forces
	Seylan SME	Specialised loan scheme for SME sector	Interest benefits	SME clients
	Scholar Loans	Unique higher education loan scheme	Fixed interest with a longer repayment tenure	Individual clients
	Seylan Credit Cards	Visa, Master credit cards	Interest benefits, rewards and merchant discounts	Individual clients
	Trade Finance	Imports and exports	Commission and interest benefits	Corporate, SME, retail and individual clients
	Seylan Factoring	Provides working capital requirements against trade receivables	Generates working capital	Corporate, SME, retail and individual clients
	Seylan Gold Loans	Instant short-term loan facility against gold articles	Interest benefits	Proprietors of business concerns and individuals

Other Offerings		Description	Value Delivered	Markets Served
	Seylan eBanking	Able to carry out a variety of banking functions at their convenience by the click of a button	Low charges and 24x7x365 accessibility	Corporate, SME, retail and individual clients and credit cardholders
	SEY Cash	Bank's remittances platform	Commission benefits	Individual clients
	SMS Banking	Opportunity to carry out selected banking functions via SMS	Free up to a number of SMSs and convenience	Corporate, SME, retail and individual clients and credit cardholders
	Overdrafts	Overdraft facilities for personal and corporate current account holders	Interest benefits	Corporate, SME, retail and individual clients
	Seylan Personal Solar Loans	Installation of a solar solution on a house owned by the applicant	Fixed interest rates	Salaried employees drawing a monthly fixed income over LKR 50,000 together with a consistent income
	Loan Scheme for Pensioners	Specialised banking service for pensioners up to a maximum loan amount of LKR 2.5 Mn	Fixed interest rates	Government pensioners
	Safety Lockers	Allows customers to keep their valuable assets safely	Safety of assets	Corporate, SME, retail and individual clients
	Palmtop Banking	On-board customers remotely and collection of cash	Convenience	Existing customers

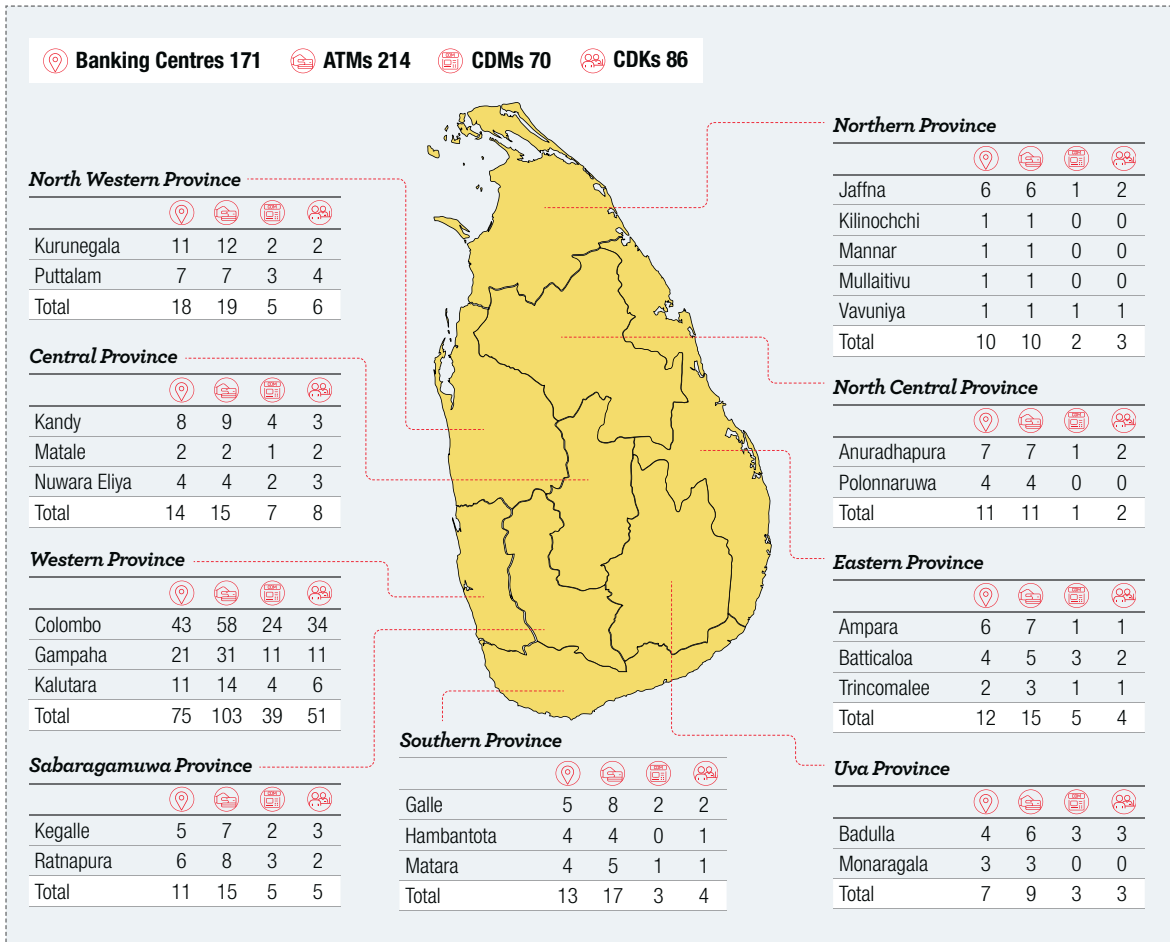
Increasing Customer Reach

The Bank continues to maintain physical locations to serve our customers and meet their financial needs. In 2021, the Bank relocated three branches in the towns of

Mannar, Ruwanwella and Kollupitiya to improve access and convenience to our customers. The Bank also merged the Kotiyakumbura branch with the Ruwanwella branch so that customers could be served better and the branches could operate more optimally as one entity. Furthermore, the Bank also continued to expand our ATM,

CDM and CDK networks to reach more customers at any given time. We used digital tools to improve reach and access and partnered with third party Fintech operators and other vendors to ease remittance processes and enable access to banking services where we had no direct presence.

Our Geographical Presence



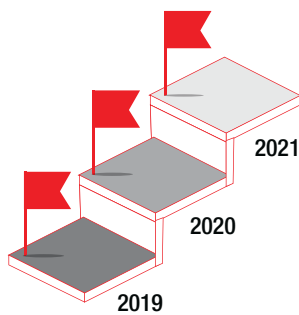
Improved Customer Experience through Digitalisation

COVID-19 accelerated the digitisation of the banking industry as customer expectations underwent a drastic change during the pandemic. Accordingly, the Bank substantially invested to digitalise our internal and customer-facing operations to improve customer convenience and achieve service excellence in an environment changing from a conventional business model. The Bank upgraded and promoted internet banking facilities and mobile banking amongst our customers, thereby reducing over-the-counter transactions while extending the benefits of technology adoption to customers.

Meeting Service Excellence Aspirations



Aspiring to Fulfil Customer Needs



INSPIRED BY RECOGNITION

Seylan Bank successfully re-affirmed its position in the Banking and Financial industry of Sri Lanka as the Number One in Customer Service Excellence for the third consecutive year!

Awarded by LMD Magazine

National Sales Congress (NASCO)

8 NASCO Awards

SLIBF Awards

Gold Award
Emerging entity of the year for Seylan Islamic Banking

Business Today Magazine

Rated among top 40 entities at #26

Annual Report Awards

Banking institutions compliance award by CA Sri Lanka

Social Media Prowess

#77 in the world for Social Media Marketing Efforts

We are honoured to be the highest-ranked Sri Lankan brand to be listed on the financial brand website

SLIM Digis for Social Media Campaigns

Received 2 Finalist Awards and a Silver Award

The Bank conducted Mystery Shopper/ Mystery caller, SME studies and focus groups on pre and post launches during the year to assess and measure customer satisfaction towards our products and services. Seylan Bank recorded 80.05% customer satisfaction in 2021 based on the results of the Mystery Shopper survey. (77.06%:2020)

Support for Disadvantaged Customers

The Bank's service excellence extends to supporting people in need. For instance, some of the Bank's branches are designed for easy wheelchair access and we support disadvantaged groups and people with limited banking process knowledge by providing them with priority services and personal support to make banking hassle-free and offer equality in accessing financial services.

Seylan RED

The private banking proposition launched in 2020 has been a great success in building and managing customer relationships in a streamlined manner. The success of our Priority Banking Membership at the dedicated Centre in our Cinnamon Gardens branch will be expanded and replicated at other key branches in the coming year.

Grievance Management

The Bank's formal customer grievance mechanism offers a safe and secure method for customers to lodge issues, problems or unexpected low service levels experienced due to the use of any of our banking facilities. The Bank's customer grievance mechanism is well-defined and guides the process of how and who should handle any customer grievances received and the best

method to resolve them to the satisfaction of all parties concerned.

Product/Service Labelling and Marketing Communications

The Bank's Product Development Committee governs all our products and services. They are responsible to review and approve all product designs and features before new products or revitalised products are launched. To disseminate accurate product details to our customers, the Bank publishes product information on our website, product brochure and other relevant communication media. Ensuring equality in communication, we publish product information in Sinhala, Tamil and English across all media channels. We also aspire to include comprehensive product features and service details so that our customers can make a well-informed and knowledgeable decision when purchasing a financial product.

Customer Privacy

As a financial services provider with an ever-increasing digital presence, the privacy of customer information is a high priority for the Bank. The Bank has and continues to utilise advanced security and privacy systems and technologies to protect our customers' money and personal information.

Digital security systems and online platforms are regularly reviewed for updates and upgrades as technology evolves. Digital databases, security systems and processes and online platforms are audited for following safety protocols, emerging vulnerabilities and compliance with regulatory policies and guidelines.

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



Sale of Banned or Disputed Products

The Bank operated in strict compliance with the edicts of the Central Bank of Sri Lanka Customer Charter. Our products and services are highly regularised and duly registered. The Bank does not offer products or services which are banned or disputed in the market or subject to a stakeholder or public debate.

Compliance

The Bank's operations, activities and products and services diligently follow all applicable industry laws and regulations as well as relevant social and environmental laws and regulations. The Bank accords the highest importance to these compliance responsibilities and compliance reviews. As part of our compliance process, regular internal and external audits are conducted across all the Bank's departments and branches to ensure compliance.

Aspirations for 2022 and Beyond

The Bank will continue to place the customer at the centre of thinking and leverage on the undying passion for service excellence.

Understanding customer requirements, the Bank will invest resources to develop relevant Financial Solutions and deliver them to customers across Sri Lanka; via multiple channels.

Digitisation and Digital Banking will be one of the key areas of interest, as the world is moving towards an era of integrated digital economies. The Bank will embark on digitisation with our primary focus being towards customer centricity, while maintaining data security and customer privacy as required by regulations and as befits the Bank's status as an 'ethical and responsible banking institution'.

Our Digital solutions will always ensure a 'frictionless user journey' and we will focus on being an enabler to all our customers.

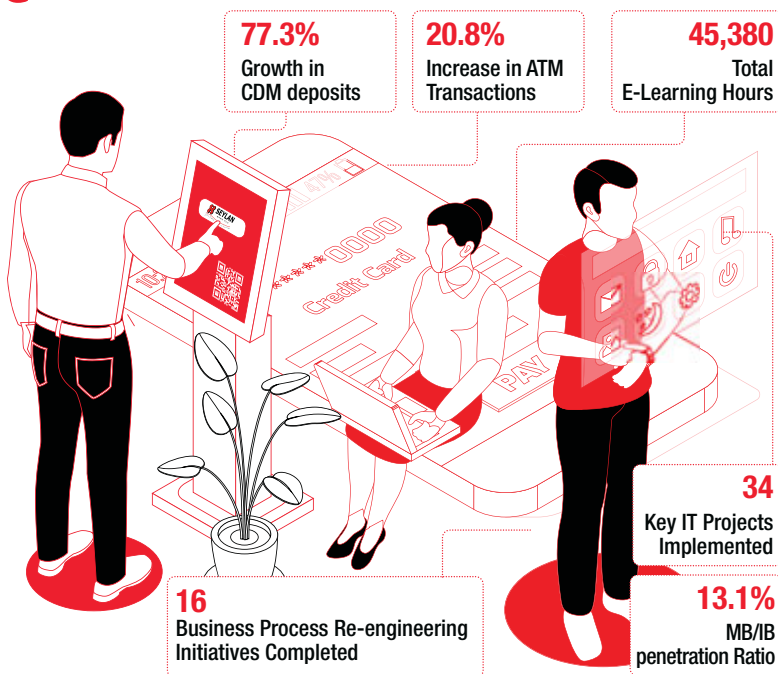
We will create opportunities for those who aspire to grow and will guide and facilitate all stakeholders in their journey towards success. Marketing communications and promotions will take this message closer to our stakeholders and we will continue to be the catalyst - steering the way amidst rapid changes in the external environment.

Seylan 24 x 7 Smart Banking



Step in to Our Digital Future

At Seylan Bank, embracing technology to enhance the efficacy of business operations has been a priority inculcated into our everyday operations. As we become more tech savvy and transformative in terms of digitalisation of our offerings, our improved digital channels, systems and processes support in harnessing our digital future. We strive towards aligning our technology adoption and digitalisation efforts with the Central Bank of Sri Lanka Digital Road Map, while complying with all applicable digitalisation and technology regulations as relevant for commercial banking operations.



Harnessing the benefits of digitalisation for sustainable banking operations

Our Approach

The Bank's main focus remains on embracing innovative and novel technologies. As digitalisation continues to transform banking operations as well as products and services offered by the banking industry, we have adopted these changes to create a positive impact on our stakeholders. Digitalisation acts as a bridge to facilitate modern banking operations to fulfil increasing stakeholders' expectations. This makes digitalisation a key sustainable business strategy in driving the long-term fulfilment of the Bank's purpose.

Adopting technology is an integral part of our corporate strategy, allowing us to differentiate and develop a sustainable competitive advantage. We understand that in today's fast-paced world, our products and services must reflect changing consumer trends and consider the importance of technology in our customer journey. The future of the Bank's success lies in digitalisation and we will continue to expand our digital footprint through strategic investments towards fulfilling.

many diverse requirements of all our stakeholders, while moving towards a virtual environment and continuing to improve our services and operations. Thus, we consider digitalisation and technology adoption as a facilitator to fulfil customer needs, empower employees, streamline processes and systems and better manage stakeholder expectations.

Noteworthy Achievements in 2021

- Introduction of ETF payments via internet and mobile banking
- Increased reach of digitalised payroll transfers by corporates - 136% growth in on-boarding
- Established two Fintech partnerships to facilitate the use of open APIs



Key Focus Areas and How We Performed

Expand our digital footprint



Customer on-boarding via digital channels	<ul style="list-style-type: none"> More than 3,400 customers were on-boarded via digital channels in 2021
Increase customer adoption of digital and online banking services	<ul style="list-style-type: none"> 117% increase in e-statement registrations 13.17% growth in IB/MB users 23,600 + queries resolved via chatbot or by using the online chat service More than 746,000 call centre calls have helped the customers Launch of Seylan Pay as part of the LankaQR initiative
Expand ATM, CDM and CDK facilities across branch network and other strategic locations	<ul style="list-style-type: none"> 214 ATMs across the network 70 Branches have Cash Deposit Machines 86 Branches have Cheque Deposit Kiosk
Introduce open API banking functions	<ul style="list-style-type: none"> Introduced Interest rate and Exchange rate API in October and utilised by two corporates

Key IT enhancements



Continued the momentum of engaging the team to maintain/increase motivation levels and guide towards performance and service delivery during pandemic-related restrictions

Enterprise Services Bus (ESB) Implemented and integrated with FinTechs.

Focus on digital solutions so that staff Work From Home (WFH) is smooth and also, facilitates providing our valued customers with good service remotely

Communication via social media



Increase social media footprint

- Facebook follower base grew by 9.6%
- LinkedIn follower base grew by 59.9%

Process and Systems improvements and enhancements

- Introduced new workflows for operational efficacy of credit card and personal loan approval process.
- Inculcated a culture for data driven decision-making by implementing new data visualisation software with better data analysis and predictive capabilities.

Continue to implement new Robotic Process Automation (RPA)

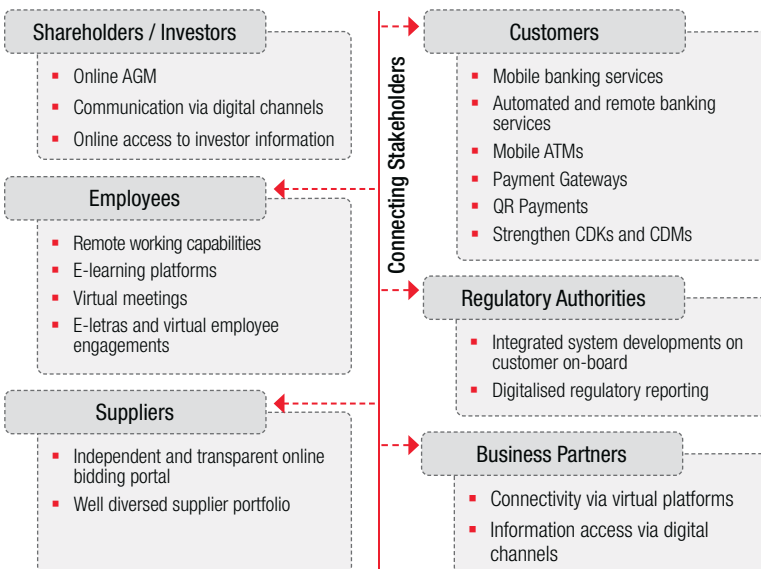
- Integrated the front line systems by introducing a bot solution to further improve efficiency in account opening and other on-boarding solutions.

Offer value added services/products through customised services

- Enabled online and mobile app utility bill payment options for ease of access and greater convenience by customers.
- Introduced Seylan Pay mobile application to facilitate cardless, touch-less QR based payments.
- Conducted virtual investor and customer forums and community based social awareness programmes to support and educate these stakeholder groups.

Connecting Stakeholders

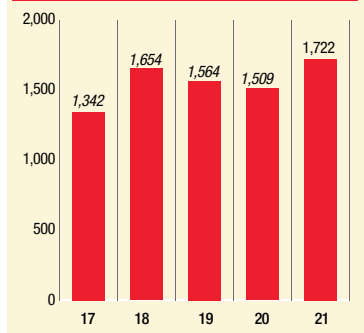
A key element of the Bank's digitalisation strategy is the correlation between digitalisation activities and the value creation for every stakeholder group of the Bank. Our planned technology-related investments will enable us to streamline operations, improve efficiencies and reduce costs, while allowing the Bank to better meet our stakeholders' digitalisation aspirations and achieve our financial goals for a more sustainable future.



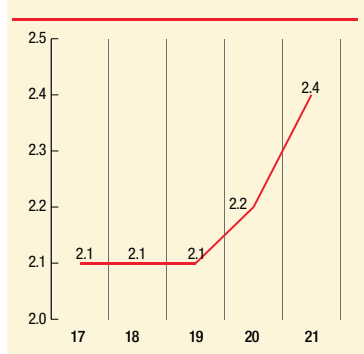
Communicating with Stakeholders / Investors

The Bank's digitalisation efforts over the past years have made it easier for stakeholders to communicate with each other. Using online and digital modes of communication has enhanced customer service levels and response times, shared knowledge and essential information with employees, simplified supplier communications and optimised information transmission to shareholders and regulatory agencies. Using our corporate website, social media platforms and other digital communication methods such as emails, online contact forms, 24x7x365 online chat services, automated digital messages, e-statements and SMS have improved the ease of access and reliability of the information, while providing greater convenience to stakeholders to obtain timely and relevant information.

GROWTH IN NUMBER OF VISITORS TO THE CORPORATE WEBSITE (Nos. '000)



AVERAGE TIME SPENT ON THE CORPORATE WEBSITE (Mins.)



Follow us on Social Media

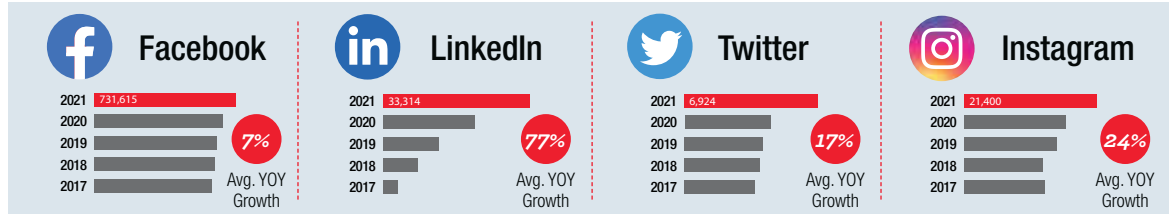
Facebook
 Twitter
 Instagram
 Youtube

Step in to Our Digital Future

Growth in Social Media reach - 2021

Facebook 9.6% ↑ | LinkedIn 59.9% ↑ | Twitter 55.4% ↑ | Instagram 30.6% ↑

Increasing Reach of Social Media Channels



Value Creation through Digitalisation

Technology adoption and our increasing digital footprint have brought a synergistic value to the Bank's operations, a value which is carried forward into the future of banking. As technology adoption does not end with the Bank's implementation but continues with technology adoption by our stakeholders, Seylan Bank takes a more comprehensive approach to integrate both internal and external technology adaptation for synergistic benefits. This will support today's tech-savvy customers who are highly dependent on technology to manage their daily financing activities.

While we continued to battle the negative impacts of the COVID-19 pandemic, the combination of working from home and the importance of continuing business activities remotely has been a challenge that was successfully overcome by the Bank. Our extended digitised services supported our customers to continue to fulfil their financial obligations without interruptions during this difficult period.

Similarly, our continued future success as an organisation working in an ever-changing technology-driven environment is secured by the adaptation of technology within our operations and our upgraded service channels. This, we believe will become a steppingstone in our evolving fintech journey.

Managing IT Security and Data Privacy

While promoting digitalisation and technology adoption in all aspects of our banking operations, a key focus of the Bank is to ensure IT security and information security. As part of our continued efforts to remain relevant with changing IT security requirements, we have developed and implemented an IT security architecture which guides the Bank's IT security and information security management. As part of our efforts to protect our customers and ensure security, we have implemented global best practices and state-of-the-art security systems, while obtaining several national and international IT security and data protection accreditations.

In the year under review, the Bank focussed on improving and optimising the IT security measures in place as part of our continued efforts to mitigate emerging risks. We were also one of the first to simultaneously execute Virtual Patching and Advanced Stress Prevention mechanisms; further assuring our stakeholders' greater security while using our online banking channels. The newly implemented centralised bank-wide data centre incorporates up-to-date IT security and data protection protocols to enable us to protect confidential information received by customers.

The Bank's IT security is an integral part of our digitalisation strategy as it provides the foundation of trust for the online and virtual services offered to key stakeholders, customers, employees and suppliers, who have utilised these services for maximum efficiency and convenience.

Sustaining Compliance Requirements in the Digitalisation Sphere

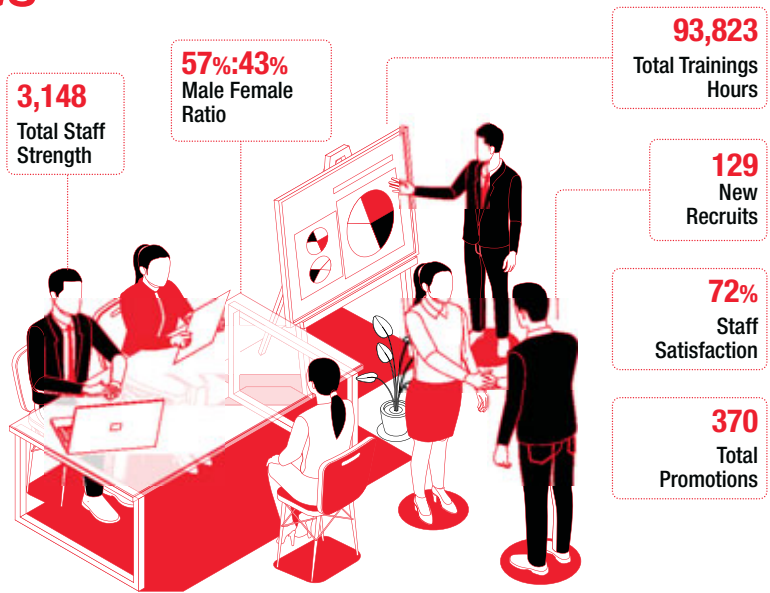
While digitalisation remains a critical strategy to enable competitive advantage, the Bank is also required to meet several compliance requirements on different aspects of technology usage as per the Central Bank of Sri Lanka (CBSL). As the Bank continues to adopt new technology and technology advancements, increases robotic automation processes, machine learning usage and incorporates Artificial Intelligence (AI) tools within operations, the need for ensuring higher levels of security compliance is eminent. Accordingly, the Bank is engaged in enhancing the security compliance requirements by focussing on improving Golang for Machine Learning (GOML) and Information Technology Risk and Security (ITRS) protocols and always working towards 100% compliance.

Aspirations for 2022 and Beyond

- After gaining great momentum by responding to the effects of the COVID-19 pandemic, the Bank will continue to build and expand its digital footprint in the coming years, while focusing on adopting emerging technology advancements to simplify operational processes and increase the convenience of usage for customers as digital banking has become more commonplace in recent years.
- While embracing this new normalcy for banking operations and customer reach, we will focus on several strategic areas for digital augmentation in the coming year. The Bank will continue with the execution of seamless digital banking services, convert processes through automation and AI and derive the advantages offered by machine learning. Digital communication channels will remain a priority for continued developments and advancements, we will also upscale and upgrade the Seylan Bank mobile app, payment gateways and online banking systems and processes. Continuing from the progress made in 2021, we will further develop strategic partnerships with digital payment platform operators and increase our API catalogue with a focus on Fintech vendors.
- As the Bank foresees remote banking operations as its path to a sustainable future, a specific key focus for the year 2022 will be to finalise a digital banking framework with an end-to-end journey of doing banking remotely.
- IT security, data protection and privacy of information will remain a high priority for the Bank. We will make strategic investments to incorporate security solutions that will provide our stakeholders and the Bank with higher levels of security.

Empowering Our Employees

At Seylan Bank, our employees remain an integral part of our value creation process and work as one team to fulfil customer needs while enabling the Bank's prosperity. Therefore, the Bank strives to ensure all employee aspirations are met while we create a team with high motivational levels who are engaged and energised to give their best to deliver on the Bank's promises to our stakeholders.



Our Approach

Our social policy remains the foundation by which the Bank manages our employees' aspirations and career growth. We take a holistic approach to employee management enabling the Bank to implement and foster a range of employee empowerment mechanisms as well as foster diversity, integrity and tolerance of differences within our workforce. The Bank continues to focus on building mutually-beneficial relations with employees meeting their needs and working towards the fulfilment of their future.

During 2021 we focussed on creating enhanced value for employees by managing the diverse needs of our workforce resulting from the pandemic situation, providing a range of training and development programmes, identifying and implementing motivational and engagement programmes with the highest returns and redesigning critical HR processes and policies to manage evolving needs and challenges.

Noteworthy Achievements in 2021

370 employees were promoted during the year

Rated among top 10 by CIMA – Satyn Magazine for Women Friendly Work Place

Social Policy

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



Key Focus Areas and How We Performed

Continue employee engagement programmes as a measure to keep motivation levels high



Continued the momentum of engaging the team to maintain/increase motivation levels and guide towards performance and service delivery during pandemic-related restrictions

- Several engagement programmes were developed and executed during 2021 such as the E-Letras, E-quiz, art competition and fitness challenge.

The digital champions programme

- Digital Champions across our operating locations were chosen to drive electronic banking initiatives such as online banking subscribers, SMS alerts and E-statements and keep motivational levels high through knowledge sharing with internal and external customers.

Develop employee skills and knowledge



Encouraged employees to upskill themselves and obtain new competencies and knowledge

- 13,778 participants with internal, external and E-learning training programmes.
- Sponsored 207 employees to attend 39 external workshops.
- Over 300 online sessions were conducted.



Competency development of people

- A process for employee competency development linked to the competency index/appraisal systems of the Bank has been implemented.
- Certification of specific job holders to ensure their competencies are at the required level.

Creation of talent pools for key job positions

- The Bank has in place a performance management system which highlights the key talent of employees enabling due and recognition and giving employees the opportunity to progress in their career with the Bank.

Empowering Our Employees

Constant education	<ul style="list-style-type: none"> Provided training programme to improve the knowledge and soft skills etc. Online programmes for staff development.
Streamlining and easy access for employee-facing HR functions and processes 	
Added functionalities and services related to online training, E-learning, E-certifications and E-exams	<ul style="list-style-type: none"> Introduced 17 E-learning modules. Majority of training modules have been migrated to online training. Introduced online certifications for 7 core areas of banking operations.
Digitalised the recruitment process	<ul style="list-style-type: none"> Complete transfer of the recruitment process to an online platform.
Make promotion interviews more convenient and less stressful	<ul style="list-style-type: none"> The Bank interviewed employees virtually and offered them promotions.
Continue to prioritise and strengthen employee health, safety and wellbeing initiatives 	
Deployed several employee wellbeing initiatives	<ul style="list-style-type: none"> Ensuring strict adherence to health and safety guidelines. Adoption of stringent processes on the identification of COVID-19 positive employees. Continued to provide face masks, hand sanitisers and transportation to employees to ensure their safety and wellbeing. Provided additional laptops to employees to facilitate 'work from home' effectively. By continually communicating the importance of safety in the pandemic environment we operate within. E.g., by posters and messages via e-mails.

Revising Policies and Procedures

To remain relevant in today's operating environment, the Bank must regularly review and revise policies. The changes made by the pandemic brought the importance of such a strategic focus for the Bank's sustainable business. Thus, during 2021 we worked on enriching our policies such as "work from home" to incorporate the needs of today's evolving operational needs. In addition, the Bank streamlined and upgraded HR processes such as incorporating the performance criteria to all internal promotions and simplifying the current branch banking structure to optimise people resources to manage in the current operating context and to develop people and locate the right talent in the right place.

Employee Health, Safety and Wellbeing

Employee health and safety continue to be a priority for the Bank. We continued to implement many COVID-19 related safety measures and encouraged all our employees to get vaccinated. To successfully overcome some of the challenges faced during the year, we rolled out several new initiatives and continued to implement safety measures adopted last year. These initiatives enabled the Bank to ensure the health, safety and wellbeing of our employees while overcoming the challenging work situations brought about by the pandemic.

- Diligently monitor employees by offering PCR and antigen testing
- Assisting employees with quarantine requirements
- Introducing easy payment schemes to support employees to fulfil their quarantine expenses
- Providing essential medicine packs to the infected employees
- Introducing different work arrangements Eg- working from home, shift work, flexible working hours
- Updating HR policies, processes and guidelines to manage the new work environments
- Special transport arrangements for employees
- Continuous education of health and safety requirements and guidelines that should be implemented
- Encouraging employees to get their COVID vaccinations



Occupational health and safety

	2021	2020	2019
Staff covered by the health plan (%)	100	100	100
Occupational injuries	Nil	Nil	Nil
Number of occupational diseases	Nil	Nil	Nil
Number of loss days rate*	Nil	Nil	Nil
Average medical claims per employee (LKR '000)	36.1	30.6	31.6

* excluded the lockdown period

Empowering, Engaging and Motivating Employees

Empowering employees has been a strategic tool for the Bank to maintain high motivational levels within an uncertain and ever-changing operating environment. We have also found that sharing information and knowledge are critical aspects to ensure employee engagement remains at optimal levels. The Bank uses several communication forums including emails, the internet, circulars, employee notice boards to keep employees informed of key developments and changes within our business operations and our operating environment.

Annual Employee Events

In 2021, the Bank launched and continued several activities aimed at employee engagement and interaction events. The Bank organised a fitness challenge and an E-Quiz for employees' enjoyment. Additionally, the Bank encouraged employees and their families to socialise by holding an online talent competition branded as E-Letras and a drawing competition.

E-Letras - An online talent competition for all employees and their families. A panel of independent judges shortlisted the initial applications provided as short videos. The grand finale of the competition was a physical event held with a voting mechanism to judge the finalist.

E-Quiz - An online quiz competition was conducted for employees allowing them to test their general and current affairs knowledge, thereby promoting a fun-filled learning culture at the Bank.

Art Competition - The programme was conducted at the department/branch level with the involvement of family members to encourage creativity and friendly competition amongst employees and their loved ones.

Fitness Challenge - A weekly fitness challenge was introduced in 2021 to improve and drive employee fitness for their continued good health. A randomly selected staff member initiated a fitness challenge while other participants were expected to beat his/her record before the end of the week.

Further, the Bank annually carries out the following initiatives, aimed at motivating employees through recognition and engagement.

Annual Appraisals/Evaluations

These are conducted to recognise and felicitate high performers. This helps to keep up employee morale and to create a high-performance culture within the Bank while enabling the management to identify people for succession planning.

Award Ceremonies

The Seylan Performance Awards ceremony and the Seylan Sales Awards are organised annually to acknowledge employees who have performed above and beyond the management's expectations. The Bank also presents long service awards to employees who have been with the Bank for 25 years.

Recognition and Praise

Recognition of work well done in the form of verbal and written communication goes a long way in keeping employees motivated and satisfied. Employees who have gone the extra mile and made an extra contribution to work and their job duties, as well as high performance are always appreciated by their supervisors and the management via emails and at staff meetings.

Seylan Bank has set up an Operational Excellence Programme to train staff across all areas of the Bank in Lean Six Sigma in order to create a culture of continuous improvement. This new way of thinking will create sustainability for all stakeholders including customers, employees, shareholders and the environment.

Seylan staff members are trained and certified in Lean Six Sigma at Yellow Belt and Green Belt levels. The training and certification is done in-house by an experienced and certified Lean Six Sigma Master Black Belt trainer attached to the Business Process Re-Engineering Unit.

The Bank Initiated Lean Six Sigma training at Yellow Belt level in the year 2019. The first batch of Lean Six Sigma Green Belts started their training in Q3 2021. The Bank has trained 55 Lean Six Sigma Yellow Belts and 22 Lean Six Sigma Green Belts during the year 2021.

Lean Six Sigma Yellow and Green Belt projects are focussed on,

- Improving customer experience by reducing product delivery time.
- Saving cost and effective utilisation of resources.
- Optimizing the usage of consumables.
- Improve quality by reducing rework and errors.
- Saving staff time and creating capacity for sustainable business growth.

All Lean Six Sigma projects go through a well-defined approval process. Projects need to be approved by the relevant Business Unit, the Business Process Re-Engineering Unit, Risk Management Unit, Internal Audit and Finance. All benefits created are measured and quantified.

Lean Six Sigma Yellow Belt projects have saved more than 10,000 Man Hours across the Bank in 2021 resulting an annualized benefit of 21Mn.

The Six Sigma Yellow Belt and Green Belt trainees are an asset to the organisation and their respective Branch/ Department. They act as ground level change agents and are required to continue implementing similar Operational Excellence projects in the organisation and share their knowledge and experience with others.

Empowering Our Employees

Workforce by years of service 2021

	Less Than 20 Years	More Than 20 Years	Total
Corporate Management	17	11	28
Middle Management	73	182	255
Operational Management	646	688	1,334
Others	1,280	251	1,531
Total	2,016	1,132	3,148

Total Employees 2021

Employees by type of employment contract

	2021	2020	2019	2018	2017
Full-time					
Other Employees Excluding Sales Force	3,025	3,132	3,192	3,200	3,091
Sales Force	123	119	168	144	108
Part-time	-	-	-	-	-
Total	3,148	3,251	3,360	3,344	3,199
Permanent Employees	2,984	3,049	2,948	2,989	2,931
Contract					
Sales Force	123	119	168	144	108
Other Contract Employees	40	40	25	35	28
Trainees	1	43	219	176	132
Total	3,148	3,251	3,360	3,344	3,199

Employees by grade, gender and age 2021



Male Female

Age	Corporate Management		Middle Management		Operational Management		Others		Total		Grand Total	
20 or below	0	0	0	0	0	0	6	2	6	2	8	
21 - 30	0	0	0	0	10	2	302	435	312	437	749	
31 - 40	0	0	15	9	335	147	195	187	545	343	888	
41 - 50	8	3	100	41	379	339	208	91	695	474	1,169	
Above 50	14	3	59	31	56	66	96	9	225	109	334	
Total	22	6	174	81	780	554	807	724	1,783	1,365	3,148	





Employees by type of employment contract and gender

	Non-Corporate Management		Corporate Management		Total		Grand Total	
Permanent	1,647	1,310	21	6	1,668	1,316	2,984	
Contract	114	48	1	0	115	48	163	
Trainees	0	1	0	0	0	1	1	
Total	1,761	1,359	22	6	1,783	1,365	3,148	



Recruitments

The Bank continues to attract employees from all age groups who consider us an employer of choice. The sustainable success of the Bank is also seen in the number of employees of younger age groups employed by the Bank, ensuring the future growth of the Bank while enabling young employees to attain their career aspirations by progressing in their banking careers.

Recruitment by gender and age

Age	New Recruits					
	2021			2020		
			Total			Total
20 or below	18	5	23	14	7	21
21 - 30	64	31	95	24	19	43
31 - 40	6	-	6	4	4	8
41 - 50	3	-	3	4	1	5
Above 50	2	-	2	3	-	3
Total	93	36	129	49	31	80





Recruitment by province and gender

Province	New Recruits 2021				
		%		%	Total
Central	11	92%	1	8%	12
Eastern	3	100%	-	0%	3
Northern	-	-	-	-	-
North Central	2	50%	2	50%	4
North Western	3	100%	-	0%	3
Sabaragamuwa	3	60%	2	40%	5
Southern	5	71%	2	29%	7
Uva	3	75%	1	25%	4
Western	63	69%	28	31%	91
Total	93	72%	36	28%	129

Employee Turnover

Employee turnover is an integral part of any organisation's business operations. During 2021, the Bank experienced 238 employees turnover mainly due to employee resignations driven by the need to change their careers, obtain higher education in overseas, migration, lucrative offers from other corporates and personal reasons. Retirements also considered as a part of the turnover by the Bank annually.

Employee turnover by age and gender

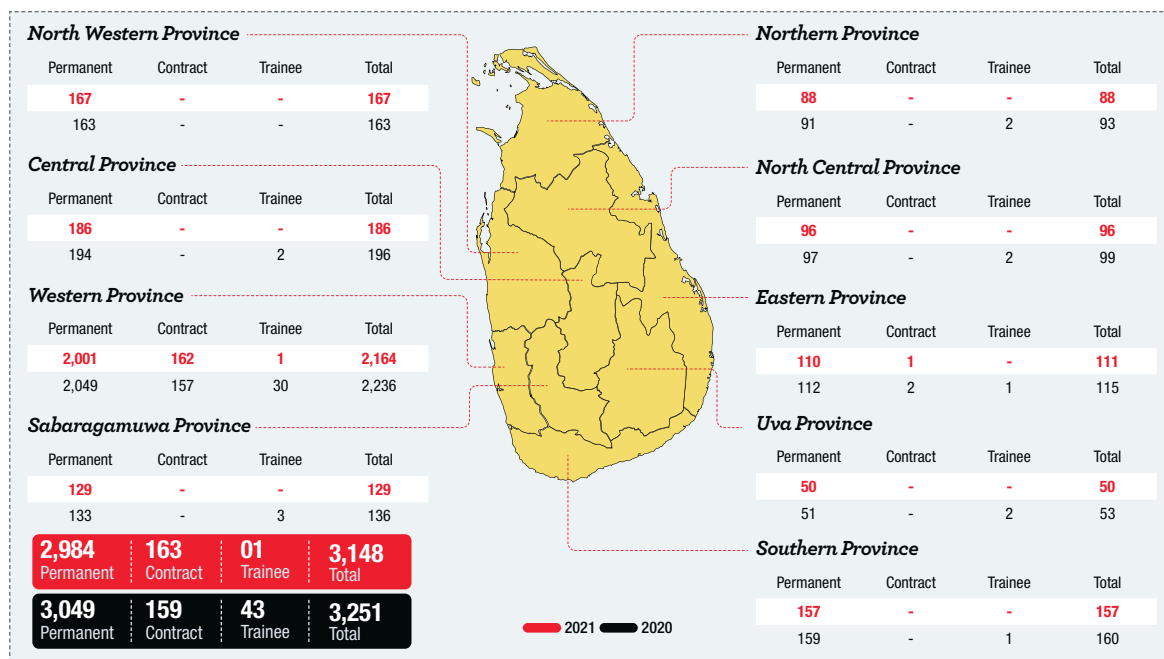
Age	2021			2020		
			Total			Total
20 or below	10	5	15	17	11	28
21 - 30	81	38	119	49	35	84
31 - 40	25	12	37	15	8	23
41 - 50	10	8	18	11	11	22
Above 50	28	21	49	18	16	34
Total	154	84	238	110	81	191

Empowering Our Employees

Workforce by Province and Gender

Operating across Sri Lanka, the Bank endeavours to recruit people from various communities and geographical areas. However, with the head office and most of our branches being in the Western Province, 69% of our employees are recruited from this region. The Bank, however, makes every effort to recruit employees for our branches spread across the country from these locales.

Employment contract by region (province) 2021



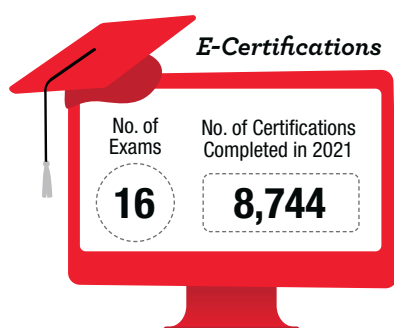
Training and Development

Continuous training and development is a sustainable investment for the Bank's future development and the performance and career progression of employees. The Bank, therefore, invests in learning programmes aimed at improving the skills and knowledge of employees continually. During 2021, the key focus was on the competency development of people and on transferring physical training programmes into electronic versions.

The Bank's dedicated Skills Development Centre provided multiple training programmes from short courses, workshops, seminars, to classroom training and more recently E-learning opportunities to our employees. Details are as follow.

Number and duration of training programmes

	2021			2020		
	No. of programmes	Training hours	No. of participants	No. of programmes	Training hours	No. of participants
Internal – Classroom	3	720	120	44	11,842	952
Internal – Online	319	45,248	5,019	126	15,448	3,862
External	39	2,395	207	40	1,064	92
Foreign	2	80	3	2	64	2
E-Learning	17	45,380	8,429	14	39,480	6,091
Total	380	93,823	13,778	226	67,898	10,999

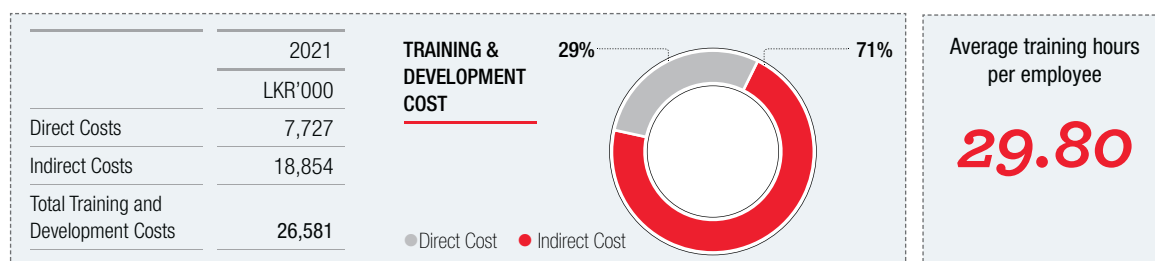


Training hours by type of training

Internal / External - Local / Foreign	2021		
	No. of Programmes	Total Hours	No. of Participants
General Banking Practices	204	29,225	2,560
Professional Development	19	8,221	471
Communication and Negotiation Skills	15	1,736	423
Marketing and Marketing Communications	53	2,996	786
HR Management, Staff/Personnel Development	4	137	15
Compliance and Specialised Areas	68	6,128	1,094
E-Learning	17	45,380	8,429
Total	380	93,823	13,778

E learning covers programmes such as KYC/Anti money laundering, information security risk, foreign exchange guidelines, personal grooming etc

Training and development cost 2021



Academic qualifications/professional qualifications holders, age wise and gender wise

Age	2021					2020				
	Academic qualifications		Professional qualifications		Total	Academic qualifications		Professional qualifications		Total
Below or equal 20	-	-	-	1	1	-	-	-	1	1
21 - 30	19	18	59	151	247	13	14	75	143	245
31 - 40	84	58	249	182	573	88	56	266	200	610
41 - 50	133	91	273	247	744	127	93	276	263	759
Above 50	31	25	60	39	155	27	19	57	27	130
Total	267	192	641	620	1,720	255	182	674	634	1745

Training for Security Personnel

The Bank has over the years continued to invest in security training for our security personnel which are developed at Head Office and branches. During 2021, the Bank conducted security/customer care training programmes for the security personnel at the head office and our branches with the coordination of the security companies. Approximately 55% of the Bank's security personnel received training.

Human Rights

To ensure the Bank meets our commitments to human rights, we have developed a human rights policy that embeds the concepts of the treatment of people fairly, equally and as per his/her rights as human beings. This policy is incorporated within

the Bank's Employee Code of Conduct and shared with every employee after recruitment. The Code guides all employee actions while carrying out work on behalf of the Bank and when interacting with all stakeholders.

Human Rights Policy

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

Empowering Our Employees

We abide by local labour laws and regulations including those that address child labour, forced labour, equal pay and non-discrimination in the workforce.

Non-Discrimination

The Bank is very strict in adhering to non-discriminatory labour practices and making sure employees are not harassed in the workplace.

Child Labour

The Bank is committed to eradicating child labour and diligently ensuring no under-aged children are employed by the Bank.

Promoting Freedom of Association and Collective Bargaining

The Bank believes that the freedom of associations and the right to collectively bargain remains with our employees. We do not impede these employee rights.

The Bank's HR team works collaboratively with Trade Union representatives and engage in one-on-one discussions regarding members' employment transfers, promotions, collective agreements or any disciplinary actions, etc.

	2021	2020
CBEU and SBEU Membership (No.)	2,881	2,970
Membership (%)	92	91

CBEU - Ceylon Bank Employees' Union SBEU - Seylan Bank Employees' Union

Minimum Notice Period





Three months' notice in respect of senior-level employees and one month's notice in respect of all other employees is to be given when resigning from the bank which helps to minimise any adverse impacts arising out of operational changes.

The Bank fosters an HR culture that prioritises diversity and inclusiveness amongst our employees, promoting the concept of 'one nation, one team'. The Bank's belief is founded on the basis that

every individual has a right to be different and every employee should be treated as equal and empowered to realise their full potential with absolute commitment and joy. Workplace diversity and inclusiveness allow us to be an integral part of the communities that obtain our services while we remain a leading societal organisation recognised for supporting diversity and inclusion in the workplace.

Fostering Diversity and Inclusivity in the Workplace

"Only the harmonious integration of diversity and inclusivity will bring forth an HR culture which will allow our people to feel respected, appreciated and recognised, thereby enabling the Bank to deliver the best possible outcomes for our stakeholders."

Ethnicity	2021			2020		
			Total			Total
Sinhala	1,580	1,187	2,767	1,630	1,229	2,859
Tamil	144	144	288	150	151	301
Muslim	41	21	62	41	19	60
Burgher	14	12	26	14	12	26
Others	4	1	5	4	1	5
Total	1,783	1,365	3,148	1,839	1,412	3,251

Gender Parity

Rated amongst the Top 10 Corporates in Sri Lanka as a Women Friendly Workplace by CIMA - Satyn Magazine



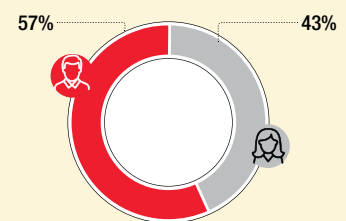
The Bank diligently follows the principles of gender equality and equal employment opportunities. Positions in our employee cadre are filled based on ability, knowledge and skills and they are treated equally and given equal opportunities to achieve their career aspirations and attain their full potential in the roles and functions they carry out on behalf of the Bank.

Workforce by gender 2021

No. of Employees

	1,783
	1,365

WORKFORCE BY GENDER



Employee remuneration by gender

	2021							2020						
	Basic Salary (Monthly) LKR Mn		Total No. of Staff		Average Basic Salary (Monthly) LKR Mn		Salary Ratio	Basic Salary (Monthly) LKR Mn		Total No. of Staff		Average Basic Salary (Monthly) LKR Mn		Salary Ratio
Corporate Management	10.96	2.72	22	6	0.52	0.45	1.16:1	9.45	1.80	20	4	0.47	0.45	1.04:1
Middle Management	42.71	19.47	174	81	0.25	0.24	1.04:1	41.54	17.63	176	76	0.24	0.23	1.04:1
Operational Management	95.19	69.01	780	554	0.12	0.12	1:1	87.62	66.17	749	554	0.12	0.12	1:1
Others	54.89	47.86	807	724	0.07	0.07	1:1	58.69	49.17	894	778	0.07	0.06	1.17:1

Promotions by gender 2021



207



163

Benefits Given to Employees

The Bank continued to create and add value to our employee value proposition by steadfastly offering employees the benefits given to them. Despite the challenges faced, the Bank fulfilled financial and non-financial obligations due to our employees by paying them their benefits, keeping true to our stance of ensuring employee well-being at all times while rewarding their commitments.

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

Guaranteed Cash and Other Allowances

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

Other Prerequisites

- Insurance scheme
- Spousal support in the event of death
- Critical illness cover
- Death donation scheme
- Use of holiday bungalows
- Comprehensive medical scheme

Variable Pay

- Performance bonus (only for certain grades)
- Sales incentive

Reimbursement Expenses

- Professional/club subscription
- Reimbursement of telephone bills
- Financial support for postgraduate studies
- Honorarium

Subsidised Loan Benefits

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



Employees who obtained maternity leave and returned to work

	2021	2020	2019	2018	2017
No. of Employees	57	43	67	57	45
Returned to Work (%)	100%	100%	100%	100%	100%

Staff benefits

	2021	2020	2019
	LKR (000)	LKR (000)	LKR (000)
Staff Salaries			
Basic Salary	4,251,149	4,059,050	3,727,210
EPF 12%	509,498	486,071	445,817
ETF 3%	127,392	121,519	111,463
Total	4,888,039	4,666,640	4,284,490
Other Benefits			
Holiday Pay	184,908	159,246	141,418
Medical	113,611	99,552	106,089
Bonus	994,934	689,086	571,985
Insurance	126,893	120,939	125,280
Welfare	44,742	46,374	70,937
Other Allowance/Benefits	618,655	1,193,459	969,977
Amortisation of Prepaid Staff Cost	280,371	265,654	303,632
Total Other Benefits	2,364,114	2,574,310	2,289,318
Total Benefits	7,252,153	7,240,950	6,573,808
Training Cost	26,581	25,000	44,000
Total Benefits including Training Cost	7,278,734	7,265,950	6,617,808
No. of Staff	3,148	3,251	3,360
Average Benefits per Employee	2,312	2,235	1,970

Empowering Our Employees

Grievances Handling Mechanism

The Bank's grievance handling process provides a mechanism for individual employees to raise a grievance arising from their work relationships. This process ensures that such grievances are dealt with promptly and fairly without causing undue hassle and a detrimental motivational impact on employees. The Bank has created a Grievance Handling Committee which will be activated in instances when a grievance is reported by an employee. This Committee, chaired by the DGM HR, ensures that all grievances are handled professionally and confidentially.

During 2021, the Bank launched an online method to report employee issues/grievances. Using the "Log Your Concern" secure portal on the company intranet, employees are easily able to report any HR or other work-related concern to reach the person in charge. The Bank is committed to responding to these logged complaints within 48 hours of them being reported.

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

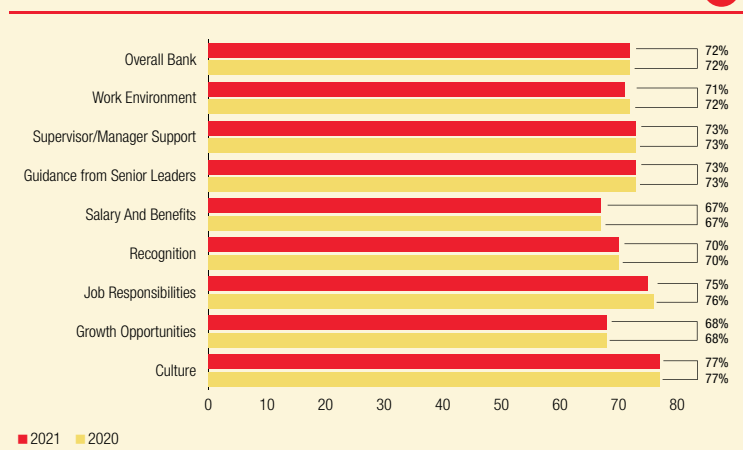
Promoting Whistle-blowing

The Bank's whistle-blower policy applies to employees and key stakeholders of the Bank. This policy will enable an employee or a stakeholder to raise any issue or concern without the risk of being disregarded. Individuals using this method to bring to the Bank's notice any wrongdoing are guaranteed confidentiality and non-disclosure of identity.

Employee Satisfaction

Many of the Bank's employee motivation and engagement activities are concurrently aimed at keeping our employees satisfied. The satisfaction of employees with their employer and job roles is critical as satisfaction leads to content and happy employees resulting in an effective and responsible workforce willing to give their best to an organisation. To better understand employees feeling and beliefs about their satisfaction with the workplace, the Bank conducts annual employee surveys. The survey completed in 2021 indicates an overall satisfaction of 72% which remain unchanged compared to 2020.

STAFF SATISFACTION SURVEY



Aspirations for 2022 and Beyond

As the Bank's operating environment continues to evolve, we will remain focussed on strategically building and developing our people resources to manage the challenges of the future. While digital is driving much of our operational aspects, employees will remain integral to our customer-facing business. As a result, the Bank foresees the need for further development of skills and knowledge of our people to support the digitalisation process and assist with issues and concerns raised by customers and other stakeholders.

The Bank will continue with our commitment to create value for our employees and support their career goals. Towards this end, the Bank has started job enlargement and job enrichment initiatives which will continue in the coming year. These programmes will also support the Bank's commitment to empowering employees and keeping them motivated. Employee engagement initiatives will continue to be developed. The Bank will work towards fostering a positive and progressive HR culture by continually communicating with employees and keeping communication channels open, offering them opportunities for growth and development.

Our Business Partners

The Bank's long-standing business partnerships have been a support mechanism for our business growth and prosperity. Our mutually respectful and beneficial relations with suppliers, global banks and other stakeholders have enabled us to pursue our vision and create stakeholder value over time.



450+
Global Banking Partnerships

98%
Local Suppliers

22+
Association Memberships

100%
Local suppliers within the branch network

Our business partners are a support mechanism for sustainable banking operations!

Our Approach

The Bank's business partnerships have been formed over 34 years and range across our operating value chain. Our business partnerships across different stakeholder groups, which mainly comprise of local supplying for goods and services, corresponding global banks and industry and professional associations. They provide us with necessary products and services, which enable us to satisfactorily continue our banking operation. Throughout the years, the Bank's continuous communications and engagements with our partners have enabled us to build beneficial relations, which connect across the Bank's value creation model to bring about synergistic benefits for all stakeholders. These relations have also supported the Bank's undertakings to reduce Environmental Social and Governance (ESG) risks and pursue plans to fulfil our Environmental and Social (E&S) obligations with positive results.

The Bank uses multiple channels to connect with our business partners and promotes interconnected partnerships as a form of long-term nurturing goals resulting in greater synergies in individual business operations. Our commitment to upholding the principles of integrity, accountability, transparency, fairness and responsibility has served us well in establishing new business partnerships to meet evolving and emerging industry trends.



As one of Sri Lanka's leading home-grown banks, we remain committed to complying with all applicable laws and regulations. **The Bank's integrity** to our commitment is also seen in our practice of adopting voluntary global best industry practices in our daily operations.

Key Focus Areas and How We Performed

Continuing to build long term partnerships



Building relationships with new stakeholder groups to enable the Bank to navigate emerging changes

- We partnered with key suppliers in providing technical expertise, FinTech services, international money transfers, etc.

Developing existing partnerships

- We transformed partnerships with global banks to manage effective corresponding banking relationships.

Cost management



Effective process management and cost containment initiatives

- Several cost management projects were conducted throughout the year and branches were given a separate cost to income ratio KPI.
- Introduction of Business Process Re-engineering initiatives across the bank to enhance effectiveness of the operational activities.
- The overall cost to income ratio of the bank was reduced from 50.30% to 41.53% during the year 2021

Our Business Partners

Transparent and accurate information sharing

Communication concept	<ul style="list-style-type: none"> The Bank believes in open communication with shareholder, investors and all other stakeholders.
Different ways of communicating and information sharing	<ul style="list-style-type: none"> The Bank uses different channels of communication to ensure that shareholders and all interested parties have equal access to corporate information in the public domain

Supplier Partnerships

The Bank has partnerships with various types of suppliers. Our suppliers provide us with supplementary goods and indirect, non-core services which support the Bank's everyday operations. We mainly work in partnership with local suppliers. Where and when possible, we obtain goods and services from vendors in the surrounding communities of our branch operations. However, high-value goods are generally purchased centrally in bulk quantities, so that the Bank benefits from cost savings.



Zero Incidents

In 2021, the Bank did not identify any unfair or unethical practices by suppliers involving forced/compulsory labour or child labour.

Criteria for Managing Relations with and Creating Value for Suppliers

- The Bank's comprehensive guidelines, which our suppliers must strictly follow as a part of our ESG efforts
- Adopting best practices within the supply-chain management processes
- Continually communicating and interacting with our suppliers

Managing the Bank's Procurement Process

- Vendor Management Process and Procurement Guidelines**

Adhere to the Bank's vendor management process and follow the comprehensive procurement guidelines to manage a transparent procurement process, which will also enable us to make purchases and partner with the most feasible and reliable suppliers.
- Centralised Supplier Database**

The centralised supplier database ensures receipt of the most updated and accurate information about prospective suppliers. This database also increases the reliability of the procurement process as independent and without any external influence or interference.
- Automated Inventory Management**

The Bank's automated inventory management monitoring system supports the procurement and vendor management processes by providing accurate, timely and reliable information.

Supplier Engagement in Branch Vicinity

	2021	2020	2019
	LKR Mn	LKR Mn	LKR Mn
Tea and coffee	23.27	27.69	37.25
Subsidised lunch for staff	33.53	37.17	61.18
Supply of foliage/maintenance of fish tanks	2.41	2.61	2.92
Janitorial and courier services	98.24	94.29	98.06
Repair and maintenance	13.06	17.66	22.95
Drinking water	8.65	9.93	12.41
Newspapers	1.58	2.05	3.47
Security	306.66	304.59	351.35
Total	487.40*	495.99*	589.59

* YoY decrease was due to lockdown days and limited working hours confronted as a result of COVID-19

Global Banking Partnerships

The Bank is dependent on many global financial service providers to enable us to service the financial needs of our large customer base. We regularly engage with global banks on matters such as timely and accurate processing of trade and international personal transactions. The Bank's Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) collaboratively provide integrated services to facilitate customer needs.

The Bank has over the years developed strong strategic alliances with many global banking brands and maintained good relations with them. This has also established the Bank as a fast and reliable trading partner by customers. In the year under review, these global banking partnerships enabled the Bank to proactively manage emerging challenges in deteriorating market conditions. These global banking partnerships also enable the Bank to manage its financial commitments in difficult times.

The Bank continues to share and exchange knowledge and information with our global banking partners on changes in the local and global banking industry and emerging developments.



Knowledge Sharing Events 2021

- 1 Investor relations overview and Global Economic Outlook: is 2021 the year the world bounces back?
Conducted by Deutsche Bank
- 2 J.P. Morgan 2021 Asia Banking Forum by JP Morgan Chase Bank N.A
- 3 Evolving Cross-Border Payments Landscape - Live Webinar workshop by Standard Chartered Bank
- 4 Global payments industry trends and solutions by Wells Fargo Bank N.A
- 5 Partnerships with NOSTRO banks

Partnership with NOSTRO banks

Country	City	Bank Name
Relationship of more than 15 years		
AUSTRALIA	MELBOURNE	NATIONAL AUSTRALIA BANK
CANADA	TORONTO	ROYAL BANK OF CANADA
DENMARK	COPENHAGEN	DANSKE BANK
ENGLAND	LONDON	BANK OF CEYLON
GERMANY	FRANKFURT	DEUTSCHE BANK AG
		COMMERZ BANK
HONGKONG	HONGKONG	STANDARD CHARTERED BANK
INDIA	CHENNAI	BANK OF CEYLON
	MUMBAI	STANDARD CHARTERED BANK
ITALY	MILANO	UNICREDITO ITALIANO
KOREA	SEOUL	KOREA EXCHANGE BANK
NORWAY	OSLO	DNB NOR BANK
PAKISTAN	KARACHI	STANDARD CHARTERED BANK
SAUDI ARABIA	RIYADH	SAUDI BRITISH BANK
		STANDARD CHARTERED BANK
SINGAPORE	SINGAPORE	OVERSEAS CHINESE BANKING CORPORATION
USA	DUBAI	MASHREQ BANK, DUBAI
		DEUTSCHE BANK TRUST COMPANY - NY
	NEW YORK	MASHREQ BANK
		STANDARD CHARTERED BANK
PHILADELPHIA	WELLS FARGO BANK	
ITALY	ROME	BANCA UBAE
ENGLAND	LONDON	HSBC

Country	City	Bank Name
Relationship between 10-15 years		
UAE	ABU DHABI	FIRST ABU DHABI BANK
	DUBAI	EMIRATES NBD
Relationship between 5-10 years		
BANGLADESH	DHAKA	STANDARD CHARTERED BANK
CHINA	SHANGHAI	STANDARD CHARTERED BANK
KOREA	SEOUL	KB KOOKMIN BANK- SOUTH KOREA
OMAN	MUSCAT	BANK DHOFAR
SWITZERLAND	ZURICH	ZURCHER KANTONALBANK
USA	NEW YORK	HABIB AMERICAN BANK
SWEDEN	STOCKHOLM	SKANDINAVISKA ENSKILDA BANKEN AB
Relationship less than 5 years		
CHINA	SHENZHEN	AGRICULTURAL BANK OF CHINA LIMITED
		STANDARD CHARTERED BANK
ENGLAND	LONDON	WELLS FARGO BANK
JAPAN	TOKYO	STANDARD CHARTERED BANK
USA	NEW YORK	JP MORGAN CHASE N.A
AUSTRALIA	SYDNEY	JP MORGAN CHASE N.A
GERMANY	FRANKFURT	JP MORGAN CHASE N.A
TURKEY	ISTANBUL	ALBARAKA TURK PARTICIPATION BANK
		AKTIF BANK
SAUDI ARABIA	RIYADH	BANK AL BILAD
QATAR	DOHA	DOHA BANK

Partnerships with Associations and Professional Institutions

The Bank's partnerships with industrial bodies, trade associations and professional institutions have been established to accommodate both regulatory requirements as well as operational and other business requirements. The Bank has found affiliations with such associations and institutions to be of great value as they impart timely and accurate information related to regulatory changes, modern market trends and other changes that would impact banking

operations and future viability. Furthermore, such collaborations entrench strong relationships with local communities which enable the creation of greater brand awareness and community awareness about the Bank. The dynamism of these networks also ensures the Bank remains on par with economic and industry developments which enable us to proactively manage challenges and changing operating environments. We also encourage our employees to network and participate in events organised by these associations and institutions to enable them to build their personal and professional networks.

General memberships and established alliances with various industry associations and other trade and professional institutions are detailed below.

Our Business Partners

Partnerships with Associations and Professional Institutions

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

Aspirations for 2022 and Beyond



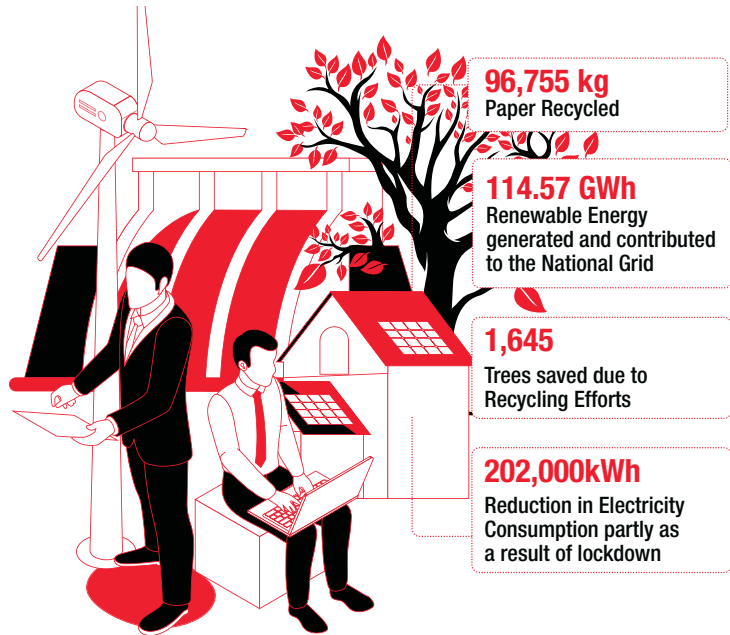
Business partnerships will continue to remain an integral part of the Bank's network of business stakeholders. We will focus on maintaining cordial relationships with our business partners and focus on developing new partnerships which will add value to our business and our customers.

The Bank's efforts to promote ethical and transparent business practices amongst suppliers will remain a key priority. We shall promote local purchases where possible and develop these into long-standing partnerships benefiting both locale industrial growth and development while strengthening the nation's economic sectors.

We will also continue our collaborations with partners to maintain viable and trustworthy supply chain and procurement processes. Our global banking partnerships will remain a cornerstone of our success and we will continue to build on these strategic alliances to expand our global reach in order to benefit our customers.

Protecting the Environment

Our call for action on the environment today is deemed as a collective effort vested on the shoulders of every stakeholder with whom we manage our business in varying degrees of interactions. Environmental considerations are, therefore, factored into our business case, by way of assessing the direct and indirect impacts caused therein respectively, while exercising due diligence determined through local and global industry best practices, standards and procedures. Our Bank understands the gravity of the situation and takes every possible action to safeguard the environment with a view to ensuring a sustainable tomorrow for everyone.



Preserving natural resources and the environment for future generations.

Environmental Policy

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

Our Approach

As a financial intermediary, the negative impact arising from the Bank's business on the environment is minimal. However, the use of natural resources and energy has a direct impact, while the financing activities entail an indirect impact therein. Therefore, we assess the impact arising from business activities and determine environmental due diligence to be exercised to make it a ground reality.

The Bank's environmental policy guides our proactive approach to environmental stewardship, while our Environmental, Social and Governance (ESG) framework directs our actions in managing and reducing negative environmental impacts including the reduction in natural resource usage. Our ESG framework also acts as a tool to help us explore how finance can be extended to boost a positive environmental impact.

The Bank also contributes in little steps to accomplish relevant Sustainable Development Goals (SDGs) and nationally developed SDGs to further our goals of environmental stewardship.



Key Focus Areas and How We Performed

Reduce Use of Paper



Technology adoption and use of automation to minimise paper-based processes

- Card Centre workflow automation
- Website customer on-boarding
- Working with third-party partners to increase the focus on minimising paper-based operations in core banking services
- Providing convenient machine based physical cash/cheque handling solutions

Supporting Eco-Friendly Business Operations



Lending to natural energy providers
Lending for natural resource conservation projects

- No. of rooftop solar power loans growth of 62%YoY
- Two pollution/waste reduction projects financed
- Three new solar projects underway with 2.4 MWh capacity

Conserving Natural Resources Internally



Conserving energy and material usage (Paper)

- 202,000 kWh electricity saving
- YoY Reduction of 984,500 A4 paper used
- 42,000 no. of credit proposals electronically moved through Loan Originating System (LOS) eliminating physical papers

Waste Management Initiatives



Disposing of waste in a responsible manner (Solid and E-waste)

- 46 no. of cannibalised and dismantled used computers donated to schools and educational institutions to support learning
- Segregation of waste according to Government regulations

Protecting the Environment

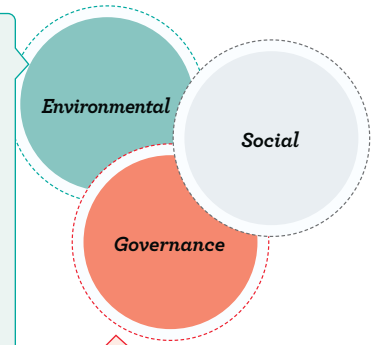
Value Creation Supported by Our Environmental, Social and Governance Framework

The Bank's Environmental, Social and Governance (ESG) framework provides us with the necessary insight to understand our business impact on the environment and society and its correlations where good corporate governance is leveraged to manage everything sustainably. This framework also helps us understand common industry-wide issues and embark on a strategic path that will help overcome challenges and take advantage of emerging opportunities to make a positive impact in meeting sustainable environmental and social goals.

Furthermore, we became a signatory to the Sustainable Banking Initiative (SBI) of the Sri Lanka Banks' Association (SLBA SBI) to support creating a level playing field across the industry and also to support the

- Lowering greenhouse gas emissions by the careful use of energy.
- Conserving trees by focussed efforts to reduce paper in operations and paper recycling
- Supporting the practice of being eco-friendly by lending to environmentally friendly business operations and projects.
- Negated/mitigated environmental risks in our asset base, as much as possible.
- Partnership with Biodiversity Sri Lanka
- Active engagement in environmental and social friendly policy formulations and various fraternity relations through webinars, meetings and related projects.

Sustainable Finance Roadmap of the Central Bank of Sri Lanka (CBSL) for achieving local and global agendas in tackling climate change while embarking on greener banking initiatives and bring in more focus for inclusive and sustainable economic growth.



- Adherence to environmental and social laws and regulations.
- Implementation of Environmental and Social Management System (ESMS) and SLBA SBI recommendations.
- Member of the Global Sustainable Finance Network (GSFN).

Environmental Initiatives from a Stakeholder Perspective

Our story of environmental protection begins and ends with our stakeholders collectively in order to negate or mitigate the indirect impact in a backdrop of resource conservation and environmental protection.

Shareholders

- Sustainability Board Committee for Board level engagement
- ESMS approved by the Board and continuous monitoring and evaluation of progress monitoring with reviews and remedial action having amalgamated with the Bank's related policies and procedures
- Active engagement with national level initiatives (SLBA SBI, CBSL's Sustainable Finance Roadmap and others)



Suppliers

- Screening against environmental and social compliance at the time of procurement and contracting
- Environmental Impact Assessment and Mitigation as a form of education and environmental and social inclusive culture formulation



Customers

- Begin and continue dialogue for advocating management of environmental and social risks of their businesses and build up mutually-beneficial culture
- Activation of environmental and social due diligence having assessed impact with an exclusion list
- Exercising customer due diligence with amicable action plans to close environmental and social gaps, if any



Employees

- Create awareness to ingrain the importance of natural resource conservation and the adoption of environmental and social best practices to encompass sustainable business case
- Continuous training, monitoring and capacity building on ESG and environmental and social risk management system together with compliance audit trails carried out as a means of educating customers and build environmental and social literacy



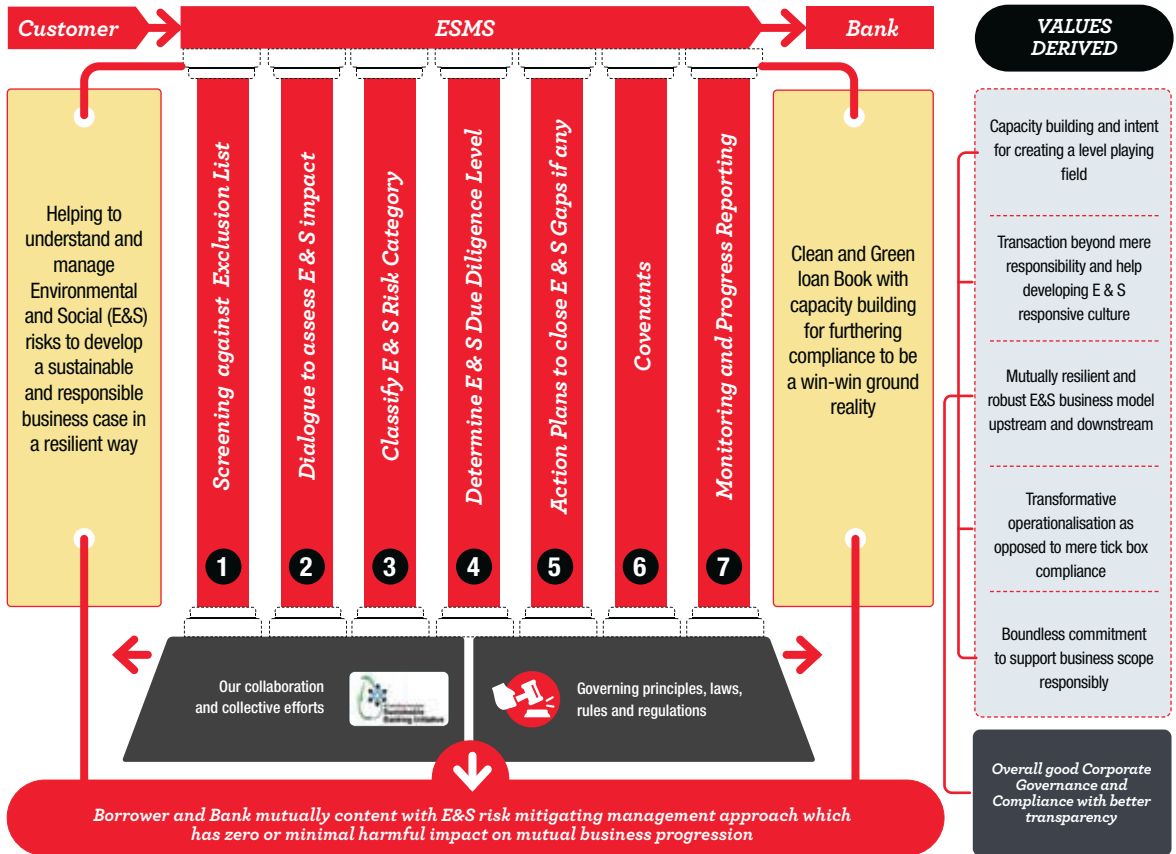
Business Partners

- Collaboration with key players in the industry and connected stakeholders in support of sustainable banking propositions and formulation of sustainable financing culture across the country progressively
- Active participation in formulating environmental and social strategies and taxonomies at national level aspirations
- Partnerships with dedicated eco-friendly organisations for a wider reach in conservation



Environmental Grievance Mechanism


No reported incidents or serious actions were warranted on violations or misconduct against the environment and the Bank's commitments in safeguarding natural resources and the environment were practiced in 2021.





Promoting Green Business

An increasingly important part of the Bank's efforts in enhancing the positive impact to the environment is derived from lending

and providing other financial services to companies involved in green business and adopting green business practices. To date, the Bank has been financing 13 large scale renewable energy projects having contributed 114.57Gwh of electricity to the National Grid during the year detailed below.

Type of the Project	Project Location	Loan Granted (Mn)	Production Capacity and utilisation at present (MW)	Environmental and Social (E&S) Benefits - Year 2021	
				Environmental Energy produced and Contributed to National Electricity Grid (Gwh)	Social No. of employment generated
 Hydro Power	Kalawana, Ratnapura	LKR 129	1.3	6.56	05
	Badulla	LKR 387	1.35	2.78	05
	Deraniyagala	LKR 150	0.7	3.3	03
	Kibale, Uganda	USD 4.5	6.5	37.1	21

Protecting the Environment

Type of the Project	Project Location	Amount Granted (Mn)	Production Capacity and utilisation at present (MW)	Environmental and Social (E&S) Benefits - Year 2021	
				Environmental Energy produced and Contributed to National Electricity Grid (Gwh)	Social No. of employment generated
Solar					
	Vavuniya	LKR 100	1.0	1.4	02
	Vavuniya	LKR 100	1.0	1.3	02
	Kelaniya	LKR 72	0.8	0.6	03
	Ampara	LKR 225	2.0	3.5	03
	Welipenna	LKR 90	1.0	1.6	02
	Mathugama	LKR 180	1.0	-	02
	Galle	LKR 200	1.0	-	02
Wind					
	Kilinochchi	LKR 50	10.0	29.3	03
	Kilinochchi	LKR 50	10.0	27.1	03

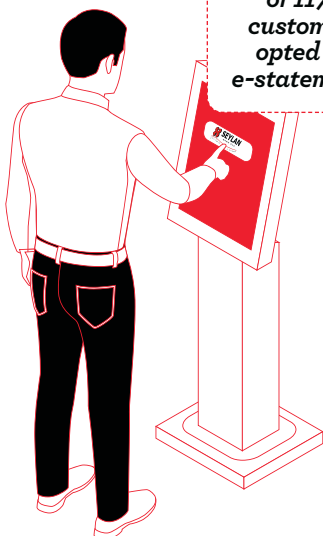
Paperless Workplace

During the last few years, the Bank has been focusing on reducing paper usage in our operations. This endeavour has been supported by the Bank’s digitalisation efforts happening over the last few years, which were accelerated since 2020 as remedial action taken against the pandemic. Key accomplishments in achieving a paperless workplace are highlighted below.



A 13.2% increase in Kiosk operations

YoY growth of 117% customers opted for e-statements



Energy Conservation

National grid generated electricity is the main energy source for the Bank’s business operations. In 2021, electricity consumption was only 7,448,716 kWh with a saving of 202,000 kWh units.

The amount of fuel such as diesel and petrol used to operate the Bank’s vehicles and generators are mentioned under the sustainability performance indicators on page 60.

Conserving Water

Water is not used by the Bank’s business operations. Water consumption occurs mainly for personal hygiene purposes. The Bank advocates reducing water wastage and water conservation among employees, both at the workplace and their homes. In 2021, the water footprint of the Bank was recorded as follows. There had been an increase due to hygiene conditions triggered as a result of pandemic outbreak.

Managing Waste Disposal

The Bank aims to responsibly dispose of waste generated in the form of e-waste and solid waste with minimal harm to the environment in compliance with the rules and regulations of the Central Environment Authority and the Basel Convention on control of hazardous waste disposal. e-waste mainly generated through computers is managed through the donation of used computers, while disposing of e-waste. in general, it is handled through an authorised recycler. The biodegradable solid waste generated is appropriately segregated and handed over to the municipal waste collectors as per the governing rules and regulations.

Safeguarding Biodiversity

There has been no negative impact on biodiversity due to the Bank’s direct business operations. Our branches are not located in or near biodiversity-rich or conserved areas. As part of our conservation efforts, the Bank’s Environmental and Social management system and our Environmental and Social risk management principles support efforts in screening our value chain on key biodiversity aspects in order to make sure such fragile natural resources are not harmed and the interests of the International Union for Conservation and Nature (IUCN) are complied with.

Our collaboration with Biodiversity Sri Lanka keeps us involved in the aspects of biodiversity preservation.

Water Footprint





Units (U) per Employee (E)	2021	2020	2019
Surface groundwater, municipal or private water Units (U)	93,370	85,830	77,370
Usage per employee (U/E)	30	26	23

Our Collective Efforts and watchful eye

Our internal and external digitalisation efforts combined with our promotional activities advocating internal and external paperless banking operations have borne fruit with a reduction of 10.43% in A4 paper used.

Plastics and polythene being a serious environmental concern, employees are encouraged to avoid the use of plastic bottles, cutlery, wraps and other plastic and polythene items as their contribution to environmental conservation.

Our ESG Performance in 4Ps

	Key Concerns Addressed	Adopted Approach	Expected Outcome
PEOPLE 	Eliminating gaps of learning and creating proximity to formal financial channels	Compliance with ILO Core Labour Standards, training and development together with performance evaluation and mechanisms in amicable grievance handling in order to effectively connect with the wider community and social circles within which we manage our business of banking	Collective efforts and coordination factored in to sustainable development attributes
PLANET 	Addressing climate change and assessing the environmental impact arising from every business relationship whether direct or indirect	Assessment of the environmental impact of every business engagement and exercising environmental due diligence based on the gravity of impact in a responsibly collective and collaborative business sense	Environment cautious business operation leveraged with social benefits in the most sustainable way
PROSPERITY 	Resilience in shared benefits and sustainable value creation	Create and promote justifiable reasoning to encourage industry best standards and practices through active collaboration and participation	Long-term sustainable value creation as opposed to short-termism
PRINCIPLES OF GOVERNANCE 	Eliminate information asymmetry and promote financial inclusiveness while fostering environmental and social resilience	Directions and governance stemming from the Board towards financially viable, socially equitable and environmentally friendly value propositions derived through sustainable stakeholder engagement	Keeping every stakeholder equipped and connected to be an active participant towards accomplishing mutually-beneficial goals overarching triple bottom-line performance

Aspirations for 2022 and Beyond



The Bank will continue with focussed efforts towards environmental protection and the conservation of natural resources in the coming years as listed below

- Continue with the development of the Sustainability Strategy for the Bank which was hindered due to the pandemic outbreak
- Further development of customer and employee supportive interfaces in the digital sphere
- Use of the E-learning platform developed under the Sri Lanka Banks Association Sustainable Banking Initiative to build internal capacity in environmental and social due diligence
- Re-visit use and installation of electric devices to support national-level initiatives to reduce electricity consumption
- Higher levels of engagement to channel DFI funding lines on green loans and renewable energy resources and support national-level goals in transitioning into a green economy

Serving the Wider Community

We consider the wider community as an essential stakeholder creating origin which is connected to our business of banking across our value chain. By creating meaningful relations and intrinsic value, we aim to foster the nation's societal advancement aspirations with shared benefits

Our Approach

We understand our wider community as stakeholders who provide the impetus which propels our Bank's sustainable future. The Bank believes that supporting communities today will result in circular value creation.

Our community endeavours contribute to our strategically selected Sustainable Development Goals (SDGs).



Making a responsible call on health and safety of the wider community

Our Reactive Call

It was our honour to have completed and officially handed over the fully equipped Intensive Care Unit with a special infection control technology system to the Colombo East Base Hospital Mulleriyawa. This project was initiated during 2020 in collaboration with Seylan Bank employees together with the technical assistance and labour provided by the Sri Lanka Army.



Our Proactive Call

Having felt that battling with an unseen enemy and conquering wisely would need a lot of capacity building, knowledge sharing and creating a conducive culture, the Bank launched the "Responsible Me" initiative in collaboration with prominent personnel and our own employees who volunteered to share their thoughts and ideas.



- 62% YoY growth in Rooftop Solar power loans
- LKR 3.32 Mn Investments in community related projects
- LKR 280.61 Mn Interest Subsidy Loans to rural farmers
- Gifted a well equipped ICU to the Colombo East Base Hospital
- Island-wide mass media campaign namely "Responsible Me" to educate public on health and safety guidelines

Community is integral to our sustainable business performance

Community Policy

Seylan Bank is committed to community development and believes it to be a process of empowering individuals and groups to improve their livelihood within their community as opposed to fostering dependency. The Bank seeks to progressively shift its voluntary CSR activity into the realm of meaningful sustainability

"Responsible Me" Campaign to Control Spread of Pandemic



Other employee engagements to satisfy the best interests of the wider community

- The Bank's employees volunteered to bear the "Responsible Me" message to the public, adding their own voices through their personal social media spaces calling upon fellow citizens to be aware of their own actions and stop the spread of COVID-19.
- Service-oriented positive attitudes of employees were leveraged to address hampered branch operations when respective individuals were to work beyond their job descriptions walking an extra mile without compromising health and safety guidelines to provide uninterrupted banking services.
- During the year, the Bank's employees showcased their commitment to the Bank by providing banking services at our customers' doorsteps as the need of the hour and endorsing service from the heart.
- Abided by strict health and safety guidelines our employees volunteered to sacrifice their time and resources to

support destitute families in the locality of our branch operations by providing them with dry rations and other daily requirements.

Developing Financial Literacy in Little Steps

The 98 Student Savings Centres located at island-wide schools provide shelter for grooming youth leadership by way of maintaining accounts of saving deposits collected from peers and learning to fill

up forms and opening new accounts. Our regular dialogue comprises early steps of learning financial transactions and related literacy.

As a means of promoting financial literacy from a young age, taking little steps parallel to events that are connected to children's life experiences, the following engagements were successfully concluded and gathered resonating responses drawing smiles from parents and their loved ones too.

Nature of the Engagement	Month	Medium
Tikiri New Year Wish	Jan	Digital platforms
Independence Day Art Competition	Feb	Digital platforms
Poetry Competition	Mar	Digital platforms
Tikiri Avurudu Campaign	April	TV, radio, press and digital platforms
Vesak Lantern Competition	May	Digital platforms
Poson Day Inspirations	Jun	Digital platforms
Friendship day Thoughts	Jul	Digital platforms
Esala Perahara Essay Competition	Aug-Sep	Digital platforms

“Seylan Pahasara” moving to Post-Pandemic Revival

Our education-centric CSR arm “Seylan Pahasara” is now planned to attract 250 libraries as targeted. It would be a gradual progression moving from 209 libraries already on-board.

Our Pulse with “Hada Gesma” Fundraiser

The Bank sponsored a musical programme which was staged in support of enhancing health and safety standards at the Wathupitiwala hospital as a communal responsibility.

Promoting Exports

We partnered with the Ceylon Chamber of Commerce (CCC) to conduct a webinar on “How to make your product export ready and finding new export markets for your products and services”, while also launching the Bank's SME revival project in partnership with the CCC.

Refinance, Subsidy and Micro - finance schemes fostering financial inclusiveness

Refinance Scheme	Donor	Eligible Sectors	Loans Granted in 2021		Loans Granted in 2020	
			No. of Loans	Amount (LKR Mn)	No. of loans	Amount (LKR Mn)
Small and Medium Enterprises Line of Credit	Asian Development Bank	SME	43	418.29	32	454.50
COVID-19 Emergency Response Working Capital Scheme	Asian Development Bank	Businesses and Entrepreneurs affected by COVID-19	258	1,933.96	4	40.00
Saubhagya	GOSL	SME	14	137.13	9	67.18
Saubhagya COVID-19 Renaissance Facility	GOSL	Businesses and Entrepreneurs affected by COVID-19	33	171.11	2,208	10,333.21
Liquidity Facility to the Construction Sector	GOSL	Government contractors or suppliers	-	-	8	145.18
Small and Micro Industry Leader and Entrepreneur Promotion Project (SMILE III)	Japan Bank for International Corporation	SME	14	115.95	4	33.10
Environment Friend Solution (Revolving Fund) II	Japan Bank for International Corporation	Any industry which intends to reduce pollutants/waste	2	11.74	-	-
Kapruka Ayojana	GOSL	Coconut Cultivation	10	9.91	9	3.67
Rooftop Solar Power Generation Scheme	Asian Development Bank	Solar power generation	144	347.92	89	131.19
Environment-friendly Loan Scheme (e-friends)	Japan Bank for International Corporation	Businesses to minimise waste/pollution	-	-	2	17.03
Swashakthi	GOSL	Micro, Small and Medium Entrepreneurs	1	0.25	2	0.70

Serving the Wider Community

Interest Subsidy Schemes

Scheme	Donor	Eligible Sectors	Loans Granted in 2021		Loans Granted in 2020	
			No. of Loans	Amount (LKR Mn)	No. of Loans	Amount (LKR Mn)
Jaya Isura	GOSL	SME	2	33.09	8	245.18
Ran Aswenna	GOSL	Agriculture	2	37.36	3	160.18
New Comprehensive Rural Credit Scheme	GOSL	Agriculture	1,385	280.61	1,300	176.29
Credit Guarantee and Interest Subsidy Scheme for Businesses affected by the COVID-19 pandemic	GOSL	Businesses/ Entrepreneurs Affected by COVID-19 Pandemic	5	51.89	173	779.98

GOSL - Government of Sri Lanka

Micro and Small and Medium Entrepreneur Loans

Details of SME Loans

	2021	2020	2019
Total Number of Clients	19,510	18,872	22,148
Loan Portfolio As at 31st December (LKR Mn)	92,628	100,650	100,708

Details of Micro Finance Loans

	2021	2020	2019
Total Number of clients	3,237	8,668	3,478
Loan Portfolio As at 31st December (LKR Mn)	740	1,537	837

Sponsorships to Foster Societal Resilience

We consider philanthropic contributions to the community as one form of giving back to the depositors who come forward from the locality for various savings and investment motives. The following engagements were harnessed with captioned intent, respectively.

Focus	Amount of sponsorship (LKR)	Value delivered	Nature of engagement
Communal beliefs and Coexistence	250,000	Fostering Religious encounters	Pro bono
Association with Professional Bodies	150,000	Research Symposium facilitation	Pro bono
Conference on Investment Potential	100,000	Event Partner	Commercial
Engagement with Social Circles	75,000	Event facilitation	Commercial
Old Students Fraternity	50,000	Financial support	Commercial
Education	25,000	Aides to foster education of less privileged	Pro bono
Education	25,000	Tribute to guidance provided	Pro bono
Education	20,000	Event facilitation	Pro bono
Member treaties	10,000	Event facilitation	Commercial and Pro bono

Specific Training on Due Diligence

Focus Areas	2021		2020	
	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants
General Banking Practices	204	2,560	158	3,554
Anti-Money Laundering/KYC	Note	Note	*	512
System Security	Note	Note	*	395
Accounting/Auditing/Compliance and Other Specialised Areas	Note	Note	14	418

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

Note : 51 Programmes were attended by 1236 participants where all three areas were covered as a blended delivery

Our Compliance, Governance and Transparency

Compliance	Level/Status of Compliance and Action Taken
Percentage and the total number of business units analysed for risk concerning corruption and the percentage of employees trained in the Bank's anti-corruption policies and procedures	Prevailing gaps, if any, on training and development needs are identified through audit trails. Provide training programmes which enforce and reinforce good corporate governance internally. Code of conduct is signed by every employee and shoulders the responsibility herein.
Action(s) taken in response to incidents of corruption	Stringent internal controls and protocols, audit procedures and staff disciplinary codes enforced across every operation and stakeholder engagement activity.
Participation in public policy development	At the invitation of the Government, the Bank presented proposals and engages in formulating new policies for consideration and inclusion in the Government Budget and tax laws, Sustainable Banking Initiative of the SLBA, Development of Sustainable Financing Roadmap of the Central Bank of Sri Lanka and implementation of Accounting Standards.
The total value of financial and in-kind contributions to political parties and politicians	No contributions were made to political parties or politicians. All business of the Bank was conducted at arm's-length. The Bank has a policy on politically exposed persons and maintains a strict adherence to the same.
The number of legal actions taken for anti-competitive behaviours	The Bank consistently complies with the country's laws and regulations in conducting its marketing campaigns. Truth and transparency in advertising are followed when displaying banners, conducting sales campaigns, roadshows and using public address systems. No legal action was taken against the Bank for anti-competitive behaviour during the year.
The monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with laws and regulations	A fine was imposed by the Financial Intelligence Unit over an unintentional omission of a customer name in a communication to the regulator regarding a freezing order. All laws and/or regulations applicable to the Bank were complied with. The compliance department has submitted periodic updates to the Board and the Board Integrated Risk Management Committee to this effect.

Aspirations for 2022 and Beyond



The Bank will respond to the needs of the hour by understanding the rhythm of the changing lifestyles of our stakeholders being true to our mission as a responsible financier to the nation. The focus will be on the following initiatives during coming years.

- The revival of the "Seylan Pahasara" Library project, to close gaps in financial literacy by taking pragmatic little steps
- More aspirations to purpose-driven digital transitions which enhance proximity to banking products and services while promoting savviness to technology, so that no one would be left behind
- Development of a sustainability strategy focusing on effective engagement with evolving community needs and wants

Business Unit Performance

Seylan Bank introduced its new strategic plan to address its new strategic direction amidst the volatile market conditions. As the industry confronted headwinds caused by the COVID 19 pandemic and Easter Bombing, which created a great level of economic uncertainty leading to lower business and consumer confidence. With these factors in mind, the Bank has to turn around this situation and capitalize on opportunities to deliver desired results in the year 2021 and beyond. Our new strategic focus is on the basics yet certainly to achieve sustainable portfolio growth and bottom-line performance.




Contributions made by the Bank's business units in 2021 supported the achievement of corporate goals and the performance of the Bank in a challenging operating environment. The re-vitalised corporate strategy enabled the business units to put into context the focus on the five key objectives of sustainable portfolio growth, profitability, employee safety, process improvement and cost containment. This strategic direction facilitated the business units to build on the basics and strengthen their output while remaining vigilant of unforeseen developments in the macroeconomic environment.

The year 2021 was in essence a reflection of the year 2020, where limited economic activities growth got affected by multiple extended lockdowns imposed by the government. Some business units faced greater constraints than others, also due to specific challenges such as the curbed tourist arrivals and, the restrictions in imports and limited foreign currency reserves. Our customers were also impacted, resulting in a cascading effect on banking operations. However, by taking the necessary and proactive measures to overcome these challenges and bottlenecks, the Bank's business units were strategised to offer uninterrupted services to our customers while meeting anticipated targets. This effort by the business units is reflected in the Bank's performance and results achieved in the year 2021.

Key Business Unit	Strategies	Challenges	KPI Achievement																								
			KPI	YOY growth	Budget Achievement																						
					2021	2020																					
Overall Bank's performance	Branch Banking <ul style="list-style-type: none"> Support customers to navigate daily banking needs during the lockdown period Integrate with digital solutions in the event mobility is restricted Rejuvenate branch operations after the lockdown period Manage customer relationships to facilitate their requirements as needed Identify the right industries to prioritise go-to-market strategies Centralised credit evaluation, monitoring and management mechanisms 	<ul style="list-style-type: none"> Loss of more than 20,000 banking hours during 2021 due to the COVID-19 pandemic Operational challenges that front line officers faced due to the pandemic hindering business opportunities Consistent service standards against rising social and economic problems due to the pandemic's impact on the MSME sector 	<table border="1"> <tr> <td>Deposits</td> <td>9.4%</td> <td>🟢</td> <td>🟢</td> </tr> <tr> <td>Loan and Advances</td> <td>9.6%</td> <td>🟢</td> <td>🔴</td> </tr> <tr> <td>Net Interest Income</td> <td>27.6%</td> <td>🟢</td> <td>🔴</td> </tr> <tr> <td>Other Income</td> <td>22.4%</td> <td>🟢</td> <td>🟢</td> </tr> <tr> <td>Profits</td> <td>83.9%</td> <td>🟢</td> <td>🟢</td> </tr> </table>				Deposits	9.4%	🟢	🟢	Loan and Advances	9.6%	🟢	🔴	Net Interest Income	27.6%	🟢	🔴	Other Income	22.4%	🟢	🟢	Profits	83.9%	🟢	🟢	1
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Profits	83.9%	🟢	🟢																								
Corporate Banking <ul style="list-style-type: none"> Continue to identify market segments (e.g., exporters, healthcare, IT, agri and construction) with growth potential requiring corporate banking facilities. Concentrate efforts on attracting new-to-bank accounts, especially with foreign currency Act inflows Forex conversion potential 	<ul style="list-style-type: none"> Limited business growth faced by top corporates due to increased customer demand Need for implementing strict but balanced risk and rewards management to manage in the current highly volatile market conditions impacting asset book growth 	<table border="1"> <tr> <td>Loans and Advances</td> <td>14.8%</td> <td>🟢</td> <td>🔴</td> </tr> <tr> <td>Deposits</td> <td>53.4%</td> <td>🟢</td> <td>🔴</td> </tr> <tr> <td>Net Interest Income</td> <td>13.2%</td> <td>🔴</td> <td>🟢</td> </tr> <tr> <td>Other Income</td> <td>43.6%</td> <td>🟢</td> <td>🟢</td> </tr> <tr> <td>Profits</td> <td>8.9%</td> <td>🟢</td> <td>🟢</td> </tr> </table>				Loans and Advances	14.8%	🟢	🔴	Deposits	53.4%	🟢	🔴	Net Interest Income	13.2%	🔴	🟢	Other Income	43.6%	🟢	🟢	Profits	8.9%	🟢	🟢	2	
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Retail Banking <ul style="list-style-type: none"> Identify emerging market segments to attract new-to-bank retail customers Improve service delivery time from inception to disbursement of the retail loan facilities Integrate with other business units to cross-sell retail products 	<ul style="list-style-type: none"> Continuous lockdowns and mobility restrictions limiting accessibility across market segments Slowdown in growth of major industries such as tourism, trading and MSME businesses impacting retail earnings. 	<table border="1"> <tr> <td>Personal Loans</td> <td>2.0%</td> <td>🔴</td> <td>🟢</td> </tr> <tr> <td>Housing Loans</td> <td>12.4%</td> <td>🟢</td> <td>🔴</td> </tr> <tr> <td>Pawning</td> <td>46.2%</td> <td>🟢</td> <td>🟢</td> </tr> <tr> <td>Leasing</td> <td>7.5%</td> <td>🔴</td> <td>🔴</td> </tr> </table>				Personal Loans	2.0%	🔴	🟢	Housing Loans	12.4%	🟢	🔴	Pawning	46.2%	🟢	🟢	Leasing	7.5%	🔴	🔴	3					
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Pawning	46.2%	🟢	🟢																								
Leasing	7.5%	🔴	🔴																								
Treasury <ul style="list-style-type: none"> Optimizing the liquidity of the bank by managing the right investment decisions Drive the Bank's pricing mechanism in order to achieve set targets Support the business with necessary funding at competitive prices Support both import and export customers by managing the right Foreign Currency Liquidity levels 	<ul style="list-style-type: none"> Challenging and volatile market conditions. Slowdown Foreign Currency inflows 	<table border="1"> <tr> <td>Net Interest Income</td> <td>22.1%</td> <td>🟢</td> <td>🟢</td> </tr> <tr> <td>Profits</td> <td>23.0%</td> <td>🟢</td> <td>🟢</td> </tr> <tr> <td>Forex Income</td> <td>76.1%</td> <td>🟢</td> <td>🟢</td> </tr> </table>				Net Interest Income	22.1%	🟢	🟢	Profits	23.0%	🟢	🟢	Forex Income	76.1%	🟢	🟢	4									
Net Interest Income	22.1%	🟢	🟢																								
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Forex Income	76.1%	🟢	🟢																								
Marketing <ul style="list-style-type: none"> Overall brand positioning and marketing strategies were developed by the marketing team. The go-to-market strategies and market understanding remained core activities led by the team To better understand customer needs, data-driven market understanding, customer surveys and customer satisfaction studies continued to be conducted by the team Currently working on revisiting the Seylan Bank brand value by re-visiting our 34-year long journey 		Operations <ul style="list-style-type: none"> The Central Operation Team is responsible for the management of the centralized processing unit and overall management of the internal processes within the Branch network. This team works together to introduce process improvements and business process reengineering initiatives. It is imperative that the team's working culture is aligned with the Bank's IT, HR and other supporting functions. 		Information Technology (IT) <ul style="list-style-type: none"> The IT team added value to the business units by following its mandate of being innovative and futuristic, while adopting emerging technological developments into the Bank's business operations During the pandemic, the IT team took up the challenge and provided absolute support to the business units to continue work without interruptions, thereby supporting customer value creation 		Recoveries and Legal <ul style="list-style-type: none"> Offered constant support on the customer on-boarding process by providing legal due diligence as necessary Proactive measures taken to retain win-win business case 																					


Support Functions

Sustainability Performance Indicators

Stakeholder Group	Indicator of Performance	Achievement					Indicator
		2021	2020	2019	2018	2017	
 Investors	Economic value added (LKR Mn)	16,189	13,867	15,280	14,443	14,443	GRI 201-1
	Profit after tax (LKR Mn)	4,581	3,011	3,680	3,189	4,430	GRI 201-1
	Earnings per share (LKR)	8.57	5.64	6.89	5.97	8.29	GRI 201-1
	Return on equity (%)	9.07	6.43	9.29	9.27	14.30	GRI 201-1
	Return on average assets	0.79	0.56	0.75	0.73	1.16	GRI 201-1
	Dividend per share (LKR)	3.00	1.50	2.00	2.50	3.50	GRI 201-1
	Customer deposits (LKR Mn)	488,653	440,303	400,731	357,560	307,099	GRI 102-7
	Number of KYC anti-money laundering programmes [NJ/participants (P)]	218P	512P	726P	1,223P	36N	GRI 205-2
	Penalties arising from non-compliance of laws	*	Nil	Nil	Nil	Nil	GRI 206-1
	 Customers	Number of banking centres	171	172	173	170	166
Number of ATMs		214	215	215	207	205	GRI 102-6
Total customer advances (Gross) (LKR Mn)		465,905	409,301	389,991	336,775	286,469	GRI 102-7
Number of housing loans		5,755	5,254	5,703	5,738	5,698	GRI 102-7
Value of housing loans (LKR Mn)		17,899	16,731	16,765	15,690	13,500	GRI 102-7
Housing loans to total loans (%)		3.84	4.09	4.30	4.66	4.71	GRI 203-1
Number of 'Tikiri' kids events held		15	27	104	136	123	GRI 413-1
Number of student saving centres		98	98	98	98	98	GRI 102-6
Number of customer complaints		5,786	4,534	4,824	4,620	74	GRI 418-1
 Employees		Turnover rate (%) (Including sales staff)	7.56	5.88	9.26	6.84	4.53
	Permanent employees (%)	95	94	88	89	92	GRI 102-8
	Average benefits per employee (LKR '000)	2,312	2,235	1,970	1,741	1,636	GRI 405-2
	Staff covered by health plan (%)	100	100	100	100	100	GRI 403-1
	Women employees (%)	43	43	43	43	42	GRI 405-1
	Women in corporate and middle management (%)	31	29	28	27	22	GRI 405-1
	Union membership (%)	92	91	90	93	98	GRI 102-41
	Number of pending human rights cases against the Bank	Nil	Nil	Nil	Nil	Nil	N/A
	Number of participants on external and foreign training	210	94	341	280	373	GRI 404-2
	Ratio of standard entry level wage	Above minimum	Above minimum	Above minimum	Above minimum	Above minimum	GRI 202-1
Proportion of Senior Management from local community (%)	100	100	100	100	100	GRI 202-2	

* Please refer page 57

Sustainability Performance Indicators

Stakeholder Group	Indicator of Performance	Achievement					Indicator
		2021	2020	2019	2018	2017	
Community 	Contribution on the community projects (LKR Mn)	3.32	26.75	15.37	8.81	11.19	GRI 413-1
	Contribution on education-related pursuits (LKR Mn)	0.14	5.42	8.81	14.70	15.14	GRI 413-1
	Number of loans granted under 'Seylan Scholar'	6	14	17	24	37	GRI 413-1
	Number of SME loans	19,510	18,872	22,148	26,161	15,990	GRI 413-1
	Value of SME loans (LKR Mn)	92,628	100,650	100,708	93,882	84,647	GRI 413-1
	Number of micro finance loans	3,237	8,668	3,478	1,704	–	N/A
	Value of micro finance loans (LKR Mn)	740	1,537	837	220	–	N/A
Suppliers 	Purchases from locally based suppliers (LKR Mn)	469.60	525.56	589.59	567.39	522.69	GRI 204-1
Environment 	Electricity consumed (Units kWh 000)	7,449	7,651	8,413	8,518	8,767	GRI 302-1
	Electricity consumption – Units per employee (kWh)	2,366	2,353	2,503	2,547	2,741	GRI 302-1
	Water consumption – Units	93,370	85,830	77,370	77,226	77,685	GRI 303-1
	Water consumption – Units per employee	30	26	23	23	24	GRI 303-1
	Generator diesel consumption (litres)	48,093	65,460	74,626	63,447	63,210	GRI 302-1
	Vehicle petrol consumption (litres)	8,128	8,238	11,426	16,860	18,359	GRI 302-1
	Vehicle diesel consumption (litres)	47,860	43,157	52,940	56,442	45,962	GRI 302-1
	Lubricant consumption (litres)	499	595	767	480	680	GRI 302-1
	Total business travels (km)	497,754	486,523	668,725	586,183	511,523	GRI 305-1
	Packets of A4 paper used	16,909	18,878	23,984	24,215	23,725	N/A
	Weight of A4 paper (kg)	202,908	226,536	287,808	290,580	284,700	N/A
	A4 packets usage per business unit	90	100	126	130	130	N/A
	Waste paper recycled (kg)	96,755	76,387	102,026	63,892	141,624	GRI 306-2
	Savings from recycled papers						
	Trees (No.)	1,645	1,299	1,734	1,086	2,408	GRI 306-2
	Water (litres)	3,074,874	2,427,579	3,242,386	2,030,488	4,500,811	GRI 306-2
	Electricity (kWh)	387,020	305,548	408,104	250,568	566,496	GRI 306-2
	Oil (litres)	169,805	134,059	179,056	112,130	248,550	GRI 306-2
	Land fill (cubic meters)	290	229	306	192	425	GRI 306-2
	Carbon footprint (kg)	19,351	15,277	20,405	12,778	28,325	GRI 306-2
The Government and the Government Institution 	Income tax (LKR Mn)	1,447	1,100	1,418	1,477	2,226	GRI 201-1
	Value added tax and nation building tax on financial services (LKR Mn)	1,935	1,528	2767*	2113*	1,895	GRI 201-1
	Total Tax (VAT/NBT and income tax % of PBT)	56	64	53*	53*	48	GRI 201-1

*Includes debt repayment levy

Independent Assurance Report



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We have been engaged by the Directors of Seylan Bank PLC (“the Bank”) to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2021. The Sustainability Indicators are included in the Seylan Bank PLC’s Integrated Annual Report for the year ended 31 December 2021 (the “Report”).

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

Assured Sustainability Indicators	Integrated Annual Report Page
Key Financial Highlights	03

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

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
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Aspiring to Fulfil Customer Needs	25 – 31
Step in to Our Digital Future	32 – 34
Empowering Our Employees	35 – 44
Our Business Partners	45 – 48
Protecting the Environment	49 – 53
Serving the Wider Community	54 – 57

Our conclusions

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

Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2021 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2021, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Management’s Responsibility

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

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

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

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

Our responsibility

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

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information

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

P. Y. S. Perera FCA
W. W. J. C. Perera FCA
R.M.D.B Rajapaksa FCA
S.M.Naysem FCA
Ms. C.T.K.N Perera ACA
Ms. P.M.K. Sumanasekara FCA

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

Independent Assurance Report



(SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

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

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

Reasonable assurance over Reasonable Assurance Sustainability Indicators

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

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

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

by the Bank, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited assurance on the Assured Sustainability Indicators

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

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

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

Purpose of our report

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

Restriction of use of our report

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

CHARTERED ACCOUNTANTS
Colombo

22 February 2022

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Board of Directors



Mr W M R S Dias

Non-Executive Director/Chairman

Qualifications:

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

Appointed to the Board:

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

Membership on Board subcommittees:

Board Nomination Committee, Board Governance and Compliance Committee, Board Integrated Risk Management.

Committee and Board Marketing and Product Development Committee

Skills and Experience:

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

Mr Dias presently serves on the boards of many corporates.

Mr W D Kapila Jayawardena

Non-Executive Director/Deputy Chairman

Qualifications:

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

Appointed to the Board:

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

Membership on Board subcommittees:

Board Audit Committee and Board Nomination Committee.

Skills and Experience:

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



Ms M Coralie Pietersz

Independent Director/Senior Director

Qualifications:

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

Appointed to the Board:

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

Membership on Board subcommittees:

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

Skills and Experience:

Ms Pietersz counts over 30 years of senior level experience in corporate finance, accounting and auditing in both private and public sectors including several years of banking and plantation sector experience. She was trained at Thornton Baker Chartered Accountants in London (presently known as Grant Thornton). Back in Sri Lanka, Ms Pietersz served in the Mahaweli Authority. She also served as the Finance Manager of Commercial bank of Ceylon, as the Chief Financial Officer of Nations Trust Bank, as the Group Chief Financial Officer of Richard Peiris & Co PLC and as the Finance Director of Finlays Colombo and its subsidiary/associate companies, including Hapugastenne Plantations PLC and Udupussellawa Plantations PLC until 2020.

Ms Pietersz serves as a member of the Council of the Institute of Chartered Accountants of Sri Lanka.



Mr Kapila P Ariyaratne

Director/Chief Executive Officer

Qualifications:

BSc (Honours – First Class), University of Colombo

Appointed to the Board:

on 16 February 2015 as an Executive Director.

Membership on Board subcommittees:

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

Committee and Board Information Technology Committee.

Skills and Experience:

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

Mr S Viran Corea

Non-Executive Director

Qualifications:

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

Appointed to the Board:

14 May 2015 as a Non-Executive Director.

Membership on Board subcommittees:

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

Skills and Experience:

Counsel and Legal Consultant with over 24 years' experience at the Bar.

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

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



Mr Anushka S Wijesinha

Independent Director

Qualifications:

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

Appointed to the Board:

1 December 2016 as an Independent Director.

Membership on Board subcommittees:

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

Skills and Experience:

An economist with expertise in Sri Lanka, Pakistan, Myanmar, Maldives and South Korea. He has published national and international academic publications, focusing on international trade and competitiveness, innovation and private sector development. Some of the important positions held by Mr Wijesinha include; being an Advisor to the Minister of Development Strategies and International Trade; Chief Economist of the Ceylon Chamber of Commerce; Research Economist and Unit Head at Institute of Policy Studies of Sri Lanka and Economist to the Presidential Commission on Taxation 2009/10. Mr Wijesinha is an international consultant to many of the international development organizations and serves on the boards of leading corporates. He is an Asia Development Fellow of the Korea Development Institute and member of the World Economic Forum's 'Global Future Council on Innovation Ecosystems'. He recently co-founded a public policy think tank, the Centre for a Smart Future.



Board of Directors



Ms Sandya K Salgado

Independent Director

Qualifications:

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

Appointed to the Board:

1 December 2016 as an Independent Director.

Membership on Board subcommittees:

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

Skills and Experience:

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

Mr D M D Krishan Thilakaratne

Non-Executive Director

Qualifications:

AIB (Sri Lanka)
Passed Finalist of the CIMA (UK)

Appointed to the Board:

1 October 2018 as a Non-Executive Director.

Membership on Board subcommittees:

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

Skills and Experience:

Mr Krishan Thilakaratne is the Director/CEO of Commercial Leasing and Finance PLC and is a Member of the Senior Management Team of LOLC Holdings PLC. He was the past Chairman of the Finance Houses Association of Sri Lanka (FHASL), the Apex body for Non-Bank Financial Institutions (NBFIs) in Sri Lanka. Mr Thilakaratne serves in the boards of LOLC Myanmar Micro Finance Company Ltd and Commercial Insurance Brokers (Pvt) Ltd. Mr Thilakaratne is an Associate Member of the Institute of Bankers of Sri Lanka and a passed finalist of the Chartered Institute of Management Accountants (UK). He has followed Strategic Leadership training programme in Micro Finance at Harvard Business School, USA and counts over 25 years of experience in the field of Banking and Finance.



Mr D R Abeysuriya

Independent Director

Qualifications:

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

Appointed to the Board:

17 October 2018 as an Independent Director.

Membership on Board subcommittees:

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

Skills and Experience:

Mr Abeysuriya is currently the Director/CEO of Senfin Securities Limited and holds directorships in several other corporates. He is also the President of the Association of Alternative Financial Institutions, Council Member of Sri Lanka Institute of Directors, Co-Chairman of the Finance and Capital committee of the Ceylon Chamber of Commerce and has served in several committees of the Central Bank of Sri Lanka, such as the Codes of Conduct Review Committee, Board Risk Oversight Committee and Financial System Stability Consultative Committee and a permanent member of the Financial Sector Reforms Committee, a Prime Ministerial Task Force and was twice appointed as a commission member of the Securities and Exchange Commission of Sri Lanka.

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





Mr D M Rupasinghe

Independent Director

Qualifications:

BA (Hons) Economics [University of Kelaniya], MA Economics [Colorado State University-Fort Collins, USA]

Appointed to the Board:

1 October 2021 as an Independent Director.

Membership on Board

subcommittees:

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

Skills and Experience:

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

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

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

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

Ms V G S Sunjeevani Kotakadeniya

Alternate Director to Mr W D K Jayawardena, Non-Executive Director

Qualifications:

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

Appointed to the Board:

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

Skills and Experience:

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

She is a senior finance professional with three decades of experience in financial management. She is a fellow member of the Chartered Institute of Management Accountant (UK) and Chartered Global Management Accountant (USA) and also holds a Masters in Business Administration from the University of Colombo.

She has extensive experience in financial management, insurance, strategic planning, investment portfolio management, project management, mergers and acquisitions, IT and administration disciplines holding senior positions in Financial Services, Leisure, Construction, Trading, Renewable energy, Plantations and Manufacturing sectors.

She serves as a Director of several LOLC Group companies and plays a strategic role in these entities. Ms Kotakadeniya has been a catalyst in corporate restructuring and change management, mergers and acquisitions and project management.



Senior Management Team

Director / CEO and Leadership Team



Kapila Ariyaratne

DIRECTOR/CHIEF EXECUTIVE OFFICER

Qualifications

BSc (Honours - First Class) University of Colombo

Total Experience 34 years

Ramesh Jayasekara

CHIEF OPERATING OFFICER

Qualifications

Associate of Institute of Chartered Accountants of SL, Bachelor of Commerce (First Class)– University of Colombo, Associate of Chartered Institute of Marketing United Kingdom, Associate of Institute of Certified Management Accountants

Total Experience 24 years



Delvin Pereira

DEPUTY GENERAL MANAGER – BRANCHES ZONE II

Qualifications

Masters in Business Administration- University of Western Sydney, Certified Management Accountant-Australia

Total Experience 36 years



Jayantha Amarasinghe

DEPUTY GENERAL MANAGER - HUMAN RESOURCES

Qualifications

Master in Business Administration - Buckinghamshire New University, Bachelor of Law (LLB), Attorney at Law, Chartered Fellow Member of CIPM – Sri Lanka, Postgraduate Diploma in Management - Sri Lanka Institute of Marketing, Postgraduate Diploma in International Relations - Bandaranaike Centre for International Studies - Sri Lanka

Total Experience 29 years



Ms Champika Dodanwela

CHIEF FINANCIAL OFFICER

Qualifications

Master in Business Administration University of Colombo, Fellow member of ACCA UK, Associate member of Certified Management Accountants, Fellow member of Institute of Bankers Sri Lanka, Bsc Applied Accounting Oxford Brooke UK, Bsc Management. University of Sri Jayewardenepura

Total Experience 32 years in Banking (Finance)



Leadership Team



Harsha Wanigatunga

CHIEF INFORMATION OFFICER

Qualifications

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

Total Experience 27 years



Malik Wickramanayake

DEPUTY GENERAL MANAGER - OPERATIONS

Qualifications

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

Total Experience 27 years



Shanaka Perera

DEPUTY GENERAL MANAGER - TREASURY

Qualifications

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

Total Experience 31 years

Leadership Team - Assistant General Managers



Wasantha Karunaratne
ASSISTANT GENERAL MANAGER - SERVICES

Qualifications

Diploma in Purchasing and Materials Management

Total Experience 31 years

Kapila Rathnayaka

ASSISTANT GENERAL MANAGER – PREMISES MAINTENANCE

Qualifications

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

Total Experience 20 years



Aruna Fernando
CHIEF RISK OFFICER

Qualifications

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

Total Experience 34 years

Varuna Koggalage

HEAD OF AUDIT

Qualifications

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

Total Experience 26 years



Nuwan Jayawardane
ASSISTANT GENERAL MANAGER – IT INFRASTRUCTURE

Qualifications

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

Total Experience 27 years

Leadership Team - Assistant General Managers



Ms. Sharon Fonseka

ASSISTANT GENERAL MANAGER- CORPORATE CREDIT BRANCHES

Qualifications

Associate member of the Institute of Bankers of Sri Lanka

Total Experience 33 years

Ranil Dissanayake

ASSISTANT GENERAL MANAGER – BRANCH CREDIT

Qualifications

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

Total Experience 31 years



Ms. Nisha Najumudeen

COMPANY SECRETARY

Qualifications

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

Total Experience 32 years

Eranga Lankatilaka

ASSISTANT GENERAL MANAGER – RECOVERIES

Qualifications

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

Total Experience 31 years



Ms Dilani Sooriyaarachchi

HEAD OF COMPLIANCE

Qualifications

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

Total Experience 24 years

Leadership Team - Assistant General Managers



Sunil Jayawardana

HEAD OF CREDIT HUBS

Qualifications

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

Total Experience 34 years

Sanjaya Perera

ASSISTANT GENERAL MANAGER – FINANCE

Qualifications

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

Total Experience 19 years



Sampath Fernando

ASSISTANT GENERAL MANAGER – INFORMATION TECHNOLOGY

Qualifications

Master of Business Administration- University of Manipal, Banking Intermediate

Total Experience 32 years

Eugene Seneviratne

ASSISTANT GENERAL MANAGER – RETAIL BANKING

Qualifications

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

Total Experience 30 years



Ruwan Fernando

ASSISTANT GENERAL MANAGER - BRANCHES II

Qualifications

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

Total Experience 28 years

Leadership Team - Assistant General Managers



Ms Vayoma Paranagama

ASSISTANT GENERAL MANAGER - LEGAL

Qualifications

Attorney at Law & Notary Public, Associate of Institute of Bankers Sri Lanka, Master of Business Administration - University of Sri Jayawardenepura

Total Experience 29 years



Dilan Wijegoonawardena

ASSISTANT GENERAL MANAGER - INTERNATIONAL

Qualifications

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

Total Experience 27 years



Gamika De Silva

ASSISTANT GENERAL MANAGER - MARKETING AND SALES

Qualifications

Master in Business Management - University of Wales, Fellow Member of the Sri Lanka Institute of Marketing, CIM – Chartered Institute of Marketing

Total Experience 23 years



Ms Nilanthie De Meral

ASSISTANT GENERAL MANAGER - CORPORATE BANKING

Qualifications

Associate member of the Institute of Bankers of Sri Lanka

Total Experience 30 years



Dimuth Sigera

ASSISTANT GENERAL MANAGER - BRANCHES I

Qualifications

Chartered Financial Analyst – Chartered Financial Analyst (CFA) Institute, Master in Economics – University of Colombo, Master of Business Administration- PIM, BSc Management (Public) Special degree- University of Sri Jayawardenepura

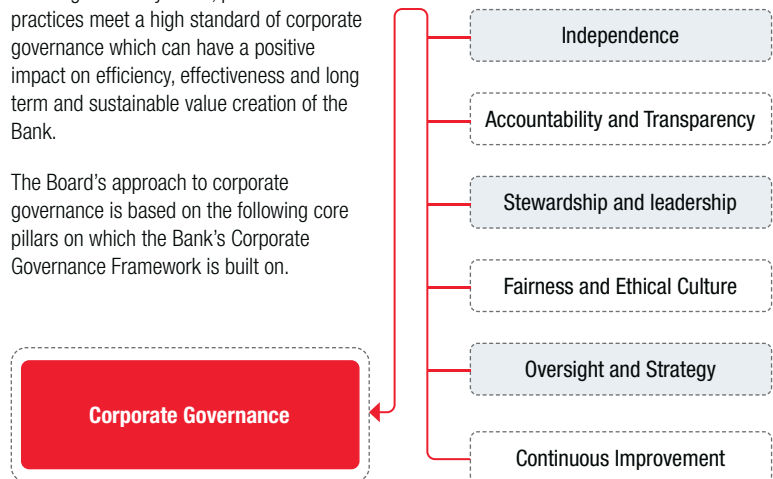
Total Experience 20 years

Corporate Governance

Corporate governance is the system by which companies are directed and controlled. Good corporate governance means companies having clear and systematic decision making process, providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory processes and systems of internal controls, risk management, transparency and accountability. Nevertheless, banks and financial institutions should have relatively stronger corporate governance practices due to the nature and complexity of the banking business and the need for protection of its stakeholders, mainly the depositors.

The Board and management of Seylan Bank PLC ('the Bank') is committed to ensuring that its systems, procedures and practices meet a high standard of corporate governance which can have a positive impact on efficiency, effectiveness and long term and sustainable value creation of the Bank.

The Board's approach to corporate governance is based on the following core pillars on which the Bank's Corporate Governance Framework is built on.



The Bank's corporate governance philosophy encompasses not only regulatory and legal requirements but also various internal governance structures within the Bank. The Bank's governance related policies, charters and codes of conduct and ethics are formulated and adopted by the Bank taking into consideration the regulations, rules, directions, guidelines and principles, etc. of the relevant statutes and regulatory bodies in addition to its' own Articles of Association. Furthermore, timely disclosures are made and accurate information is shared with the stakeholders regarding the Bank's financials and performance whilst providing comfort to them on the leadership and governance activities of the Bank.

External Framework

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

- Banking Act No.30 of 1988 (as amended)
- Companies Act No.7 of 2007
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks of Sri Lanka (as amended)
- Banking Act Directions, Guidelines, Circulars issued by the Central Bank of Sri Lanka from time to time
- Rules of the Colombo Stock Exchange (as amended)
- Guidelines of the Securities and Exchange Commission of Sri Lanka in pursuance of its regulations
- Sri Lanka Financial Reporting Standards and Accounting Standards
- Guidelines issued by the Institute of Chartered Accountants of Sri Lanka
- Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka
- other applicable regulations, directions and recommended best practices on Corporate Governance, Financial Disclosures, Related Party Transactions, etc.

Internal Framework

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

- Articles of Association
- Corporate Governance Framework
- Terms of Reference for the Senior Director
- Terms of References of the Board Subcommittees
- Terms of References of Management Committees
- Integrated Risk Management Framework and Risk Management Policies
- Compliance Reference Guide covering Compliance related policies, internal guidelines, regulatory directions, regulatory reporting requirements, etc.
- Policies approved by the Board on all operational areas, human resources/ employee related policies
- Employee Manual including Code of Ethics and Code of Conduct for Employees
- Policies relating to Directors-on appointment of Directors; on Directors seeking independent advice, etc.
- Code of Business Conduct and Ethics for Directors
- Operations Manual
- Lending Guidelines
- Credit Standards and Procedure Manual
- Policy on Insider Dealing
- Policy on Related Party Transactions and Avoidance of Conflicts of Interest

The corporate governance statements in compliance with the principles and directions set out in the Banking Act Direction No.11 of 2007 [as amended] for Licensed Commercial Banks ('the Banking Act Direction'), that are reported in this Corporate Governance Report as well as in the Reports of the regulatory Board Committees published in the Annual Report describe Seylan Bank PLC's key corporate governance approach and practices of the Bank for the financial year ended 31 December 2021 ('FY 2021'). Such disclosures together with the disclosures on financials and notes thereof on Internal Controls, on ESG (Environmental Social Governance), on Risk Management, etc., published in the Annual Report further demonstrate the Bank's commitment to transparency and accountability, the Board's oversight of strategy and the Board's as well as management's commitment to application of good governance practices.

The Board Governance and Compliance Committee and the Board of Directors reviewed the statements in this Corporate Governance Report and were satisfied with the disclosures and confirmations on the level of compliance in respect of the FY 2021 under the aforementioned Banking Act Direction and governance codes and principles. The findings of the External Auditors' Factual Findings Report carried out based on the Agreed Upon Procedure in terms of Sri Lanka Related Services Practice Statement 4750 were reported to be consistent with the matters disclosed in this Corporate Governance Report.

There have been no material violations of any of the provisions of the applicable laws and regulations, the Banking Act and the Directions issued by the Central Bank of Sri Lanka and the Codes of Conduct and Ethics of the Bank.

Statements of Compliance with Corporate Governance Directions and Principles

Banking Act Direction No. 11 of 2007 on Corporate Governance (As Amended)

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

Section 3(8) of the above Direction. Section 3(9) of the Direction on 'Transitional and Other General Provisions' is not applicable to the Bank and therefore not mentioned herein.

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

Directions/Compliance Status - complied ✓; not complied ✗; partially complied Ⓟ and Level of Compliance [the numbers against the captions indicate the respective section of the Banking Act Direction No.11 of 2007]

3 (1) RESPONSIBILITIES OF THE BOARD

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

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

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

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

Values inspired by Seylan Bank PLC's Vision and Mission



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

Codes of Conduct and Ethics

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

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

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

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

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

Whistle Blowing Policy

The Bank believes that protecting the integrity and reputation of the Bank requires the active support of its staff members. The Whistle Blowing Policy adopted by the Bank is an appropriate channel for

Corporate Governance

any staff member who becomes aware of unauthorized or inappropriate activity which may have an adverse impact on the reputation and good governance of the Bank to raise concerns and report such incidents and infringements.

Anti-Bribery and Corruption Policy

As a responsible corporate citizen, the Bank has extended its governance framework beyond the statutory and regulatory obligations. The Bank is committed to conduct its business in accordance with the highest ethical standards. In line with this commitment the Bank adopts a “zero tolerance” approach for compliance breaches including deviations from ethical standards.

The leadership level commitment towards a good governance culture is proven by the existence of the Board Governance and Compliance Committee which is a subcommittee of the Board of Directors. Overlooking regular monitoring and periodic assessment of the Bank’s conduct risk management framework and the anti-bribery and corruption framework both at policy and procedural level are a few examples of the specific tasks carried out by this Subcommittee beyond its regular compliance obligations. The Anti-Bribery and Corruption Policy adopted by the Bank defines unacceptable behavior and activity relating to bribery and corruption to ensure that risks emanating from those within Bank’s business are properly identified, mitigated and managed.

The approach is applicable across the Bank, i.e., from the Board of Directors and the top management to the bottom level employees including temporary recruits. It is also applicable to agents and representatives of the Bank. To achieve these objectives, periodic awareness activities and monitoring processes are in place to ensure that all stakeholders abide by the highest ethical standards of integrity and accountability obligations. Employees are educated and encouraged to raise any concerns affecting compliance culture of the Bank through the whistle blowing mechanism. The Bank’s Compliance Department is vested with the responsibility of ensuring the implementation of the recommendations of the Board and its Subcommittees in this regard.

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

Strategic Plan

In January 2021, the Board approved the three-year Strategic Plan of the Bank for the period 2021 to 2023, pursuant to an in-depth review and recommendation of the Board Strategic Plan Committee at its meetings held in 2020. The Board Strategic

Plan Committee regularly reviewed the progress of the Strategic Plan as presented by the executive/corporate management and provided necessary guidance. The internal Project Management Office (PMO) in collaboration with the management focused on driving the results of the selected priorities as per an agreed operational plan.

Risk Management

The Board has vested the responsibility for formulating and implementing prudent risk management policies, to the Board Integrated Risk Management Committee (BIRMC). The BIRMC has ensured that the Bank’s Risk Management Unit headed by the Chief Risk Officer identifies principal risks and with the approval of the Board puts in place policies and guidelines for implementation. During the year, the Board ensured that the implementation of overall business strategy and the goals and targets are aligned with the Bank’s overall risk assessment and risk appetite. The Board approved Integrated Risk Management Policy and other risk management policies and procedures in place constitute the overall risk management framework of the Bank which were constantly tested and reviewed by the Risk Management Unit and the status was reviewed by the BIRMC.

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

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

The Board has adopted the following policies in this regard:

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

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

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

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

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

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

KMPs are deemed as “related parties” and therefore, necessary steps were taken to ensure compliance with section 3(7) of the Banking Act Direction No.11 of 2007, provisions of the Sri Lanka Accounting Standards (LKAS/SLFRS) and the Rules of the Colombo Stock Exchange. The Bank’s Policy and Process document on Related Party Transactions and Avoidance of Conflicts of Interests and the Codes of Ethics provide necessary principles, guidelines and processes to be followed by the KMPs.

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

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

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

The objective of effective management oversight is to ensure that management is involved in and clearly committed to the delivery of the results. The Board was satisfied that there was appropriate oversight of the affairs of the Bank by the KMPs.

The monthly management reports presented to the Board by the Chief Financial Officer (CFO) provide an overall account of the performance of the Bank and of the business units and support units, against the agreed strategic objectives and targets set. These were reviewed and deliberated in depth by the Board members at Board meetings at which the CFO and/or the Chief Executive Officer (CEO) and/or the Chief Operating Officer (COO) explain, answer queries and provide clarifications to the Board.

Reports and/or proposals submitted by KMPs to the Board and Board Subcommittees for information, review and concurrence or decision were pursuant to due diligence, identification of key risks and solutions for mitigation of such risks, highlighting the benefits and impacts and placing their recommendations with reasoning and justifications. The proposals include those aligned to the instructions of the Board and/or its Subcommittees, Board policies and those arising from management level strategic decisions at meetings headed by the CEO and/or the COO.

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

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

The Bank's Board has put in place a formal process for reviewing the effectiveness of its own performance and that of its Committees annually. Each Director completed a detailed questionnaire in the first quarter of 2021 which sought their responses on the governance practices adopted by the Board/Bank, which included the following:

- *structure of the Board and its Committees;*
- *Board culture and relationships with stakeholders;*
- *effectiveness of Board proceedings;*

- *implementation of strategy; internal control processes and robust risk management;*
- *capitalization of the Bank;*
- *response to problems and crisis that have emerged;*
- *Succession planning;*
- *knowledge and skills update by Board members;*
- *effectiveness of the Independent Directors of the Board.*

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

The Board Subcommittees too carried out self-assessments of the effectiveness of the respective Subcommittees and submitted their reports to the Board for evaluation and comments.

The Independent Directors of the Bank at their meeting chaired by the Senior Director, Ms Coralie Pietersz reviewed the structure, methodology and process for the evaluation of the Board Chairman, Independent Directors, Non-Independent Directors, Board Subcommittees and made recommendations to the Board for implementation of such proposals effective, financial year 2022.

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

This responsibility is vested with the Board Nomination Committee (BNC). During the year, the Committee reviewed the effectiveness of the Succession Plan for KMPs in place and deliberated on the management proposals on changes to the organizational structure in order to enhance the effectiveness of the functionalities. The BNC as well as the Board Human Resources and Remuneration Committee ensured that the right training and development plans were in place for identified successors and staff across the Bank.

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

The CEO and KMPs heading different areas of authority were invited to regular meetings of the Board Subcommittees as well as Board meetings at which the Board discussed the progress and the extent to which policies, corporate strategies and objectives of the Bank were implemented

and achieved whilst advising and providing relevant directions to the management.

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

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

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

The Board Audit Committee is vested with the responsibility of exercising due diligence and oversight in making necessary recommendations for hiring of the External Auditors. The Committee has ensured that the Audit Engagement Partner was changed every five years.

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

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

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

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

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

Directors actively participated, shared their views and made valuable contributions at Board proceedings. Resolutions by circulation were restricted to matters of a

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routine nature and/or for urgent business requirements. A summarized report of all such resolutions passed, were ratified at the immediate regular monthly Board meeting that followed such dates of resolutions. The Directors' attendance at Board meetings are disclosed in the table under 3(1)(vi) below.

3 (1) (iv) ✓ - Agenda

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

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

3 (1) (v) ✓ - Notice of Meeting

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

and accessed by the Directors from their application devices.

3 (1) (vi) ✓ - Attendance

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

Director	Status*	Meetings eligible to attend	Meetings Attended	As a Percentage (%)
Mr W M R S Dias	Non-IND NED/Chairman	15	15	100.00
Mr W D K Jayawardena	Non-IND NED/ Deputy Chairman	14	**13	92.86
Ms M C Pietersz	IND NED/Senior Director	15	15	100.00
Mr K P Ariyaratne	EXD/CEO	14	14	100.00
Mr P L S K Perera***	IND NED	13	13	100.00
Mr S V Corea	Non-IND NED	15	13	86.67
Mr A S Wijesinha	IND NED	15	15	100.00
Ms S K Salgado	IND NED	15	14	93.33
Mr D M D K Thilakaratne	Non-IND NED	14	12	85.71
Mr D R Abeysuriya	IND NED	15	15	100.00
Mr D M Rupasinghe****	IND NED	03	03	100.00

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

** Includes nine meetings attended by Alternate Director, Ms V G S S Kotakadeniya.

*** Retired from the Board on 07 November 2021

**** Appointed to the Board on 01 October 2021

Total number of Board meetings held during the year was sixteen (16), which included twelve (12) monthly regular meetings and four (04) special meetings. One special meeting was not counted for attendance as it was convened with less than two working days' notice.

3 (1) (vii) ✓ - Company Secretary

Ms N N Najumudeen, who is a qualified Chartered Secretary being an Associate Member of the Institute of Chartered Secretaries and Administrators, UK (also known as The Governance Institute of UK) and an Associate Member of the Institute of Chartered Corporate Secretaries of Sri Lanka was appointed as the Company Secretary of the Bank in April 2011. In conformation with Section 43 of the Banking Act No.30 of 1988 (as amended), she is not an employee of any other organization or institution. The Board approved Job Description of the Company Secretary includes the roles and responsibilities of a Company Secretary/Board Secretary to be performed in compliance with the relevant laws, regulations and the Articles of Association of the Bank.

The Company Secretary's duties include convening and conducting meetings of the Board and Board Subcommittees, convening and conducting shareholders' meetings in line with the regulations,

Articles of Association of the Bank.

Among other functions, she oversees the administration and day to day operations of the Company Secretariat of the Bank including the registrar's functions, capital issues, communications with shareholders, communication with regulatory authorities, mainly the Colombo Stock Exchange, the Registrar of Companies and the Central Bank of Sri Lanka.

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

The Company Secretary reports to the Board and to the Board Subcommittees and supports the members on matters relevant to the functioning of the Board and the Board Subcommittees in line with good corporate governance. Advice and services sought by the Board members from time to time in respect of Board responsibilities, procedures and applicable rules and regulations that are required to be followed, were duly offered by the Company Secretary.

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

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

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

Directors are able to seek independent professional advice at the expense of the Bank in furtherance of their duties and contribution at Board and Board Subcommittee meetings in the interest of

the Bank. A Board approved procedure is in place for this purpose.

3 (1) (xii) 🗳️ - Avoidance of Conflicts of Interest

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

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

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

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

The Board has adopted a Contingency Funding Plan (CFP). The CFP addresses the procedures to be followed by the Bank and keeping the Director of Bank Supervision of the Central Bank of Sri Lanka informed in a liquidity crisis situation, i.e. if it considers

that it is, or is unlikely to be able to meet its obligations or is about to suspend payments due to depositors and other creditors. The Bank however, did not face a situation of being unable to meet its obligations on payments during the year.

3 (1) (xv) 🗳️ - Capitalization of the Bank

The Bank was in compliance with the Capital Adequacy requirements as required by the Monetary Board under Banking Act Direction No.1 of 2016 (as amended) on Capital Requirements under BASEL III for Licensed Commercial Banks and Licensed Specialized Banks. The Capital Adequacy Position based on the Capital Augmentation Plan (CAP) was reviewed periodically during the year. The Capital Augmentation Plan which was prepared based on BASEL III, took into consideration the projected growth patterns, provisions impact on the profitability, capital issues, dividend payout, etc. The total Capital Ratio as at 31 December 2021 based on certified audited financials was 14.11%, (well above the minimum regulatory requirement of 12.50%).

3 (1) (xvi) 🗳️ - Annual Corporate Governance Report

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

3 (1) (xvii) 🗳️ - Scheme of Self-assessment

Each member of the Board submitted his/her own self-assessment report to the Board, reporting on the extent of their respective contributions to the Board and to the Board Subcommittees they were attached to. The reports were shared at the Board meeting and filed of record by the Company Secretary. These facilitated the Board members to assess the extent to which they have fulfilled their duties and

responsibilities and further it ensured that appropriate processes are in place to ensure due diligence to planning and oversight of the organization. The process and approach was reviewed for adoption effective from the current year 2022.

3 (2) THE BOARD'S COMPOSITION

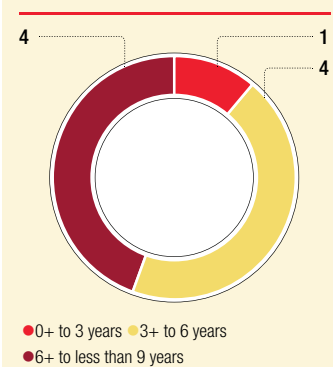
3 (2) (i) 🗳️ - Board Composition

The Bank is in compliance with this section of the Banking Act Directions, i.e. that the composition of the Board to be not less than seven directors and not more than thirteen directors at any one time. The Board comprised 10 members throughout the year, 2021 except during the period 1 October 2021 to 7 November 2021 when the number of Directors on the Board totaled eleven Directors, as described in the table below.

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

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

Number of Non-Executive Directors who have completed the following tenures of directorships as at 31 December 2021



No.	Director	Status*	Date of Appointment	Period served as at 31 December 2021
1.	Mr W M R S Dias	Non-IND NED /Chairman	29 May 2015	6 years, 7 months
2.	Mr W D K Jayawardena	Non-IND NED / Deputy Chairman	1 August 2013	8 years, 5 months
3.	Ms M C Pietersz	IND NED /Senior Director	23 September 2013	8 years, 3 months
4.	Mr K P Ariyaratne	EXD/Chief Executive Officer	16 February 2015	6 years, 10 months
5.	Mr P L S K Perera**	IND NED	23 September 2013	8 years, 3 months
6.	Mr S V Corea	Non-IND NED	14 May 2015	6 years, 7 months
7.	Mr A S Wijesinha	IND NED	1 December 2016	5 years, 1 month
8.	Ms S K Salgado	IND NED	1 December 2016	5 years, 1 month
9.	Mr D M D K Thilakarathne	Non-IND NED	1 October 2018	3 years, 3 months
10.	Mr D R Abeyseriya	IND NED	17 October 2018	3 years, 2 months
11.	Mr D M Rupasinghe***	IND NED	1 October 2021	3 months

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

** Mr P L S K Perera retired from the Board with effect from 7 November 2021

*** Mr D M Rupasinghe joined the Board with effect from 1 October 2021

Corporate Governance

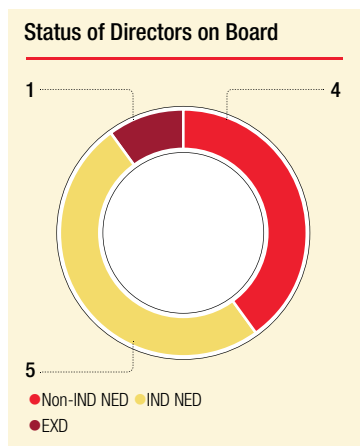
3 (2) (iii) ✓ - Appointment of Executive Directors

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

3 (2) (iv) ✓ - Independent Directors

This Direction states that the minimum requirement of independent non-executive directors shall be 3 or one-third of the total number of directors on the board, whichever is higher. Therefore, based on the number of Directors on the Board of the Bank, the requirement would be minimum 3 or $10 \times \frac{1}{3} = 3.33$, i.e. 4. However, the Bank's Board composition exceeded this limit with minimum five Independent Non-Executive Directors during the year and also as at 31 December 2021.

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



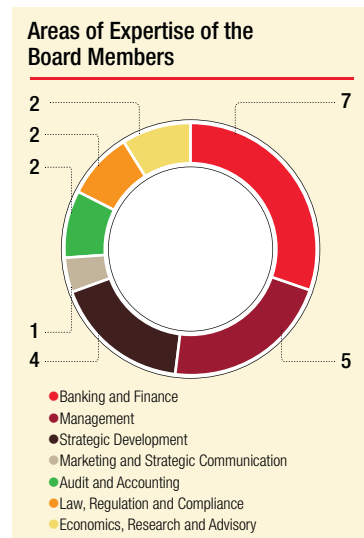
3 (2) (v) ✓ - Alternate Directors

Ms V G S S Kotakadeniya functioned as the Alternate Director to Non-Independent Non-Executive Director, Mr W D K Jayawardena during the year. Ms Kotakadeniya attended nine meetings of the Board on behalf of Mr Jayawardena, during the year. Ms V G S S Kotakadeniya's status of Alternate Directorship was deemed Non-Independent Non-Executive.

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

The Board firmly believes that a diversified board will bring forth divergent leadership skills, thinking, risk predilections and

behaviours. The Directors on the Board were professionals with extensive experience, skills and proven track records, in the field of banking, finance, management, accounting, auditing, law, economics, research, marketing, strategic communications, etc. Their profiles can be perused on pages 64 to 67 in the Annual Report. Their knowledge and expertise brought comprehensive oversight and independent judgement on issues of strategy, operations of the Bank with a broader focus on financial, compliance and reputational risks, thus supporting a greater supervision on the Board and in the evaluation and decision-making process. The importance of these attributes were taken into account in determining the optimum composition of the Board of Seylan Bank and the requirements have been set out in its 'Policy for Appointment of Directors'.



Gender Diversity - was another aspect that the Board takes into consideration when nominees were considered for Board appointments. The Board of Directors comprised 20% female Directors and 80% male Directors as at 31 December 2021.

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

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

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

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

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

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

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

In terms of Article 89 of the Articles of Association, a director who is appointed after an Annual General Meeting (AGM) of the Bank is subject to election by the shareholders at the AGM that follows his or her appointment. No directors were appointed to fill casual vacancies after AGM held in March 2020 and until the AGM held in March 2021 and therefore, did not entail the election of any director at the AGM held in March 2021. Independent Director, Mr D M Rupasinghe was appointed on 1 October 2021 and will be subject to election by the Shareholders in terms of the aforementioned Article and this Banking Act Direction, at the AGM of the Bank scheduled to be held on 30 March 2022.

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

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

There were no resignation or removal of any Director during the year 2021. Independent Director, Mr P L S K Perera retired/ceased to be a Director with effect from 7 November 2021 upon reaching the age of 70 years and such change was informed to the Central Bank of Sri Lanka, the Registrar of Companies and to the Colombo Stock Exchange.

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

No Director and no employee of the Bank has been appointed, elected or nominated as a director of another Bank. The Bank has stipulated this requirement in its Corporate Governance Framework, in the Policy Governing Directors' Appointment and in the

letters of appointment issued to employees and the Employee Manual and related policies of the Bank.

3 (3) CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS

All appointments to the Board were made after obtaining approval of the Director, Bank Supervision, Central Bank of Sri Lanka (CBSL) in terms of Section 42 of the Banking Act No.30 of 1988 (as amended) whilst Affidavits of the continuing Directors in terms of the said section were forwarded to the Director, Bank Supervision, at least 15 working days prior to the Annual General Meeting of the Bank, for perusal and approval of the Director, Bank Supervision, CBSL.

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

The Board has also put in place a Fit and Proper Policy in accordance with the guidelines issued by the Securities and Exchange Commission of Sri Lanka. Affidavits submitted by the Directors during the year in accordance with the Policy and Guidelines affirming their fitness and propriety were submitted to the Board Nomination Committee and the Board. The Board Nomination Committee and the Board perused them and recorded their satisfaction.

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

The related section of the Banking Act Direction stipulates that a person who is over 70 years of age shall not serve as a Director. Independent Director, Mr P L S K Perera retired from the Board upon reaching the age of 70 on 7 November 2021.

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

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

3 (3) (iii) (amended by Direction No.9 of 2019) - Appointment of Directors or a Chief Executive Officer who has held office in another licensed commercial bank

The Bank will ensure that a director or a Chief Executive Officer of another licensed bank operating in Sri Lanka will not be considered for appointment before the expiry of a period of 6 months (cooling off

period) from the date of cessation of his/her office at the licensed bank in Sri Lanka and that any variations thereto in exceptional situations will be subject to the prior approval of the Monetary Board.

The requirement under this Direction was considered by the Board when the appointment of Independent Director, Mr D M Rupasinghe was made during the year. Mr Rupasinghe was not a Director of any licensed bank prior to his appointment to the Bank's Board. As he was an employee of the Central Bank of Lanka (CBSL), the Bank ensured one year 'cooling off' period applicable to employees of the CBSL, prior to appointing him to the Board.

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

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

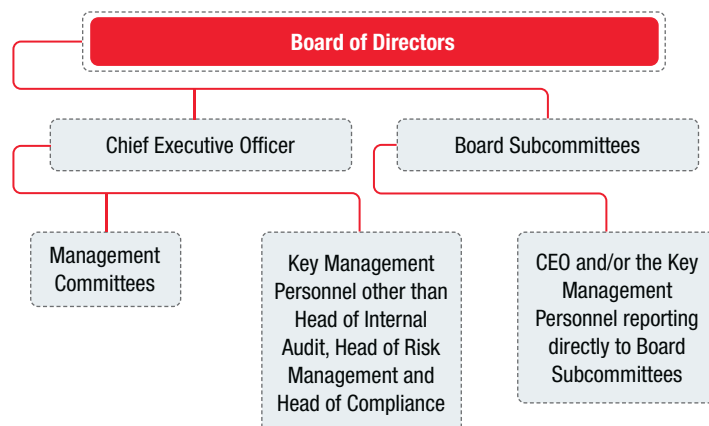
The Board is empowered by the Articles of Association to delegate any of its powers to the Board Subcommittees consisting of such member or members as the Board thinks fit or to the Chief Executive Officer and/or to

the key management personnel (KMPs) as appropriate.

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

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

The Delegation Process of the Bank.



3 (5) CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

The role and responsibilities of the Bank's Chairman and that of the CEO are separate and distinct and the Board has outlined them in the Corporate Governance Framework of the Bank. The Chairman and the CEO execute their respective roles in coordination with each other and/or with the Board to reach high-level decisions in the best interest of the Bank.

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

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

Corporate Governance

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

The declarations submitted by the Directors upon appointment and annually by the continuing Directors as well as the declaration submitted by the CEO confirm that no relationship of any nature (including financial, business, family or other material/relevant relationships) existed between the Chairman and the CEO (who is also a member of the Board) and also did not exist amongst the members on the Board, during the year 2021. However, it should be noted that Directors, Mr W D K Jayawardena and Mr D M D K Thilakarathne were nominated to the Board by the Bank's material shareholders, Brown & Company PLC and LOLC Investments Ltd and represent common interests; whilst Directors, Mr W M R S Dias and Mr S V Corea were similarly nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Ltd and these Directors too represent common interests.

3 (5) (iv)-(x) ✓ - Chairman's Role

The primary role of the Chairman is to provide leadership to the Board and ensuring that the Board is effective in its task of setting and directing the Bank's strategy. The role played by the Chairman was aligned to the requirements set out in this Banking Act Direction, which included:

- Providing leadership and governance of the Board so as to create the conditions for overall Board's and individual Director's effectiveness, it is ensured that all key and appropriate issues are discussed by the Board in a timely manner.
- Ensuring that the agenda for the Board Meetings preparation of which is delegated to the Company Secretary, takes into account important issues faced by the Bank and concerns of all Directors and that adequate time is available for thorough discussion of critical and strategic issues
- Ensuring that Board papers covering adequate information is circulated to the Directors well in advance of the date scheduled for the Meeting. Also ensuring that Directors, especially new Directors on the Board are duly briefed on issues arising at Board meetings.
- Promoting effective relationships and open communication to create an environment that allows constructive debates and challenges between Non-Executive Directors and the management.
- Encouraging all Directors to make an active contribution and ensures that the deliberations and decisions of the Board are in the best interest of the Bank.

Non-Executive Directors who chair Board Subcommittees and/or are members of the Board Subcommittees play an active role in executing the responsibilities delegated by the Board to the Committees in the best interest of the Bank.

- *Not engaging in direct supervision of the key management personnel or in any other executive duties and was only engaged in the oversight capacity along with the other Non-Executive Directors.*
- *Ensuring that effective communication with shareholders was maintained and that an understanding of the stakeholder views was in place. The general meetings of the Bank were the main forums utilized by the Board as well as the shareholders of the Bank for an effective dialogue with one another while other channels of communication were also being used to ensure that shareholders and all interested parties have equal access to corporate information in the public domain. Corporate announcements and information will be disseminated in accordance with the legal and regulatory requirements applicable to the Bank.*

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

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

and is accountable to the Board on the performance of the Bank.

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

3 (6) BOARD APPOINTED COMMITTEES

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

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

Committees established as per the Banking Act Directions	Committees established as per the Rules of the Colombo Stock Exchange and as per the Code of Best Practise on Corporate Governance 2017, issued by the ICASL	Additional Committees established by the Board
<ul style="list-style-type: none"> • Board Audit Committee ① • Board Human Resources and Remuneration Committee ② • Board Nomination Committee ③ • Board Integrated Risk Management Committee ④ 	<ul style="list-style-type: none"> • Board Audit Committee ① • Board Human Resources and Remuneration Committee ② • Board Nomination Committee ③ • Related Party Transactions Review Committee ⑤ 	<ul style="list-style-type: none"> • Board Credit Committee ⑥ • Board Marketing and Product Development Committee ⑦ • Board Sustainability Committee ⑧ • Board Governance and Compliance Committee ⑨ • Board Strategic Plan Committee ⑩ • Board Information Technology Committee ⑪

These Board appointed Subcommittees functioned within Board approved Terms of Reference and reported to the Board. All Committees were chaired by Independent Non-Executive Directors. Reports and papers that required the Board's attention and/or decisions were followed up and circulated to the Board along with copies of confirmed minutes of the Committee meetings by the respective Secretaries to the Committees.

The following table provides a summary of the scope and objectives, composition and membership of Directors of the eleven Subcommittees. Individual reports of the five Subcommittees mandated by the Banking Act Directions and the Rules of the Colombo Stock exchange (listed above) have also been published in the Annual Report.

Scope and Objectives of the Committee

1 Board Audit Committee

Providing insight to the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations and the Code of conduct.

[Please also refer section 3(6) (ii) in this Corporate Governance Report and also the Report of the Committee on pages 94 and 95 for more disclosures]

2 Board Human Resources and Remuneration Committee

To assist and make recommendations to the Board of Directors in exercising its oversight role and responsibilities on matters related to human resource strategies and policies and determination of compensation, benefits and remuneration for the Directors, the Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank.

[Please also refer section 3(6) (iii) in this Corporate Governance Report and also the Report of the Committee on page 96 for more disclosures]

3 Board Nomination Committee

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

[Please also refer section 3(6) (iv) in this Corporate Governance Report and also the Report of the Committee on page 97 for more disclosures]

Composition / Membership / Quorum

Independent Non-Executive Directors	Ms M C Pietersz, Mr D R Abeyesuriya, Mr D M Rupasinghe*
Non-Independent Non-Executive Directors	Mr W D K Jayawardena
Executive Directors	Nil
Chairperson	Ms M C Pietersz, Independent Non-Executive Director/Senior Director
Quorum	two members

*Independent Director, Mr P L S K Perera (retired) ceased to be a member with effect from 27 October 2021 and Mr D M Rupasinghe was appointed from the said date.

The Head of Internal Audit reports directly to the Committee

Independent Non-Executive Directors	Ms M C Pietersz, Ms S K Salgado and Mr D R Abeyesuriya
Non-independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakarathne
Executive Directors	Nil
Chairman	Ms M C Pietersz, Independent Non-Executive Director/Senior Director
Quorum	two members

Director/CEO and Head of Human Resources were present on invitation except when matters relating to them were being discussed.

Independent Non-Executive Directors	Ms M C Pietersz, Mr A S Wijesinha and Mr D M Rupasinghe*
Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr W D K Jayawardena
Executive Directors	Nil
Chairman	Ms M C Pietersz, Independent Non-Executive Director/Senior Director
Quorum	two members

*Independent Director, Mr P L S K Perera (retired) ceased to be a member with effect from 27 October 2021 and Mr D M Rupasinghe was appointed from the said date.

Director/CEO and Head of Human Resources were present on invitation.

Highlights of activities during the year

- Fifteen meetings were held during 2021.
 - Reappointment of M/s KPMG, Chartered Accountants as the External Auditors.
 - Agreement on the External Audit Scope and Plan for 2021.
 - Decided on specific objectives for the Committee in respect of the year 2021 and monitored the progress on a regular basis.
 - Approval of the Internal Audit Charter.
 - Presentation of the Bank's IT Security Architecture and controls in place by the Chief Information Officer to the Committee.
 - Discussed and agreed on the applications to be adopted to comply with the Banking Act Directions on Classification, Recognition and Measurement of Credit Facilities and Financial Assets in Licensed Banks.
 - Approval of the Internal Audit Plan for 2022.
-
- Five meetings were held during 2021.
 - Revision of the KPIs evaluation approach and evaluation format for the Bank's overall KPIs for 2021 and 2022
 - Reviewed the progress of the workplace culture assessment and transformation survey initiated during 2021.
 - Reviewed the progress of the Human Resources Roadmap for 2021-2023 and the Training and Development Plan for 2020/2021.
 - Provided Guidance on Collective Negotiation Process for Salary Revisions effective 2022.
 - Reviewed and recommended the adoption of the Work from Home Policy which was approved by the Board.
 - Reviewed and revised the Terms of Reference of the Committee.
 - Reviewed and recommended the adoption of the Policy on Succession Planning, Selection and Recruitment for Key Persons which was approved by the Board.
-
- Three meetings were held during 2021.
 - Recommended the appointment of Independent Director, Mr D M Rupasinghe.
 - Reviewed the implementation and effectiveness of the changes to the organizational structure and the updated succession plan/arrangements.
 - Reviewed the mentoring and development initiatives of the successors identified for the Key Management Personnel positions.
 - Reviewed and recommended the revisions to the Policy Governing Directors' Appointments.
 - Recommendations for the re-election of Directors.
 - Reviewed and revised the Terms of Reference of the Committee.

Corporate Governance

Scope and Objectives of the Committee

4 Board Integrated Risk Management Committee

To assess all risks facing the Bank and its reputation, namely, credit, market, liquidity, operational and strategic Risks on a regular basis through appropriate risk indicators and management information and also to assess the risks faced by the subsidiary.

[Please also refer section 3(6) (ii) in this Corporate Governance Report and also the Report of the Committee on pages 98 and 99 for more disclosures]

5 Related Party Transactions Review Committee

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

[Please also refer section 3(7) in this Corporate Governance Report and also the Report of the Committee on page 100 for more disclosures]

6 Board Credit Committee

To Improve the business and soundness of the Bank and to promote and reinforce a robust and pervasive credit risk acceptance and management culture by reviewing and guiding/recommending/approving (as appropriate);

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

Composition / Membership / Quorum

Independent Non-Executive Directors	Mr D R Abeysuriya, Ms M C Pietersz and Mr D M Rupasinghe*
Non-Independent Non-Executive Directors	Mr W M R S Dias
Executive Directors	Mr K P Ariyaratne
Management	Mr L A S Fernando - Chief Risk Officer
Chairman	Mr D R Abeysuriya, Independent Non-Executive Director
Quorum	two members

*Independent Director, Mr P L S K Perera (retired) ceased to be a member with effect from 27 October 2021 and Mr D M Rupasinghe was appointed from the said date.

The Head of Risk (Chief Risk Officer) and the Head of Compliance report directly to the Committee.

Independent Non-Executive Directors	Ms M C Pietersz, Mr A S Wijesinha and Mr D R Abeysuriya*
Non-Independent Non-Executive Directors	Mr S V Corea
Executive Directors	Nil
Chairman	Mr D R Abeysuriya, Independent Non-Executive Director
Quorum	two members

*Independent Director, Mr P L S K Perera (retired) ceased to be a member/Chairman of the Committee with effect from 27 October 2021 and Mr D R Abeysuriya was appointed from the said date as a member and as Chairman of the Committee.

Director/CEO and Head of Compliance were present on invitation.

Independent Non-Executive Directors	Mr A S Wijesinha
Non-independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakarathne
Executive Directors	Mr K P Ariyaratne
Chairman	Mr A S Wijesinha, Independent Non-Executive Director
Quorum	two members

Head of Treasury and Head of Risk were coopted to the Committee. Heads of the business units attended the meetings on invitation.

Highlights of activities during the year

- Eight meetings were held during 2021.
- Review/Revision of the Integrated Risk Management Framework and Policies.
- Approved the Compliance Activity Plan for 2021
- Reviewed the progress of implementation of the goAML system.
- Assessed the score card to be used to monitor strategic risk.
- Reviewed the Strategic Risk Drivers of the Bank.
- Reviewed the Bank's credit risk management framework and set an action plan to implement an effective Early Warning Indicator monitoring mechanism amongst other related activities.
- Reviewed and agreed on the process/plan to rollout a recovery plan as per the Banking Act Direction No.9 of 2021.

- Four meetings were held during 2021.
- Review of recurrent and non-recurrent related party transactions.
- Recommended the renewal of terms of the sub-tenancy agreement with the Bank's subsidiary, Seylan Developments PLC.
- Reviewed and recommended the revisions to the Policy on Related Party Transactions and Avoidance of Conflicts of Interest.

- Twenty Five meetings were held during 2021.
- Recommendation of the Delegated Authority Limits for Lending Officers
- Single Borrower Limits overall and on Related party exposures.
- Reviewed the sector outlook and risk appetite, assessing risks and opportunities in the different sectors and provided necessary guidance.
- Reviewed stressed accounts of the moratorium loans and advised on the way forward actions for close monitoring of such accounts.
- Discussed the COVID-19 (Temporary Provisions) Bill based on presentation by the Head of Legal.

Scope and Objectives of the Committee

7 Board Marketing and Product Development Committee

To review the overall Marketing plans of the Bank to ensure that the plans aim at optimizing value creation for the Bank and support the Strategic goals. Assess all deposit, lending and investment products of the Bank on a regular basis and satisfy itself that the Bank is actively pursuing new product opportunities and developing viable products with the aim of achieving business growth.

8 Board Sustainability Committee

To make decisions on behalf of the Board within the framework of the authority and responsibilities assigned to the Committee as set out in its Terms of Reference.

9 Board Governance and Compliance Committee

To assist the Board in adopting appropriate governance standards for the Bank in fulfilling the Board's responsibility for oversight of the corporate governance processes and practices and compliance practices of the Bank consistent with relevant rules, regulations and directions and principles in force and that may come into force from time to time.

10 Board Strategic Plan Committee

Overseeing, monitoring and providing the necessary guidance to the management to drive and achieve the objectives of the Strategic Plan within the set timelines.

Composition / Membership / Quorum

Independent Non-Executive Directors	Ms S K Salgado and Mr A S Wijesinha
Non-independent Non-Executive Directors	Mr W M R S Dias and Mr D M D K Thilakarathne
Executive Directors	Mr K P Ariyaratne
Chairman	Ms S K Salgado, Independent Non-Executive Director,
Quorum	two members

Head of Marketing and Chief Financial Officer attended the meetings on invitation.

Independent Non-Executive Directors	Ms S K Salgado
Non-independent Non-Executive Directors	Mr S V Corea and Mr D M D K Thilakarathne
Executive Directors	Mr K P Ariyaratne
Chairman	Ms S K Salgado, Independent Non-Executive Director
Quorum	two members

Head of Marketing; Chief Financial Officer Sustainability Manager and management attended the meetings on invitation.

Independent Non-Executive Directors	Ms M C Pietersz and Mr D M Rupasinghe*
Non-Independent Non-Executive Directors	Mr W M R S Dias and Mr S V Corea
Executive Directors	Nil
Chairman	Mr D M Rupasinghe, Independent Non-Executive Director*
Quorum	two members

*Independent Director, Mr P L S K Perera (retired) ceased to be a member/Chairman of the Committee with effect from 27 October 2021 and Mr D M Rupasinghe was appointed from the said date as a member and as Chairman of the Committee.

Director/CEO and Head of Compliance were present on invitation.

Independent Non-Executive Directors	Mr A S Wijesinha, Ms S K Salgado and Mr D R Abeyesuriya
Non-Independent Non-Executive Directors	Nil
Executive Directors	Mr K P Ariyaratne
Chairman	Mr A S Wijesinha, Independent Non-Executive Director
Quorum	two members

Senior Management and heads of strategic business units attended the meetings on invitation.

Highlights of activities during the year

- Three meetings were held during 2021.
 - Approved the Marketing Plan for 2021 in January 2021.
 - In-depth deliberations on products performance.
 - Reviewed the progress of the Brand Key Project initiatives during 2021.
 - Reviewed the progress/status update on the marketing related initiatives agreed for the Bank's Strategic Plan 2021-2023.
 - Approved the Marketing, Sales and Service Quality Plan for 2022 at the meeting held in December 2021.
 - Revised the Terms of Reference of the Committee.
- Two meetings were held during 2021.
 - Revisited the 'Seylan Pehesara' Library project which was temporarily put on hold due to the prolonged lockdown situations and closure of schools during 2021 with a reviewed concept/strategy.
 - Assessed the level of compliance with or preparedness towards complying with the principles under the Sri Lanka Banks Association Sustainable Banking Initiatives.
 - Reviewed and revised the Terms of Reference of the Committee.
- Four meetings were held during 2021.
 - Reviewed the results of the Board Performance Evaluations in respect of the year ended 2021 and made recommendations to the Board.
 - Reviewed and recommended the adoption of the revisions to the Corporate Governance Framework of the Bank and the same was approved by the Board.
 - Reviewed and recommended the adoption of the revisions to the Bank's Policy on Insider Dealing and the same was approved by the Board.
 - Subsidiary, Seylan Developments PLC's Internal Audit assurance on the company's compliance with regulatory requirements.
 - Reviewed the status of implementation of the Internal Policy Framework of the Bank as reported by the Head of Compliance.
- Three meetings were held during 2021.
 - Reviewed the progress on the implementation of the new Strategic Plan 2021-2023 rolled over from the plan implemented during the years 2017-2020.
 - Reviewed and revised the Terms of Reference of the Committee.

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Scope and Objectives of the Committee	Composition / Membership / Quorum	Highlights of activities during the year										
<p>11 Board Information Technology Committee</p> <p>To assist the Board in fulfilling its' corporate governance and oversight responsibilities for the Bank's investments and strategy in relation to digital, information technology and information systems.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>Mr D R Abeyseriya and Mr A S Wijesinha</td> </tr> <tr> <td>Non-independent Non-Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Executive Directors</td> <td>Mr K P Ariyaratne</td> </tr> <tr> <td>Chairman</td> <td>Mr D R Abeyseriya, Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>two members</td> </tr> </table> <p>The Chief Operating Officer, Chief Information Officer, Head of Digital Channels, Chief Financial Officer and other senior management members attended the meetings on invitation.</p>	Independent Non-Executive Directors	Mr D R Abeyseriya and Mr A S Wijesinha	Non-independent Non-Executive Directors	Nil	Executive Directors	Mr K P Ariyaratne	Chairman	Mr D R Abeyseriya, Independent Non-Executive Director	Quorum	two members	<ul style="list-style-type: none"> • Three meetings were held during 2021. • Implemented new Software Engineering Practices and Vendor Management Process with DevOps. • Reviewed the progress/status of the IT initiatives and projects. • Reviewed the progress/status of the Digital Channels initiatives and implementation. • Reviewed the outcome of the special meeting with external IT Advisory on their review of the vSan Environment and provided the necessary guidance to the management. • Reviewed and revised the Terms of Reference of the Committee.
Independent Non-Executive Directors	Mr D R Abeyseriya and Mr A S Wijesinha											
Non-independent Non-Executive Directors	Nil											
Executive Directors	Mr K P Ariyaratne											
Chairman	Mr D R Abeyseriya, Independent Non-Executive Director											
Quorum	two members											

All these Committees carried out self-assessments and submitted their reports to the Board for review. The Board was satisfied that the Committees have carried out their responsibilities in a satisfactory manner including the conduct of meetings and to the required number of meetings.

Directors' Attendance at Board Subcommittee Meetings during 2021

Director	Audit	Human Resources and Remuneration	Nomination	Integrated Risk Management ²	Related Party Transactions Review	Credit	Marketing and Product Development	Sustainability	Governance and Compliance	Strategic Plan	Information Technology
<p>C – Chairperson of Committee</p> <p>M – Member of the Committee</p>											
Mr W M R S Dias Non-Executive Director/Chairman			M 3 of 3	M 8 of 8			M 3 of 3		M 4 of 4		
Mr W D Kapila Jayawardena Non-Executive Director/Deputy Chairman	M 7 of 15		M 3 of 3								
Ms M Coralie Pietersz Independent Director /Senior Director	C 15 of 15	C 5 of 5	C 3 of 3	M 8 of 8	M 4 of 4				M 4 of 4		
Mr Kapila P Ariyaratne Director/Chief Executive Officer				M 8 of 8		M 22 of 25	M 3 of 3	M 2 of 2		M 3 of 3	M 3 of 3
Mr P L S Kumar Perera* Independent Director	M 10 of 12		M 2 of 2	M 7 of 7	C 3 of 3				C 3 of 3		
Mr S Viran Corea Non-Executive Director		M 5 of 5			M 4 of 4	M 25 of 25		M 2 of 2	M 4 of 4		
Mr Anushka S Wijesinha Independent Director			M 3 of 3		M 4 of 4	C 25 of 25	M 3 of 3			C 3 of 3	M 3 of 3
Ms Sandya K Salgado Independent Director		M 5 of 5					C 3 of 3	C 2 of 2		(M) 3 of 3	
Mr D M D Krishan Thilakarathne Non-Executive Director		M 5 of 5				M 22 of 25	M 2 of 3	M 2 of 2			
Mr D R Abeyseriya Independent Director	M 15 of 15	M 5 of 5		C 8 of 8	C ** 1 of 1					M 3 of 3	C 3 of 3
Mr D M Rupasinghe *** Independent Director	M 3 of 3		M 1 of 1	M 1 of 1					C 1 of 1		
<p>* Mr P L S K Perera ceased to be a Member with effect from 27 October 2021</p> <p>** Mr D R Abeyseriya was appointed as a Member and the Chairman of this Committee on 27 October 2021</p> <p>*** Mr D M Rupasinghe was appointed as a Member with effect from 27 October 2021</p>											
Minimum Number / Frequency of meetings to be held by the Subcommittees	Six meetings per annum	Thrice per annum	Thrice per annum	Four times per annum	Once every calendar quarter	Five times in a quarter	Thrice per annum	Twice per annum	Quarterly or four times per annum	Thrice per annum	Twice per annum

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

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

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

The BAC comprised four Non-Executive Directors during the year 2021, three of whom were independent, namely, Ms M C Pietersz, Mr P L S K Perera (ceased to be a member on 27 October 2021) Mr D M Rupasinghe (appointed on 27 October 2021) and Mr D R Abeyseriya. The fourth member, Mr W D K Jayawardena was a Non-Independent Non-Executive Director. The Company Secretary of the Bank functioned as the Secretary to the Committee during the year.

3 (6) (ii) (c) - (ii) (d) ✔ - External Auditors

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

- *M/s KPMG's appointment as the Auditors for the financial year 2021 which was approved by the shareholders at the Annual General Meeting held on 30 March 2021.*
- *The implementation of guidelines issued by the Central Bank of Sri Lanka, the application of relevant accounting standards, including the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) complying with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) in all material respects.*
- *The incumbent Audit partner was engaged from the financial year 2019. The Audit Partner was not engaged in the Bank's audit prior to the current engagement.*
- *Representations made by the External Auditors stating their independence, the objectivity and effectiveness of the audit processes in accordance with applicable standards and best practices in respect of the audit for the financial year 2020.*

Further, prior to the publishing of this report in February 2022, the Committee determined the independence of the External Auditors, M/s KPMG, Chartered Accountants as per the provisions of the Companies Act and the ICASL's Code of Professional Conduct and recommended their reappointment as the Auditors of the Bank for the financial year 2022 subject to

the concurrence of its recommendation by the Board and approval of the Shareholders at the forthcoming Annual General Meeting.

3 (6) (ii) (e) ✔ - Non-Audit Services

The BAC reviewed the non-audit services provided by the External Auditors and was of the view that such services were not within the category of services identified as restricted under the guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties in terms of section 39 of Banking Act No. 30 of 1988 and as amended by Banking Act No. 33 of 1995. The Policy relating to the engagement of non-audit services was reviewed and renewed during the year.

3 (6) (ii) (f) ✔ - Scope of External Audit

The nature, scope and approach of audit in respect of the financial year, 2021, was presented by the External Auditors, discussed and agreed upon at a meeting held with the Auditors in the last quarter of 2021. The scope also covered the assessment of Bank's compliance with the Banking Act Directions on Corporate Governance and the management's internal controls over financial reporting; the preparation of financial statements in accordance with the relevant accounting principles and reporting obligations and compliance with Banking Act instructions, guidelines and directions. The audit of the Bank's subsidiary was also carried out by the same External Auditor and therefore, there was no requirement for coordination with more than one audit firm.

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

The drafts of the interim unaudited financial statements for the 3 months ended 31 March 2021 and 9 months ended 30 September 2021 were checked by the Internal Auditors whilst the audited financial statements for the half-year ended 30 June 2021 and the year ended 31 December 2021 were reviewed/audited by the External Auditors, all of which were prepared from the Bank's accounting records, in accordance with the Accounting Standards and relevant legal and regulatory guidelines. Observations/comments and appropriate changes recommended by the Auditors were taken into consideration and incorporated to the financial statements and submitted to the BAC by the Chief Financial Officer. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the contents of the financial statements, focusing on applicable accounting principles, reasonableness of significant adjustments and estimates, major judgmental areas,

etc., which helped the Board in its oversight and decision on the Financial Statements to evidence a true and fair view on the financial position and performance of the Bank being disclosed.

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

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

The External Auditors were also invited to meetings of the BAC at which they presented and discussed the key audit findings from the year-end and half-year end audit reviews and also the scope and approach for the 2021 audit review.

3 (6) (ii) (i) ✔ - Management Letter of the External Auditors

The BAC reviewed and discussed the Management Letter in respect of the external audit conducted for the financial year ended 31 December 2020, the responses of the management and their agreed action to address/rectify as appropriate. The BAC also reviewed the External Auditors' findings and observations on the Interim Audit conducted on the financials for the six months ended 30 June 2021 and issued appropriate recommendations and guidance to ensure that issues were duly addressed/rectified by the management concerned.

3 (6) (ii) (j) I ✔ - Internal Audit Scope and Functions

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

3 (6) (ii) (j) II ✔ - Internal Audit Plan

The IAD carried out its activities in line with the approved Internal Audit Plan for the year 2021. The IAD reported on the audits

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carried out as per the Audit Plan and also updated the Committee on the status and extent of addressing/resolving the findings of audits carried out by the management concerned. The Bank has adopted a risk-based audit approach towards assessing the effectiveness of the internal control procedures in place to identify and manage all significant risks. Reports on the same were submitted to the Committee, discussed and issued advice/ instructions to relevant management calling assurances on the remedial action in respect of identified risks from the audit findings which ensured the effectiveness of internal control procedures.

The Internal Audit Plan in respect of the year 2021 was approved by the BAC at a meeting held in the last quarter of 2020 and the performance of the IAD against the approved plan was reviewed at the regular meetings held in 2021. The Committee also approved the Remote based Internal Audit Process for executing the Audit Plan in the branches which was adopted during the year taking into consideration the health and safety measures and the lockdown situations that prevailed in the country.

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

The Committee evaluated the performance of the Head of Internal Audit and the second in line to the Head of Internal Audit during the year 2021 at its meeting held in January 2022. The performance appraisals of the other senior staff of the Internal Audit Department for the year 2021 carried out by the Head of Internal Audit will be reviewed by the Committee during the first quarter 2022.

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

The BAC reviewed the appropriateness of the structure and the adequacy of resources for the Internal Audit function including resignations and retirements of senior staff members during the year and provided relevant advice.

3 (6) (ii) (j) VI - 🟢 - Independence of the Internal Audit function

The BAC ensured that the Internal Audit function was independent of the activities it audits and that it was performed with impartiality, proficiency and due professional care. The Head of Internal Audit directly reports to the BAC.

3 (6) (ii) (k) 🟢 - Findings of the Internal Audit

Internal Audit and investigation findings with attention on major findings were reported to

the BAC and taken up at the BAC Meetings that followed, discussed and appropriate recommendations made where necessary.

3 (6) (ii) (l) 🟢 - Invitees to the Meetings of the BAC

The Head of Internal Audit and the Chief Financial Officer attended the regular meetings of the BAC during the year. The Chief Executive Officer, the Chief Manager-Internal Audit and heads of operational and business units, Information Technology, Compliance and Human Resources were invited to the Meetings when the Committee required their presence to report and/or respond to queries on related audit findings and related matters. The BAC also invited the External Auditors to present their findings, observations and the external audit scope and plan.

3 (6) (ii) (m) 🟢 - Authority to Investigate

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

3 (6) (ii) (n) and 3 (6) (ii) (p) 🟢 - Meetings of the BAC

The BAC held fifteen meetings during the year with due notice. These included separate meetings for reviewing internal audit reports and financial updates; meetings for the financial statements; and meetings with the External Auditors. Additionally, the Committee held two one-on-one meetings; one with the Head of Internal Audit and the other with the Chief Financial Officer to discuss their areas of functions and concerns and provided appropriate advice.

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

3 (6) (ii) (o) 🟢 - Report of the BAC

A Report of the BAC signed by the Chairperson is included on pages 94 and 95 of this Annual Report outlining the scope and responsibilities as well as activities of the BAC. The number of meetings and appropriate reference to the attendance of the members at the meetings held during the year is given under Section 3(6)(i) of this Report.

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

The Committee continuously emphasized on the requirement that ethical values are upheld by the staff members. In this regard, in addition to the Employees' Code of Ethics and Code of Conduct, the Bank has put in place a Policy on Whistle Blowing and a Policy on Anti-Bribery and Corruption. Relevant line management has been advised to ensure that highest standards of corporate governance and adherence to the Bank's Code of Ethics is maintained.

The BAC ensured that all employees are duly informed and duly advised of the effective use of the whistle blowing process if they suspect wrong doings or other improprieties. The Whistle Blowing Policy encompass defined and specific provisions for whistleblower protection which includes the maintenance of strict confidentiality of the identity of the whistle-blowers and right to anonymity. Secure and multi-channel escalation paths are made available for whistleblowers.

All appropriate procedures have been put in place to conduct independent investigations by the Internal Audit Department on complaints/incidents reported directly through whistle blowers or other identified means. The consequent disciplinary process and procedures are operated by Human Resource Department. The investigations carried out on such complaints/incidents were reported to the BAC by the Head of Internal Audit including appropriate recommendations/ follow up action.

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

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

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

Based on the recommendation of the Committee, Directors collectively decide on the remuneration and benefits for the CEO as well as professional fees and benefits (if any) to the Non-Executive Directors. The Committee seeks independent advice to

determine revisions and compensation packages when deemed necessary to discharge these responsibilities. No Director or KMP is involved in deciding his or her remuneration.

3 (6) (iii) (b) ✔ - Goals and Targets

The Key Performance Indicators (KPIs/goals and targets) of CEO for the year 2021 were tabled and approved by the Board upon being recommended by the Committee. The KPIs for the KMPs were thereafter submitted to the meeting of the Committee and agreed upon.

3 (6) (iii) (c) ✔ - Evaluations of the performance of the CEO and the KMPs

The BHRRC considered the evaluations of the performance of the CEO and the KMPs against the approved KPIs for the year 2020 and determined the revision of remuneration and profit/performance based bonus in the year, 2021.

3 (6) (iii) (d) ✔ - Proceedings at Meetings of the BHRRC

The BHRRC comprised three Independent Directors and two Non-Executive Directors during the year and was chaired by Independent Director, Ms M C Pietersz. Five meetings of the Committee were held during the year. Director/CEO and Head of Human Resources attended the meetings of the Committee when invited. They were not present at meetings of the Committee, when matters relating to them were being discussed.

3 (6) (iv) Board Nomination Committee (BNC)

3 (6) (iv) (a) ✔ - Procedure Selection/ Appointment of Directors, Chief Executive Officer (CEO) and Key Management Personnel (KMPs)

Appointment of the CEO and the KMPs is within the scope and responsibilities of the Board Nomination Committee (BNC) as specified in its Terms of Reference. The BNC has adopted a Board approved Policy Governing Appointment of Directors for this purpose.

3 (6) (iv) (b) ✔ - Re-election of current Directors

The BNC considered and recommended the re-election of Directors who were due to retire in accordance with the Bank's Articles of Association taking into account their contributions to the Board. Upon obtaining the Board's concurrence to the BNC's recommendation, they were included in the Agenda of the Annual General Meeting (AGM) held during the year, proposing and seeking shareholders' approval for the re-election.

Non-Executive Directors who were subject to retirement by rotation and re-elected by the shareholders at the AGMs held during the last three years were as follows:

AGM held in	Directors Re-elected
2019	Mr W M R S Dias and Mr S V Corea
2020	Mr A S Wijesinha, Ms S K Salgado and Mr W D K Jayawardena
2021	Ms M C Pietersz, Mr P L S K Perera, Mr D M D K Thilakaratne

Re-election of Directors in 2022

The BNC and the Board have recommended the proposals for the re-election of Directors, Mr W M R S Dias and Mr D R Abeysuriya who are due to retire by rotation in terms of Article 82 at the AGM scheduled to be held in 2022. The proposals for their re-election have been included in the Notice of the AGM to seek shareholders' approval.

3 (6) (iv) (c) ✔ - Criteria for eligibility – CEO and KMPs

The Committee reviews and agrees on the criteria for eligibility such as qualifications, experience and key attributes for appointments or promotions to the positions of key management personnel and CEO. These are documented in the respective job descriptions of the CEO and of the KMPs.

3 (6) (iv) (d) ✔ - Fitness and Propriety of Directors, CEO and KMPs

Affidavits and Declarations to assess the fitness and propriety of Directors, CEO and KMPs in terms of the Banking Act and its Directions were obtained prior to the appointment of Directors and at the time of appointing KMPs or promoting to the KMP positions. Prior to the date of the AGM of the Bank in 2021, Affidavits submitted by the continuing Directors were forwarded to the Director, Bank Supervision, Central Bank of Sri Lanka (CBSL) for review and approval in terms of Section 42 of the Banking Act No.30 of 1988 (as amended) and related Directions and the CBSL has granted its approval. The Directors also submitted Affidavits in compliance with the Bank's Fit and Proper Policy in line with the Guidelines of the Securities and Exchange Commission of Sri Lanka (SEC) and such Affidavits were submitted to the SEC as and when required.

3 (6) (iv) (e) ✔ - Succession Plan

The BNC considered and discussed matters relating to new expertise and succession arrangements for the CEO and for the KMPs at its meetings held during the year.

3 (6) (iv) (f) ✔ - Composition and Chairman of BNC

The BNC comprised five Non-Executive Directors during the year 2021, the majority

of whom were independent. The BNC was chaired by Independent Director, Ms M C Pietersz. The Director/CEO attended the meetings of the BNC on invitation.

3 (6) (v) Board Integrated Risk Management Committee

3 (6) (v) (a) ✔ - Composition of the Committee

The Board Integrated Risk Management Committee (BIRMC) comprised six members; three Independent Directors, one Non-Executive Director, the Chief Executive Officer and the Chief Risk Officer. The Committee was chaired by Independent Director, Mr D R Abeysuriya. The Chief Risk Officer is the Key Management Personnel in charge of supervising broad risk categories, i.e., market, liquidity, operations, credit reputational and strategic risks and reports directly to the Committee. The Head of Compliance and Chief Financial Officer were co-opted to the Committee and they attended the regular meetings of the Committee. Other Key Management personnel and management attended the Meetings when invited by the Committee.

3 (6) (v) (b) ✔ - Assessment of Risks

The Risk Management Unit (RMU) is responsible to create, manage and implement a pervasive bank-wide risk culture. Towards meeting this requirement, the three executive Subcommittees of the BIRMC, namely the Assets and Liability Management Committee (ALCO), the Executive Credit Risk Management Committee (ECRMC) and the Executive Market and Operational Risk Management Committee (EMORMC) assessed and reviewed the respective categories of risks, namely, credit, market, liquidity and operational risks coming under their respective purview. Key matters and issues arising therefrom were reported to the BIRMC at its quarterly meetings. The BIRMC reviewed such reports and gave appropriate advice and guidance to the management. The Integrated Risk Management Policy and other risk management policies which were reviewed and recommended by the BIRMC and approved by the Board provide a framework for assessment and management of the overall risks to the Bank.

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The BIRMC also reviewed the risk assessments of the Bank's only subsidiary, Seylan Developments PLC, the principal activities of which are property development and management.

3 (6) (v) (c) ✔ - Effectiveness of Management Level Committees

The reports submitted by the Chief Risk Officer to the BIRMC pursuant to the proceedings of the ALCO, the ECRMC and the EMORMC as well as the minutes of the said Committees were reviewed and the effectiveness of these Committees were assessed by the BIRMC at its regular quarterly meetings.

3 (6) (v) (d) ✔ - Actions to mitigate specific risks

The BIRMC advises on corrective action by the management to mitigate the effects of specific risks where such risks are at levels beyond the prudent levels approved by the Committee or where they are not in line with the Bank's policies and/or regulatory requirements.

3 (6) (v) (e) ✔ - Frequency of Meetings

In accordance with the Terms of Reference, the Committee met quarterly. Four such regular meetings and four special meetings were held during the year.

3 (6) (v) (f) ✔ - Action against those who fail to identify specific risks

Officers responsible at branches and/or departments failing to identify specific risks and the consequent impact to the Bank were identified during the internal audit reviews. If such actions required audit investigations, they were carried out accordingly. Depending on the nature of the offence they were reported to the line management and/or to the Head of Human Resources and/or to the Chief Executive Officer for disciplinary or other appropriate action.

Reports on high-risk offences including line management's action taken to prevent such lapses in the future, were submitted to the BIRMC if deemed appropriate for information and advice or instructions.

3 (6) (v) (g) ✔ - Risk Assessment Report to the Board

Risk Assessment Reports were submitted to the Board meetings that were held after the quarterly BIRMC meetings. Copies of the confirmed Minutes of the Committee and recommendations of the Committee were also submitted to the Board meeting that followed the Committee meetings for the Board's perusal and appropriate decisions/concurrence.

3 (6) (v) (h) ✔ - Compliance Function

The Bank has in place an independent compliance function headed by the Head of Compliance, who is a key management personnel and reporting directly to the BIRMC. The Head of Compliance submitted status reports and risk reports on compliance, quarterly to the BIRMC and monthly updates to the Board. The BIRMC provided appropriate guidance and advice pursuant to closely scrutinizing the status of compliance with mandatory banking and other statutory requirements and also the systems and procedures that are in place to ensure compliance with such requirements.

3 (7) Related Party Transactions

3 (7) (i) ✔ - Avoidance of Conflicts of Interest

A Board approved Policy and Process on Related Party Transactions and Avoidance of Conflicts of Interest (hereinafter referred to as 'the Policy' or 'Policy on RPTs') of the Bank is in place. The Directors being aware of their responsibility towards complying with the requirements of this Policy, ensured that conflicts of interest did not arise when transactions which were considered at Board and Board Subcommittee meetings in which they had an interest, particularly with related parties of the Bank as defined in Direction No.3(7)(i), which includes:

- Bank's subsidiary companies (the Bank has only one subsidiary, Seylan Developments PLC);
- Bank's associate companies (the Bank has no associate companies);
- Directors of the Bank;
- Key management personnel (KMPs);
- a close relation of any of the Bank's Directors or of the KMPs;
- a shareholder owning a material interest in the Bank;
- a concern in which any of the Bank's Directors or a close relation of any of the Bank's directors or any of its material shareholders had a substantial interest

3 (7) (ii) ✔ - Types of Transactions with related parties

Transactions defined under this direction as well as those defined under Sri Lanka Accounting Standards – LKAS 24, are included in the Bank's Policy on RPTs and any such transactions carried out by the Bank in the normal course of business were closely monitored to assess whether they have deviated from the rules set out in the Policy on RPTs.

3 (7) (iii) ✔ - Favourable Treatment

The Bank did not engage in transactions with related parties, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business such as; charging of a lower rate of interest than the Bank's lending rate charged to non-related party customers or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty and; providing services to or receiving services from a related party without an evaluation procedure.

The Board has set a prudent percentage of the Bank's regulatory capital to limit total net accommodation to related parties which said limit is monitored by the Risk Management Unit and the Executive Credit Risk Management Committee, a subcommittee of the Board Integrated Risk Management Committee (BIRMC). The percentage of total accommodation granted to related parties was reported by the Chief Risk Officer to the BIRMC on a quarterly basis.

The Board approved Policy on RPTs emphasizes that all employees are aware of the policy and guidelines set out therein. Heads of Divisions/relevant officers who deal in related party transactions follow the Policy guidelines in their evaluations of related party transactions and provide a confirmation when submitting the return of such transactions to the Compliance Unit on a quarterly basis. The Compliance unit has adopted a mechanism to monitor and ensure that the policy guidelines are complied with.

3 (7) (iv) ✔ - Accommodation to a Director or to a close relation of a Director

This was granted with the approval of the Board with not less than two-thirds of the number of directors other than the Director concerned, being present at such meeting and voting in favour of the proposed accommodation. The Board ensured that such accommodations were secured by such security as may from time to time be determined by the Monetary Board of the Central Bank of Sri Lanka ("the Monetary Board").

3 (7) (v) ✔ - Obtaining of required security for accommodation granted to a related party of a Director being appointed or to a Director individually prior to such Director being appointed

There was no requirement to comply with this direction during the year. Independent Director, Mr D M Rupasinghe who was

appointed during 2021, did not have any credit facility accommodation with the Bank at the time of his appointment.

3 (7) (vi) ✔ - Accommodation to employees or related parties connected to the employees

No accommodation has been granted on "more favourable" terms such as waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than in respect of accommodations to employees based on the scheme/s applicable to the employees of the Bank or where such accommodation is secured by such security as may be approved by the Monetary Board in respect of accommodation granted, in a similar manner as described in Direction 3(7)(v).

3 (7) (vii) ✔ - Prior approval of Monetary Board for Remittance of Accommodation

There was no requirement to comply with the requirement of this section during 2021, based on the comments made under Direction 3(7)(v) and 3(7)(vi) above.

3 (8) Disclosures

3 (8) (i) ✔ - Annual Audited Financial Statements and Quarterly Financial Statements

The Annual Audited Financial Statements and Quarterly Financial Statements were prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and the Accounting Standards. Annual Audited Financial Statements were published in the Annual Report while the quarterly Financial Statements were published quarterly in an abridged form, in the newspapers in all three languages.

The above Reports were released to the Colombo Stock Exchange (CSE) and uploaded on its website www.cse.lk for the information of the shareholders and the general public prior to publishing in the newspapers. The reports were also made available on the Bank's corporate website www.seylan.lk.

3 (8) (ii) (a) ✔ - Statement of Directors' Responsibility for Financial Reporting and Statements of the Chief Executive Officer's and Chief Financial Officer's Responsibility for Financial Reporting

These two reports which have been published in the Annual Report confirm that the Financial Statements for the year ended 31st December 2021 have been prepared in

line with applicable standards and regulatory requirements (Reference: pages 138 and 139).

3 (8) (ii) (b) ✔ - Directors' Statement on Internal Control

The Statement on Internal Control published in the Annual Report confirms that the financial reporting system provides reasonable assurance regarding the financial report and that the preparation of the financial statements for external purposes has been done in accordance with all relevant accounting principles and regulatory requirements (Reference: page 101).

3 (8) (ii) (c) ✔ - External Auditors' Certification on the Effectiveness of Internal Control

The Bank has obtained an Assurance Report on the internal controls over financial reporting from the External Auditors in accordance with the "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control" and the same is published in this Annual Report (Reference: page 102).

3 (8) (ii) (d) ✔ - Details of the Directors

Please refer the pages of the Annual Report for the respective information as mentioned in table below:

Details	Section of the Annual Report	Page/s
Names, qualifications, expertise	Profile of the Directors	64 to 67
Fitness and Propriety	Report of the Board of Directors and Section 3(6)(iv)(d) of the Corporate Governance Report	107 and 89
Details on Directors interest in other entities	Annexure to the Report of the Board of Directors	111 and 112
Transactions with the Bank/ Related Party Transactions	Note 51 to the Financial Statements	239 to 243
Fees/Remuneration paid to Directors	Disclosure under Direction 3(8)(ii)(f) of this report.	92

3 (8) (ii) (e) ✔ - Total Net Accommodations to Related Parties

Disclosure on accommodations granted to related parties is given in Note 51 to the Financial Statements.

The net accommodation as at 31 December 2021, granted to each category of related parties as defined in Direction 3(7)(i) and as per LKAS 24 is given below as a percentage of the Bank's regulatory capital.

Category of Related Party Transactions	Amount (Rs. 'Million')	% of regulatory capital
Directors, Key Management Personnel and their close relations (Transactions including credit card accommodations)	433.08	0.67
Subsidiary, Seylan Developments PLC	175.00	0.27
Material shareholders of the Bank and concerns in which a Director of the Bank or material shareholder has a substantial interest *	23,582.12	36.53
Other entities including common Directorship Entities **	3,815.54	5.91

* Includes accommodations non-funded, undrawn facilities – LKR 5,892.60 Mn.
(Excluding LKR 50 Mn debenture investment held by the subsidiary, Seylan Developments PLC, which is accounted in consolidated financial statements)

** Includes accommodations non-funded, undrawn facilities – LKR 838.34 Mn

Corporate Governance

3 (8) (ii) (f) - Remuneration to Key Management Personnel (KMPs) and Transactions with KMPs and aggregate values of the transactions of the Bank with its KMPs

The aggregate remuneration paid to Key Management Personnel and transactions of the Bank with Key Management personnel during the year 2021 were as follows.

Remuneration / Transaction	Amount (Rs. 'Million')
Remuneration to Executive Directors and KMPs (as per CBSL definition)*	396.20
Directors' Fees for Non-Executive Directors	29.86
Loans and Advances (including Securities purchased under Re-sale Agreements and Credit Card accommodations to KMPs and Non-Executive Directors)	433.08
Deposits of KMPs and Non-Executive Directors	466.36
Investments by KMPs and Non-Executive Directors –Other Investments (Liability)	226.43

* Includes cash/non cash benefits and post-employment benefits to Directors and KMPs.

3 (8) (ii) (g) - External Auditors Certification of the Compliance with Direction No.11 of 2007 on Corporate Governance

The External Auditors were engaged to perform an agreed-upon procedure in accordance with the principles set out in the Sri Lanka Related Services Practice Statement 4750 and they provided a Factual Findings Report to the Board on the Bank's extent of compliance with the Directions as disclosed in this Corporate Governance Report. Please refer confirmation stated at the end of this report.

3 (8) (ii) (h) - Compliance with prudential requirements, regulations, laws and internal controls

Statement of Directors' Responsibility for Financial Reporting and Directors' Statement on Internal Controls published in this Annual Report provide the extent of Bank's compliance in this regard. There was no material non-compliance of prudential requirements, regulations, laws and internal controls which affected the Bank during the year. The Bank was levied a penalty of LKR 500,000/- by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka due to an inadvertent omission of a customer name in a communication to the FIU while confirming adherence to a freezing order. The said omission was revealed by the Bank during a subsequent self - assessment / accuracy checking activity and was immediately informed to the FIU.

3 (8) (ii) (i) - Supervisory Concerns

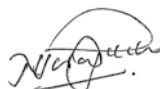
There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director, Bank Supervision, Central Bank of Sri Lanka and directed to be disclosed to the public.

Confirmation

In terms of Direction 3(8)(ii)(g) of the Banking Act Direction No. 11 of 2007, on behalf of the Board of Directors, we confirm that the findings of the "Factual Findings Report" dated 22 February 2022 issued by the Auditors, M/s KPMG, Chartered Accountants to the Board of Directors pursuant to the agreed-upon procedure carried out by them in accordance with "Sri Lanka Related Services Practice Statement 4750" are consistent with the matters disclosed in the above Annual Corporate Governance Report on the mandatory compliance with the Banking Act Direction No. 11 of 2007 (as amended).



W M R S Dias
Chairman



(Ms) N N Najumudeen
Company Secretary

Rules of the Colombo Stock Exchange (CSE) relating to Disclosure on Corporate Governance

The Bank being a listed entity is bound by and at all times has complied with the applicable Rules and Circulars of the CSE and the Central Depository Systems (Pvt) Limited as amended or replaced from time to time.

Section 7.10(c) of the CSE Rules states that where a listed entity is required by any law applicable to such listed entity to comply with rules on corporate governance promulgated under such law, such listed entity shall make disclosures of compliance with the corporate governance rules applicable to that sector. Seylan Bank PLC being a Licensed Commercial Bank (LCB) has disclosed its level of compliance under the Banking Act and Banking Act Directions No.11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks of Sri Lanka in this report. The disclosures made include and affirm the Bank's compliance with the relevant sections under the Corporate Governance Rules of the CSE.

Code of Best Practice on Corporate Governance published by the Institute of Chartered Accountants of Sri Lanka (ICASL)

The Bank's comprehensive disclosures on its compliance with the Banking Act Directions on Corporate Governance and other disclosures published in this Annual Report adequately address the level of compliance with the principles of the Code of Best Practice on Corporate Governance 2017 published by the ICASL. Relevant references to the disclosures required as per Schedule I of the Code are listed below.

Subject	Code of Best Practice Principle Reference	Reference to Section of the Annual Report / Remarks	Page No.
Chairman and CEO	A.2.1 and A.5.7	Corporate Governance (CG) Report - CBSL Direction No.3(5)	81 and 82
Board Balance	A.5.5	CG Report - CBSL Direction No.3(2)	79 to 81
Nomination Committee	A.7.1	CG Report - CBSL Direction No.3(6) (iv) Report of the Board Nomination Committee	89 97
New Directors Appointed and their details including directorships and status of independence	A.7.3	Profile of Directors Annexure to the Report of the Board of Directors CG Report - CBSL Direction No. 3(2)(iv)	64 to 67 111 and 112 80
Appraisal of Board Performance	A.9.4	CG Report - CBSL Direction No.3(1) (i)(i)	77
Board Related Disclosures (Profile, status, directorships, attendance, sub-committee membership, etc.)	A.10.1	Profile of Directors Annexure to the Report of the Board of Directors CG Report - CBSL Direction Nos.3(1) (vi) and 3(6)(i)	64 to 67 111 and 112 78 and 82 to 86
Disclosure of Remuneration	B.3 and B.3.1	CG Report - CBSL Direction No. 3(8)(ii)(f)	92
Major and Material Transactions	C.3 and C.3.1	There were neither material transactions which would have materially altered the Bank's or Group's net asset base nor any 'major related party transactions' during the year 2021 warranting disclosure in the Annual Report. Related party transactions are disclosed in Note 51 to the Financial Statements.	239 to 243
Audit Committee	D.3.3	CG Report - CBSL Direction No. 3(6)(ii)	87 and 88
Code of Business Conduct and Ethics	D.5.1 and D.5.4	CG Report - Section 3(1)(i)(a)	75 and 76
Communication with Shareholders	C.2.2 to C.2.7	CG Report - CBSL Direction Nos. 3(1)(i)(d); 3(5)(x).	76 and 82
Remuneration Committee Report	B.1.3	Report of the Board Human Resources and Remuneration Committee	96
Directors' Report	D.1.4	Report of the Board of Directors on the State of Affairs of the Company	103 to 112
Financial Statements – Statement of Responsibility	D.1.5	Statement of Directors' Responsibility for Financial Reporting	138
Related Party Transactions	D.1.8	CG Report - CBSL Direction No. 3(7)	90 and 91
Management Report	D.1.6	CEO's Message and Value Creation Story	6 to 62
Corporate Governance Report Compliance with Provisions of the above code of Best Practice	D.6.1	Please refer statements in the CG Report.	94 and 95
Audit Committee Report	D.3.2	Report of the Board Audit Committee	94 and 95
Related Party Transactions Review Committee Report	D.4.3	Report of the Related Party Transactions Review Committee	100
Statement of Internal Control	D.1.5 and D.2.4	Directors' Statement on Internal Control	101
Internet of Things and Cyber security	G.5	Risk Management (reviewing information risk, integrity and availability)	113
Environment, Society and Governance (ESG) Reporting	H.1.1 to H.1.4	Value Creation Story	49

Report of the Board Audit Committee

The Board Audit Committee of Seylan Bank PLC presents its report for the year ended 31 December 2021 which was approved by the Board of Directors ('the Board').

The Board Audit Committee

The Board Audit Committee ('BAC' or 'the Committee') of Seylan Bank PLC ('the Bank') is delegated with the authority by the Board of Directors ('the Board') of the Bank to assist and provide the Board, independent oversight of the Bank's financial reporting integrity and internal control systems, the adequacy of the internal and external audits, the process for monitoring compliance with laws, regulations and codes of conduct and best practices.

The authority, composition and the scope and responsibilities of the BAC are clearly set out in the Terms of Reference of the BAC which was reviewed (annually) and approved by the Board.

Composition

The BAC comprised three Independent Directors and one Non-Executive Director during the year:

- Ms M C Pietersz, Independent Director/Senior Director - Chairperson of the Committee
- Mr W D K Jayawardena, Non-Executive Director/Deputy Chairman to the Board
- Mr P L S K Perera, Independent Director – ceased to be a member with effect from 27 October 2021
- Mr D R Abey Suriya, Independent Director
- Mr D M Rupasinghe, Independent Director – appointed with effect from 27 October 2021

The Chairperson of the Committee Ms M C Pietersz is an Associate Member of the Institute of Chartered Accountants in England and Wales, Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka. Ms Pietersz counts over 30 years of experience in auditing, finance, accounting and banking. The profiles of the members are given on pages 64 to 67 of the Annual Report.

The Company Secretary of the Bank functioned as the Secretary to the Committee during the year.

Activities and responsibilities discharged by the Committee

Meetings

The Committee held fifteen meetings during the year, which included:

- One special meeting for the review and evaluation of the performance of Head of Internal Audit and the Key Performance Indicators (KPIs) of the Internal Audit Department in respect of the year 2020 and for the deciding of their KPIs for the year, 2021.
- Two separate one-on-one meetings with the Head of Internal Audit, Mr Varuna Koggalage and with the Chief Financial Officer (CFO), Ms Champika Dodanwela to discuss matters and concerns relating to their respective areas of functions.
- Two meetings with the External Auditors, M/s KPMG without the presence of the management.
- One meeting to review and discuss the Management Letter of the External Auditors in respect of the Audit of the financial year, 2020.
- One meeting to discuss the External Audit Scope and Plan presented by the External Auditors.
- Eight regular meetings to review, discuss and recommend action on the internal audit reports and related updates and to review the draft financial statements and disclosures/updates from the CFO and for recommending the financial statements to the Board for approval and publication.

The Head of Internal Audit who reports directly to the BAC and the CFO attended the regular meetings of the BAC. The Director/Chief Executive Officer, Chief Operating Officer, other members of the management and the External Auditors were invited to the meetings as and when the Committee required their presence to report and/or respond to queries related to financial reporting, audit findings and related matters.

The attendance of the members during the year was satisfactory and summary of the attendance is presented in the table titled, 'Directors' Attendance at subcommittee Meetings' on page 86 of the Annual Report.

Internal Controls

The responsibilities of the Committee executed in this regard during the year, included the following:

- Assessed the adequacy and effectiveness of the Bank's internal control systems covering accounting, financial reporting and banking operational aspects based on the reports of the internal audits conducted in line with the scope of the Internal Audit Plan approved by the Committee. The Committee was satisfied that the controls and procedures in place provided reasonable assurance that the Bank's assets are safeguarded.
- Reviewed the effectiveness of controls over information technology security and systems;
- Reviewed the effectiveness of business

continuity plans of the Bank;

- Agreed on the scope of External Auditors' review of internal controls over financial reporting and reviewed their observations, findings and recommendations together with management responses. The External Auditors have issued an Assurance Report on the Directors' Statement on Internal Control over Financial Reporting which is published on page 102 of the Annual Report.

Internal Audit

The Committee reviewed the independence, objectivity and performance of the internal audit function; the findings of the internal audit reviews and investigations and internal audit's evaluation of the Bank's internal control system.

During the year, the Committee continues to place additional focus on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognised in the financial statements based on the internal models, management overlay computed based on stress testing the exposures to risk elevated sectors and moratorium portfolios, to address the potential implications of COVID 19 pandemic and the moratorium schemes introduced to support the recovery of the economy.

The Internal Audit Plan for the year was based on the risk assessment carried out on each component of the audit universe of the Bank which included but not limited to 'Branch Network', 'Centre Operations' and 'Information Systems and Infrastructure'. The progress of audits in relation to the plan was reviewed regularly by the Committee.

Effective Internal Control over Financial Reporting

The management is primarily responsible for the financial statements and for maintaining effective internal control over financial reporting and assessing the effectiveness of such control and systems. The Committee maintained vigilance in exercising its oversight role in respect of financial reporting, estimates and judgements made by the management, adoption of the accounting standards, internal controls and the risk management process.

The Committee discussed and followed up on compliance with the Banking Act Directions on Classification, Recognition and Measurement of Credit Facilities and Financial Assets in Licensed Banks, the involvement/role to be played by the independent functions of the Internal Audit and Risk Management and agreed on the proposed applications and adoption/changes to the Bank's Policies to be implemented with effect from 1 January 2022.

External Audit

The meetings of the Committee with the External Auditors focused on discussing the findings and recommendations arising from the conduct of the annual and half-year audits and the scope of external audit plan for the year 2021, the requirements of the new regulatory circulars relating to the Moratoriums and the above mentioned Banking Act Directions.

The two meetings of the Committee with the External Auditors without the presence of executive management and the Director/CEO during the year ensured that there was no limitation of scope or incidents that could have a negative impact on the effectiveness of the external audit during the year.

Non-Audit Services

The Committee reviewed the non-audit services provided by the External Auditors and was of the view that such services were not within the category of services identified as restricted under the guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties. The Bank's Policy on Non-Audit Services by the Independent External Auditors was reviewed and recommended by the Committee and approved by the Board during the year.

The Committee determined the independence of the External Auditors, M/s KPMG, as per the provisions of the Companies Act and the Code of Professional Conduct issued by the Institute of Chartered Accountants of Sri Lanka and recommended their reappointment as the Auditors of the Bank for the financial year 2022 subject to the concurrence of its recommendation by the Board and approval of such appointment by the Shareholders at the forthcoming Annual General Meeting. It should be mentioned that the present Audit partner was engaged from the financial year, 2019.

Compliance with the Banking Act Direction on Corporate Governance

Responsibilities executed by the Committee and the extent of compliance with the Directions of the Banking Act Direction No.11 of 2007 on Corporate Governance are described under Section 3(6)(ii) of the Corporate Governance Report published in the Annual Report.

Evaluation of the Committee

The Committee undertook a self-evaluation and appraisal of the effectiveness of executing the responsibilities within the scope of authority of its Terms of Reference and was satisfied that the Committee had carried out its responsibilities effectively during the year 2021.



(Ms) Coralie Pietersz
(Independent Director/Senior Director)
Chairperson – Board Audit Committee

22 February, 2022

Report of the Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee of Seylan Bank PLC presents its report for the year ended 31 December 2021. This report was approved by the Board of Directors.

Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee ('the BHRRC' or 'the Committee') of Seylan Bank PLC ('the Bank') is vested with the power to review, evaluate and make recommendations to the Board of Directors ('the Board') on matters that impact or relate to human resources ('HR') of the Bank, HR strategies and policies and determination of compensation, benefits and remuneration for the Directors, the Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank. In doing so, the Committee assists the Board in exercising its oversight role and responsibilities.

The Terms of Reference of the Committee sets out the aforementioned authority and has also clearly defined the composition, scope and responsibilities. The Terms of Reference was reviewed (annually) and approved by the Board.

Composition

The BHRRC comprised three Independent Directors and one two Non-Executive Directors during the year, 2021; namely,

- Ms M C Pietersz, Independent Director/ Senior Director - Chairperson of the Committee
- Ms S K Salgado, Independent Director
- Mr D R Abeyseriya, Independent Director
- Mr S V Corea, Non-Executive Director
- Mr D M D K Thilakarathne, Non-Executive Director

The Company Secretary functioned as the Secretary to the Committee during the year.

The Director/Chief Executive Officer (CEO), Mr Kapila Ariyaratne, the Chief Operating Officer, Mr Ramesh Jayasekara and Deputy General Manager/Head of Human Resources, Mr Jayantha Amarasinghe attended the meetings of the Committee on invitation and participated in the deliberations except when matters of their own interest, performance and compensation were discussed.

Meetings

The BHRRC held five meetings during the year. Recommendations made by the Committee were submitted to the Board of Directors for decision. The attendance of the members at the meetings of the BHRRC is presented

in the table titled, Directors' Attendance at Subcommittee Meetings' on page 86 of the Annual Report.

Highlights of Activities during 2021

The key activities carried out by the BHRRC during the year included the following:

- Approved subject to the concurrence of the Board, the revised template for the Bank's goals and targets/Key Performance Indicators (KPIs) for the year, 2021 and recommended the KPIs for the CEO (Bank overall) based on same, which KPIs were drilled down to the KMPs upon approval of the Board.
- Evaluated the KPI achievements and performance of the CEO and the KMPs during the year, 2020 and determined the basis for remuneration and performance based bonus.
- Issued appropriate advice on the Bank-wide survey on Workplace Culture Assessment and Transformation and reviewed the progress and analysis of the survey results.
- Reviewed the developments/progress on the initiatives of Human Resources Strategy/Roadmap 2021-2023 and the Bank's Training and Development Plan 2020/2021 and advised on improvements and implementation.
- Reviewed the effectiveness of succession planning arrangements for the CEO and KMPs.
- Reviewed and recommended the Work from Home Policy which was approved by the Board.
- Reviewed and recommended revisions to the Promotion Policy which was approved by the Board accordingly.
- Reviewed and recommended the revisions to the Policy on Succession Planning, Selection and Recruitment for Key Persons, which was approved by the Board.
- Advised on the Collective Negotiation Process for revision of salaries and benefits to staff below the Chief Manager Grade.

Remuneration Policy

The Remuneration Policy of the Bank aims to establish a formal and transparent procedure for determining remuneration, salaries and allowances and other financial benefits and perquisites to its Directors, the CEO, the KMPs and all other employees of the Bank. The policy and practices are linked to the achievement of the short term and long term strategic goals and operational objectives of the Bank.

In discharging its responsibilities, the BHRRC focuses on strategies that will attract, develop, motivate and retain qualified, competent, high performing talent at all levels.

Directors' Remuneration and Benefits

The Board as a whole determines the remuneration and/or allowances and fees for both Executive and Non-Executive Directors based on the recommendations of the BHRRC. The Terms of Reference of the BHRRC provides that granting of any special payments and/or benefits to Directors upon their resignation or retirement in addition to normal fees and/or remuneration shall be subject to the recommendation of the Committee and approval of the shareholders. There were no such circumstances during the year that required shareholder approval and/or disclosure in the Annual Report.

Aggregate remuneration to Directors, CEO and the KMPs

Aggregate remuneration paid to the Directors, CEO and the KMPs are disclosed under sections 3(8)(ii)(f) in the table reporting compliance with the Banking Act Directions on Corporate Governance on page 92 of this Annual Report.

Responsibilities of the BHRRC

The responsibilities of the Committee and the extent of compliance with directions 3(6)(iii)(a) to 3(6)(iii)(d) of the Banking Act Directions on Corporate Governance No.11 of 2007 have been disclosed in the relevant sections of the Corporate Governance Report published in the Annual Report.

Self-evaluation of the Committee

The BHRRC carried out a self-evaluation of its performance during the year and was satisfied that it had carried out its responsibilities in a satisfactory manner.



(Ms) Coralie Pietersz
(Independent Director/Senior Director)
Chairperson, Board Human Resources and Remuneration Committee

22 February, 2022

Report of the Board Nomination Committee

The Board Nomination Committee of Seylan Bank PLC presents its Report for the year ended 31 December 2021. This report was approved by the Board of Directors.

Board Nomination Committee

The Board Nomination Committee ('the BNC' or 'the Committee') of Seylan Bank PLC is a subcommittee of the Board of Directors ('the Board') of Seylan Bank PLC ('the Bank') vested with the authority to assist the Board in fulfilling its' role and responsibilities involving the appointment of Directors and Key Management Personnel (KMPs) of the Bank.

The authority, composition, scope and responsibilities of the BNC are set out in the Terms of Reference of the Committee which is annually reviewed and approved by the Board.

The Board has adopted a Policy Governing Directors' Appointments and a Policy on Succession Planning, Selection and Recruitment of Key Management Positions. Both these policies set out the principles and procedures to be followed in selecting and appointing new directors and KMPs, emphasizing on the requirements relating to qualifications, competencies, experience, etc. and that such appointees should be fit and proper persons to hold office.

Composition

The Committee comprised the following members during the year:

- Ms M C Pietersz, Independent Director/Senior Director - Chairperson of the Committee
- Mr W M R S Dias, Non-Executive Director/Chairman of the Board
- Mr W D K Jayawardena, Non-Executive Director /Deputy Chairman of the Board
- Mr P L S Kumar Perera, Independent Director - ceased to be a member as at 27 October 2021
- Mr A S Wijesinha, Independent Director
- Mr D M Rupasinghe, Independent Director - appointed on 27 October 2021

The Company Secretary functioned as the Secretary to the Committee during the year.

Meetings

The Committee held three meetings during the year. Recommendations of the Committee were submitted to the Board for review and decision. Attendance of the members at the meetings of the Board Nomination Committee is presented in the table titled, 'Directors' Attendance at subcommittee Meetings' on page 86 of the Annual Report.

The Director/Chief Executive Officer (CEO), Mr Kapila Ariyaratne, the Chief Operating Officer, Mr Ramesh Jayasekara and Deputy General Manager, Human Resources, Mr Jayantha Amarasinghe attended the Meetings of the Committee on invitation.

Key Activities during 2021

- Affidavits on Fit and Proper declarations submitted by the continuing Directors in terms of Section 42 of the Banking Act No.30 of 1988 and its Directions (as amended) and also separate Affidavits submitted in terms of the Guidelines issued by the Securities and Exchange Commission of Sri Lanka were reviewed by the Committee and recorded its satisfaction that the Board members are fit and proper persons to hold directorships of the Bank.
- Reviewed and determined the independent/non-independent status of Non-Executive Directors based on declarations submitted by such Directors and also by the Executive Director.
- Recommended the re-election of Directors who were retiring by rotation at the next Annual General Meeting in terms of the Articles of Association of the Bank, taking into account the performance and contribution made by such Directors.
- Discussed succession arrangements of Directors to fill vacancies that may arise from the retirement of Directors during 2021 and 2022. Accordingly, pursuant to assessing and being satisfied with required attributes and fit and proper status, the Committee recommended the nomination and appointment of Mr D M Rupasinghe as an Independent Director. Mr D M Rupasinghe will be subject to election by the Shareholders at the Annual General Meeting of the Bank scheduled to be held on 30 March 2022.
- Reviewed and approved the list of management identified as KMPs and the revised organizational structure of the Bank pursuant to appointments and upgrades to the KMP positions with effect from 01 January 2021.
- Reviewed the effectiveness of implementation of the aforementioned changes.
- Reviewed the updated Succession Planning arrangements for KMPs and provided appropriate guidance and advice.
- Reviewed the mentoring and development initiatives of the successors identified for KMP positions including an informal meeting of the Committee with the Executive Coaching mentor to assess the progress.
- Reviewed and recommended the revisions to the Policy Governing Directors' Appointments which was approved by the Board accordingly.

Compliance with the Banking Act Direction on Corporate Governance

The extent of the Committee's compliance with Direction Nos. 3(6)(iv)(a) to 3(6)(iv)(f) of the Banking Act Directions on Corporate Governance No.11 of 2007 have been disclosed under section 3(6)(iv) in the Corporate Governance Report published in the Annual Report.

Evaluation of the Committee

The Board Nomination Committee carried out a self-evaluation of its performance during the year under review and was satisfied that the Committee had carried out its responsibilities in a satisfactory manner.



(Ms) Coralie Pietersz
(Independent Director/Senior Director)
Chairperson – Board Nomination Committee

22 February, 2022

Report of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee ("BIRMC" or "the Committee") presents its Report for the year ended 31st December 2021. The Report was approved by the Board of Directors.

Scope and Objective of the Committee

The scope and objective of the BIRMC is to assess on a regular basis through appropriate risk indicators and management information, all risk categories including credit, market, liquidity, operational, information and strategic risks facing the Bank and its reputation and to assess the risks faced by its associates and subsidiary companies. The mandate of the BIRMC as defined in its Terms of Reference is to ensure that the Bank implements an approved policy framework with defined procedures and systems for identifying, measuring, monitoring and controlling such risks. A comprehensive set of risk management policies approved by the Board provide a strong administrative framework towards meeting the objectives of the Committee.

Composition of the BIRMC

During the year 2021, the Committee comprised the following members:

- Mr D R Abeysuriya, Independent Director - Chairman of the Committee
- Mr W M R S Dias, Non-Executive Director/Chairman of the Board
- Ms M C Pietersz, Independent Director/Senior Director
- Mr P L S K Perera, Independent Director - retired w.e.f 07/11/2021.
- Mr. D M Rupasinghe, Independent Director – appointed to the Committee w.e.f 27/10/2021.
- Mr K P Ariyaratne, Director/Chief Executive Officer
- Mr L A S Fernando, Chief Risk Officer

Profiles of the Directors holding membership in the Committee are provided in pages 64 to 67 of the Annual Report.

The Chief Risk Officer (CRO), Mr L A S Fernando as the Head of the Risk Management Unit functioned as the Secretary to the Committee during the year whilst the Company Secretary was in attendance at the four special meetings held including for the performance evaluation of the two direct reports to the Committee, namely the CRO and the Head of Compliance in the first quarter.

Meetings of the BIRMC

Four regular meetings on a quarterly basis and four special meetings without the

management (including two special meetings without the presence of the CRO) were held during the year. Copies of the confirmed Minutes of meetings were made available to the Board of Directors for information whilst recommendations of the Committee were submitted to the Board for review and appropriate decisions.

All Directors of the Committee were present at all eight meetings during the year. The Head of Compliance who reports directly to the BIRMC as well as the Chief Financial Officer attended the regular meetings of the Committee whilst other management members were present when invited by the Committee. All the above mentioned regular quarterly meetings and special meetings of the Committee during the year 2021 were held on-line, via a virtual platform due to the COVID-19 pandemic in the country.

Compliance with the Corporate Governance Directions

The execution of responsibilities of the Committee and the extent of the Committee's compliance with the Banking Act Directions on Corporate Governance No.11 of 2007 have been briefed under sections 3(6)(v)(a) to 3(6)(v)(h) of the Corporate Governance Report published in the Annual Report.

Risk Management Unit

The Risk Management Unit (RMU) is an independent unit headed by the CRO. The Unit is responsible for creating, managing and implementing a pervasive bank-wide risk culture. The BIRMC reviewed the adequacy of the activities of the RMU and focused on improving communication and implementation of risk management responsibilities at all levels within the Bank. Towards meeting this requirement, the three subcommittees of the BIRMC, namely, the Executive Credit Risk Management Committee, the Executive Market and Operations Risk Management Committee and the Assets and Liability Management Committee continued to function during the year. Minutes of the meetings of these Committees were tabled to the BIRMC whilst recommendations/decisions of these Committees were also submitted by the CRO to the BIRMC's regular quarterly meetings for review and discussion.

A comprehensive Risk Management Report presented by the RMU, disclosing the Bank's level of risk management and assessment including the levels of risk under different risk categories is presented in the Annual Report.

Compliance function

The Head of Compliance, Ms. Dilani Sooriyaarachchi reports directly to the BIRMC. She is responsible for ensuring due compliance of the Bank with laws, regulations, internal controls and policies and industry best practices. Periodic updates to the BIRMC

were provided by the Head of Compliance on the regulatory developments and their impact to the Bank; outcome of compliance assessments, corrective measures and precautionary measures taken where required; compliance risk dash boards, findings of internal audit, external audit and regulatory audits on compliance function etc. The BIRMC provided advice and recommendations on the compliance risks identified, proposed policies and new developments to the compliance function.

Integrated Risk Management Framework and Implementation

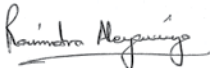
Some of the key and supplementary activities carried out and/or endorsed by the Committee during the year included (but not limited to);

- Assessment of credit, market, liquidity, operational, information security and strategic risks;
- Review and recommendation of policies related to risk management and compliance;
- Review and assessment of the extent of independent credit risk reviews, business continuity planning, disaster recovery testing, information security risk controls, outsourced activities, Risk Control and Self-Assessment (RCSA) Process exercise;
- Review of various reports submitted on assessment of compliance risks;
- Review and assessment of status updates on the implementation of activities as per the Compliance Activity Calendar;
- Review of the risk assessments and controls of the Bank's subsidiary, Seylan Developments PLC;
- Physical security assessment of the Bank's head office building;
- Assessment of Data Leakage Prevention during the COVID-19 lockdown period;
- Assessment of the impact of COVID-19 on the banking operation vis-à-vis the loan book, liquidity position, cyber security, implementing of health precautionary practices across the branch network, the Bank's preparedness to meet any emergency including operational capacity at the Disaster Recovery Operating Centre and providing relevant guidance and recommendations to withstand any plausible emergencies;
- Evaluation and review of the Bank's Internal Capital Adequacy and Assessment Process;
- Provide guidance on the implementation of important regulatory Directions across the Bank;
- Review of the Bank's credit risk management framework and set in place an action plan to implement an effective Early Warning Indicator monitoring mechanism across the Bank, validate

the Bank's SLFRS9 Impairment Models/ Internal Risk Rating Models, further development and improvement of the said Models, introduction of a Risk Based Pricing Methodology and using of Internal Risk Rating Models for the computation of SLFRS9 Impairment amounts.

Evaluation of the Committee

The Members of the BIRMC carried out a self-assessment of the Committee's performance. The Committee was satisfied that it had carried out its responsibilities in an effective manner during the year.



D R Abeyesuriya
(Independent Director)
Chairman – Board Integrated Risk Management Committee

22 February 2022

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee ('the Committee' or 'RPTRC') which is a subcommittee of the Board of Seylan Bank PLC ('the Bank') presents its' report for the year ended 31 December 2021. This Report was approved by the Board of Directors.

Scope and Terms of Reference

The Terms of Reference of the Committee has set out the scope and objective of the Committee in accordance with the Listing Rules of Colombo Stock Exchange (CSE). The Terms of Reference was reviewed (annually) and approved by the Board.

Composition

The Committee comprised of the following members as at 31 December 2021:

- Mr D R Abeyesuriya – Independent Director/Chairman of the Committee (appointed to the Committee with effect from 27 October 2021)*
- Ms M C Pietersz - Independent Director/Senior Director
- Mr S V Corea - Non-Executive Director
- Mr A S Wijesinha - Independent Director

* Independent Director, Mr P L S K Perera who was the Chairman of the Committee, ceased to be the Chairman/member of the Committee with effect from 27 October 2021.

The Senior Manager, Company Secretariat functioned as the Secretary to the Committee.

The Director/Chief Executive Officer and the Head of Compliance attended the meetings of the Committee on invitation.

Meetings of the RPTRC

The Committee held four meetings during the year on a quarterly basis. Copies of confirmed minutes of the meetings and recommendations of the Committee were submitted to the ensuing meetings of the Board of Directors for perusal and decision.

Details of attendance of the members at the meetings are presented in the table providing Directors' attendance at subcommittee meetings on page 86 of the Annual Report.

Review of Related Party Transactions by the Committee

Review of Related Party Transactions is a key scope and responsibility of the Related Party Transactions Review Committee as set out in its Terms of Reference. The Committee ensured compliance with Section 9 of the Listing Rules of the CSE. Summarised Lists of recurrent related party transactions which were approved by the Board of Directors were presented by the Company Secretary to the ensuing regular


meetings of the Committee. Non-recurrent related party transactions which required prior recommendation of the Committee were tabled and decided upon by the Committee prior to submitting to the Board.

The aggregate value of non-recurrent related party transactions entered into with the same related party did not exceed 10% of the equity or 5% of the total assets of the Bank (whichever is lower) during the year requiring immediate disclosure in terms of section 9.3.1 and disclosure in the Annual Report in terms of section 9.3.2(a) of the Listing Rules of the CSE, whilst the aggregate value of the recurrent related party transactions entered into with the same related party did not exceed 10% of the gross revenue/income of the Bank during the year requiring disclosure in the Annual Report in terms of Section 9.3.2(b) of the Listing Rules of the CSE.

The Bank has in place a Related Party Transaction and Avoidance of Conflict of Interest Policy and Process Document which was reviewed and approved by the Board during the year. The Committee reviewed the mechanism/process for recording, monitoring and reporting related party transactions and provided necessary guidance and advice to ensure the effectiveness of the process. The Compliance Unit conducted regular assessments of related party transactions carried out by the Bank (both recurrent and non-recurrent) and reported its observations and findings to the Committee. It was observed that there were no preferential treatments offered to related parties or deviations from the set processes that involved in transactions with related parties.

Evaluation of the Committee

The Committee carried out a self-evaluation of its performance and effectiveness and was satisfied that it had carried out its responsibilities in an effective manner.



D R Abeyesuriya
(Independent Director)
Chairman – Related Party Transactions Review Committee

22 February, 2022

Directors' Statement on Internal Control

Responsibility

This report on internal control mechanisms of the Bank is presented by the Board of Directors in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No 11 of 2007.

The Board of Directors ("Board") is responsible for the Bank's system of internal controls and for reviewing its design and operating effectiveness. However, such a system will mitigate but may not completely eliminate the risk of failure in achieving the business objectives of the Bank. Hence, the system of internal controls can only provide a reasonable but not absolute assurance against material misstatement of financial information and records.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Bank and this process provides for modifying the system of internal controls in response to changes in business and regulatory environment. The process is reviewed regularly by the Board, taking into account principles for the assessment of the internal control system as given in the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The process is in compliance with the requirements set out in this document.

The Management assists the Board in implementation of its policies and procedures on risk and controls by identifying and assessing the relevant risks faced by the Bank and in designing, implementing, operating and monitoring of appropriate internal controls to mitigate and control such risks. The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide a reasonable assurance on reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with the relevant accounting principles and regulatory requirements.

Key features of the process in place for reviewing the design and effectiveness of the internal controls system over financial reporting

Key processes that are presently in place for reviewing the design, operating effectiveness and the integrity of the system of internal controls relevant to financial reporting are set out below:

- The Board is assisted by Board Sub Committees established by the Board in ensuring the effectiveness of the Bank's daily operations in terms of alignment with the corporate strategies, objectives and the annual budget and in approving the policies and business directions as required.
- The Board Audit Committee (BAC) of the Bank evaluates the adequacy and effectiveness of the risk management and internal control systems and monitors the internal control issues identified by the Regulatory Authorities, Internal Audit Department, External Auditors and the Management. They also review the internal audit function with emphasis on the coverage, scope and the quality of internal audits. Minutes of the BAC meetings are tabled at Board meetings of the Bank on a

periodic basis. Activities undertaken by the BAC are set out in the Audit Committee Report on pages 94.

- The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal risk areas of the Bank. Executive Risk Management Committees assists the Board through BIRMC on implementation of policies approved by the Board.
- Management/ operational committees have also been established with an appropriate level of empowerment to ensure effective management and supervision of the core areas of the Bank's business operations.
- The Internal Audit Department of the Bank reviews the effectiveness of the internal control systems and the design of and compliance with the policies and procedures on an on-going basis. Audits are carried out on all business units, functions and branches based on a risk based annual planning mechanism. Frequency and the scope of audits are determined by the level of risk assessed. The key objective of such audits are to provide an independent and objective assessment on operational and management activities of the business units, functions and branches. The annual internal audit plan is reviewed and approved by the Audit Committee and all the findings of the audits are escalated to the Audit Committee.
- Policies and procedures for ensuring compliance with internal controls and the relevant laws and regulations are set out in operation manuals, guidelines and the directives issued by the Bank which are reviewed and updated from time to time.

The existing models used for the computation of Expected Credit Loss (ECL) were further refined this year to validate the appropriateness of the underlying assumptions, incorporate the potential implications of COVID 19 Pandemic and the extended moratorium schemes introduced to support the recovery of the economy, based on stress testing the exposures to risk elevated sectors and adjustments made to economic factors.

Considering the complexity involved in the computation of ECL from Loans and Advances, the Bank is in the process of automating the same in order to minimize the manual intervention.

CBSL issued direction numbers 13 and 14 of 2021 with the view of strengthening and harmonising the regulatory framework on classification, recognition and measurement of financial instruments in line with SLFRS 9 - Financial Instruments, which have become effective from 1 January 2022. The Bank has taken required steps in 2021 to improve policies, procedures and made many changes to the internal processes including the system capabilities to ensure new regulations are adopted satisfactorily with effect from 1st January 2022. The Bank will continue to strengthen the internal control framework relating the new processes during the year 2022.

- All controls, including the IT General Controls and the branch level application controls, were documented by respective departments, on relevant formats prescribed in the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" in the Sri Lanka Standard on Assurance Engagements 3050, issued by The Institute of Chartered Accountants of Sri Lanka.
- In assessing the internal control system over financial reporting, the Management of the Bank captured all procedures and controls that are connected with significant accounts and disclosures in the Financial Statements of the Bank. These are reviewed by the Internal Audit Department for adequacy of design and operating effectiveness on an on-going basis based on a risk based approach.

Recommendations made by the External Auditors with regard to the internal control system in the financial year ended 31st December 2020 were taken into consideration and appropriate measures were taken to incorporate the recommendations in to the internal controls. Recommendations by the External Auditors with regard to the internal control system made during the financial year ended 31st December 2021 will be addressed in the ensuing year.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance on the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS) and regulatory requirements of the Central Bank of Sri Lanka. This confirmation excludes the subsidiary of the Bank.

Review of the statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control of the Bank for the year ended 31st December 2021 and reported to the Board that nothing has come to their attention that causes them to believe that the above Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on page 102 of this Annual Report.

By order of the Board of Directors of
Seylan Bank PLC


W M R S Dias
Chairman


Kapila Ariyaratne
Director/ Chief Executive
Officer


Ms Coralie Pietersz
Chairperson-Board Audit Committee

22 February 2022
Colombo

Auditors' Report on Internal Control



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TO THE BOARD OF DIRECTORS OF SEYLAN BANK PLC

We were engaged by the Board of Directors of Seylan Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 2021 set out in page 101 in this annual report.

Management's Responsibility for The Statement on Internal Control

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Inquired the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.
- Reviewed the documentation prepared by the directors to support their Statement made.
- Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- Obtained written representations from directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants

Colombo

22nd February 2022

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T. J. S. Rajakanier FCA
Ms. S. M. B. Jayasekara ACA
S. A. U. Karunaratne FCAM
R. H. Rajan ACA
A.M Radhitha P. Alahakoon

P. Y. S. Perera FCA
W. W. J. C. Perera FCA
R.M.D.B Rajapakse FCA
S.M. Nayeem FCA
Ms. C.T.K.N Perera ACA
Ms. P.M.K. Sumanasekara FCA

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

Report of the Board of Directors on the State of Affairs of the Company

The Board of Directors of Seylan Bank PLC ('the Board' or 'the Directors') presents its Report on the State of Affairs of Seylan Bank PLC ('the Bank' or 'the Company') together with the audited financial statements of the Bank, the consolidated financial statements of the Group and the Auditors' Report on those financial statements for the financial year ended 31 December 2021. This Report hereinafter will also be referred to as 'the Report', or 'Report of the Directors' or 'Report of the Board of Directors'.

This Report together with the Financial Statements (as aforementioned) which

are published in the Annual Report of the Bank for the year ended 31 December 2021 (hereinafter referred to as 'the Annual Report') were reviewed and approved by the Board of Directors on 22 February 2022. A softcopy of this Annual Report of the Bank will be hosted/published in the website of the Bank, www.seylan.lk and also in the website of the Colombo Stock Exchange (CSE), www.cse.lk.

The disclosures in this Report conform to the requirements of the Companies Act No.7 of 2007; the Banking Act No.30 of 1988 (as amended); the Directions issued

by the Monetary Board under the Banking Act; the Listing Rules of the CSE and the recommended best practices on corporate governance.

In compliance with the requirements under Section 168 of the Companies Act No.7 of 2007, information and disclosures in respect of the financial year ended 31 December 2021, have been published in the pages/sections of this Report and/or the pages/sections of the Annual Report as mentioned below:

Section	Information Required to be disclosed	Compliance and/or Disclosure Reference	Page/s in the Annual Report
168(1)(a)	The nature of the business of the Company and the Subsidiaries.	Item Nos. 2 and 4 of this Report	(pages 103 and 104)
168(1)(b)	Signed Financial Statements and the Company for the Accounting Period completed in accordance with Section 152.	Financial Statements of the Bank and the Group	(pages 145 to 248)
168(1)(c)	Auditor's Report on Financial Statements of the Company and the Group.	Independent Auditors' Report	(pages 140 to 144)
168(1)(d)	Changes in Accounting Policies made during the accounting period.	Notes to the Financial Statements	(pages 155 to 156)
168(1)(e)	Particulars of the entries in the interest register made during the accounting period.	Item No. 23 of this Report	(page 107)
168(1)(f)	Remuneration and other benefits paid to Directors during the accounting period.	Note 14 and 51.1.1 to the Financial Statements	(pages 191 and 239)
168(1)(g)	Total amount of donations made by the Company during the accounting period.	Item No. 13 of this Report and Note 14 to the Financial Statements	(pages 105 and 191)
168(1)(h)	Information on Directorate of the Company during and at the end of the accounting period and persons who ceased to hold office as directors during the accounting period.	Item No. 20 of this Report	(pages 106 and 107)
168(1)(i)	Amounts payable to the Auditors as audit fees and fees for other services rendered during accounting period as a separate disclosure.	Note 14 to the Financial Statements	(page 191)
168(1)(j)	Auditor's relationship or any interest with the Company and its subsidiaries.	Item No. 41 of this Report	(page 110)
168(1)(k)	Acknowledgement of the contents of this Annual Report of the Board and signed on behalf of the Board of Directors.	Signed by two Directors and the Company Secretary at the end of this Report.	(page 110)

1. ABOUT THE BANK / THE COMPANY

Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka on 28 August 1987 under the Companies Act No.17 of 1982 and is a licensed commercial bank registered and operating under the Banking Act No.30 of 1988 (as amended). The Company was re-registered under the provisions of the Companies Act

No. 7 of 2007 on 30 May 2007 (Company Registration No. PQ9). The Registered Office and the Head Office of the Bank is situated at "Seylan Towers", No.90, Galle Road, Colombo 03.

The Bank was listed on the CSE on 5 January 1989. The Bank's ordinary shares (both voting and non-voting) and its Unsecured, Subordinated, Redeemable Debentures issued in the years 2016, 2018,

2019 and 2021 were listed in the CSE. During the year under review, Fitch Ratings Lanka Ltd affirmed the Bank's National Long-Term Rating at A(lka) with a stable outlook whilst assigning a BBB+(lka) for the subordinated debentures.

2. PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and provision of

Report of The Board of Directors on the State of Affairs of the Company

related financial services which mainly include acceptance of deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, corporate and retail credit, margin trading, pawn broking, project financing, lease financing, credit card facilities, money remittance services, factoring, dealing in government securities and treasury related products, etc.

There were no significant changes in the nature of the principle activities of the Bank and its' subsidiary during the financial year under review.

3. VISION AND MISSION AND CORPORATE CONDUCT

3.1 Vision and Mission

Vision:

"To be Sri Lanka's leading financial services provider – as recognized by all its' stakeholders."

Mission:

- We provide our Customers with financial services that meet their needs in terms of value, pricing, delivery and service.
- We will do so through a team of Seylan Bankers who are recognized and rewarded for results orientation.
- We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.

3.2 Corporate Conduct

The Bank conducts its business activities at a high level of ethical standards in achieving its vision and mission. The Board of Directors of the Bank as well as its' employees have pledged to abide by and comply with the Codes of Conduct and Ethics of the Bank.

4. GROUP STRUCTURE

The only subsidiary of the Bank is Seylan Developments PLC (SDP). SDP is a public limited liability company incorporated in 1992 and listed on the CSE. The principle activities of Seylan Developments PLC are property development and management. The Bank held a 70.51% stake in Seylan Developments PLC as at 31st December 2021. Please refer Section 29 of this Report for information on the Board of Directors of SDP.

The Bank received a dividend of LKR 125,198,534.40 paid by the subsidiary during the year under review.

5. BRANCH NETWORK

As at 31 December 2021, the Bank's branch network comprised 171 banking centres and 98 Student Savings Centres, island-wide. Locations and details of the banking centres as at the date of this Report as well as locations of off-site ATMs are given in the Annual Report.

6. PERFORMANCE IN 2021 AND FUTURE DEVELOPMENT PLANS

The Chairman's Message, the Chief Executive Officer's Review and the reports that are published in this Annual Report provide an overall assessment and review of the operations and financial performance of the Bank during the year 2021 aligned to the information in the audited financial statements of the Bank for the year ended 31 December 2021. They also speak about the Bank's future development plans. Such development proposals have been laid out in the Bank's Strategic Plan for the years 2021 to 2023 which was approved by the Board and the implementation of the strategies was being monitored by the Board Strategic Planning Committee.

7. FINANCIAL STATEMENTS AND FINANCIAL REPORTING

The Financial Statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS) and the Sri Lanka Financial Reporting Standards (SLFRS). The necessary quantifications and disclosures have also been made based on LKAS/SLFRS. The Financial Statements which are published in the Annual Report are followed by the related notes to the Financial Statements and Significant Accounting Policies adopted in the preparation of the Financial Statements.

The Audited Financial Statements for the year ended 31 December 2021 was certified by the Chief Financial Officer and

the Director/Chief Executive Officer and signed by two Directors in terms of Section 151, 152 and 168(l)(b) of the Companies Act No.07 of 2007. They are published in this Annual Report and form an integral part of this Report. Some of the salient financial information have been disclosed under the relevant headings in this Report.

8. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements and the Notes thereto have been prepared in conformity with the requirements of the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act no. 15 of 1995, the Banking Act No. 30 of 1988 (as amended) and relevant directions and determinations thereof and the Listing Rules of the CSE.

The Statement of Directors' Responsibility for Financial Reporting which appears in the Annual Report forms an integral part of this Report of the Directors.

9. AUDITORS' REPORT

The Auditors of the Company, M/s KPMG, Chartered Accountants carried out the audit of the consolidated financial statements for the financial year ended 31 December 2021 and the Auditors' Report is published in the Annual Report.

10. FINANCIAL RESULTS

The income and profit of the Bank and those of the Group for the year ended 31 December 2021 are given in the table below. An analysis of the income is given in the Notes to the Financial Statements published in the Annual Report:

Income	2021		2020	
	Bank LKR' 000	Group LKR' 000	Bank LKR' 000	Group LKR' 000
Gross Income	54,767,049	54,750,691	57,224,196	57,227,750
Operating Income	31,442,238	31,729,446	25,415,261	25,723,074
Profit before Income Tax	6,027,776	6,184,680	4,111,247	4,295,636
Less : Income Tax	1,447,236	1,449,010	1,099,947	1,197,578
Profit after Income Tax	4,580,540	4,735,670	3,011,300	3,098,058
Other Comprehensive Income net of Tax	(1,521,020)	(1,479,099)	1,832,025	1,865,107
Total Comprehensive Income for the year	3,059,520	3,256,571	4,843,325	4,963,165

11. TAXATION

Provision for taxation has been computed as indicated in Note 16 to the Financial Statements.

12. CAPITAL EXPENDITURE

The total capital expenditure incurred on the acquisition of Property, Plant and Equipment

of the Bank and the Group is given below and further described in Notes 30 and 33 to the Financial Statements.

Capital Expenditure	Bank		Group	
	2021 LKR' 000	2020 LKR' 000	2021 LKR' 000	2020 LKR' 000
Property, Plant and Equipment and Intangible Assets	462,314	689,965	506,736	706,055
Net book value of freehold properties	2,252,954	1,523,743	4,943,453	4,203,753

All freehold land and buildings of the Bank were valued in 2021 by professionally qualified independent valuers (Chartered Valuers/Licensed Surveyors) engaged by the Bank to its Panel of Valuers and brought into the financial statements. Details of freehold properties owned by the Bank are given in Note 30 to the Financial Statements.

Capital Expenditure approved and contracted for after the year ended 31 December 2021 is given in Note 49 to the Financial Statements.

The Bank paid a first and final ordinary dividend of LKR 1.50 per share in the form of a scrip dividend in respect of the financial year ended 31 December 2020 on 30 March 2021.

15. RESERVES

Total reserves (including Statutory Reserve Fund) as at the end of the financial year of the Bank and the Group, were as follows:

	Bank		Group	
	2021 LKR' 000	2020 LKR' 000	2021 LKR' 000	2020 LKR' 000
	33,729,127	31,418,628	35,634,352	33,221,476

13. DONATIONS

During the year, the Bank made donations amounting to LKR 565,000/- (Donations made in 2020 amounted to LKR 10,788,000/- which mainly included contribution to the Presidential Fund for COVID19 and for the improvement of the intensive care and critical care facilities at Colombo East Base Hospital for COVID-19 patients).

14. DIVIDEND AND SOLVENCY CERTIFICATION

The Directors have recommended a First and Final Ordinary Dividend of LKR 3.00 per share for the year ended 31 December 2021 in the form of a scrip dividend. This recommendation is subject to the approval of the shareholders at the Annual General Meeting of the Bank scheduled to be held on 30 March 2022. Please refer 'Circular to Shareholders' for further details.

The Board of Directors was satisfied that the Bank would meet the solvency test in terms of the provisions of Section 57 of the Companies Act No.7 of 2007 immediately after the payment of the proposed dividend. A Certificate of Solvency was also obtained by the Bank from the External Auditors in compliance with Section 56(2) of the Companies Act, confirming the Board's declaration of solvency.

16. STATED CAPITAL

The Stated Capital of the Bank as at 31 December 2021 was LKR 18,323,881,381.01 (Stated Capital as at 31 December 2020 was LKR 17,548,347,003.01).

The number of shares issued by the Bank during the year increased due to the issue of scrip dividends (which resulted in the increase in the Stated Capital) were as follows:

As at 31 December	2021		2020	
	Number of Shares	Number of Shareholders	Number of Shares	Number of Shareholders
Ordinary voting shares	264,267,493	256,716,994	10,144	10,255
Ordinary non-voting shares	269,923,190	260,305,975	7,342	7,423

17. INVESTOR INFORMATION

Information including earnings, profitability, dividend, net assets and market value per share is given in the Financial Highlights page in the Annual Report. Information pertaining to share prices and debenture

prices is given on pages 255 and 257 in the Annual Report.

17.1 Minimum Public Holding Requirement

The Bank was compliant with Section 7.13.1 of the Listing Rules of the CSE in respect of the above as at 31 December 2021 as described below.

	31 December 2021	31 December 2020
Float adjusted market capitalization	LKR 6,378 Mn	LKR 6,477 Mn
Public Holding Percentage	54.85%	54.85%
Number of public shareholders	10,122	10,235
Option	3*	3*

*Option 3 as per the CSE's Listing Rules, is where the minimum float adjusted market capitalization is LKR 5,000 Million; minimum public holding is 7.5% and the minimum number of public shareholders is 500.

Report of The Board of Directors on the State of Affairs of the Company

17.2 Analysis of the Shareholding Distribution and Major Shareholders

An analysis of the distribution of shareholdings and lists of twenty largest ordinary voting and ordinary non-voting

18. DEBENTURES

18.1 Debentures in Issue

Value of Debentures as at 1 January 2021	LKR 16,234,000,000/-
Allotment of new debentures on 12 April 2021 (details under 18.2 below)	LKR 6,000,000,000/-
Redemption of the five year category Debentures from and out of the Debenture Issue 2016 (which matured on 15 July 2021)	(LKR 1,727,720,000/-)
Total value of Debentures as at 31 December 2021	LKR 20,506,280,000/-

Further information on the debentures issued are provided under Investor Information section of this Annual Report.

18.2 Debenture Issue 2021 and Utilization of Funds Raised

The Bank's issue of Fifty Million (50,000,000) fully paid, BASEL III compliant, Tier 2, listed, rated, unsecured, subordinated, redeemable debentures with a non-viability conversion of the par value of Rupees Hundred each (Rs.100/-) aggregating upto a value of Rupees Five Billion (LKR

shareholders of the Bank as per the requirement of the Listing Rules of the CSE have been published under Investor Information section of this Annual Report.

5,000,000,000/-) and the further issue of Ten Million (10,000,000) of such Debentures (due to the oversubscription of the first issue of Fifty Million Debentures) were oversubscribed and the Bank proceeded with the allotment of Sixty Million (60,000,000) Debentures of Rs.100/- each aggregating to LKR 6,000,000,000/- to the successful investors on 12 April 2021. The Debentures comprised two types of Debentures categorized according to the tenure and applicable interest rate. The number of Debentures issued under the two types of Debentures issued is as follows:

Type A	5 Year Debentures - Interest payable Annually - 9.75% p.a.	53,520,200 Debentures
Type B	5 Year Debentures - Interest payable Quarterly - 9.25% p.a.	6,479,800 Debentures

The funds raised were used for the objectives mentioned in the Prospectus of the Issue and such disclosure was made in the Notes to the Interim Financial Statements of the second quarter ended 30 June 2021 as per the requirements of the Listing Rules of the CSE and such disclosure is also published in the Annual Report (refer Note No 40.4 of the Financial Statements).

18.3 Redemption of Debentures during the year 2021

The Bank redeemed 17,277,200 Unsecured Subordinated Redeemable Debentures of LKR 100/- each amounting to LKR 1,727,720,000/- (five-year category) upon maturity on 15 July 2021, from and out of such Debentures issued and allotted on 15 July 2016.

18.4 Proposed Debenture Issue

The Board decided to issue upto a maximum of Two Hundred Million (200,000,000) Basel III Compliant, Tier 2, Rated, Unsecured, Subordinated Redeemable Debentures of the par value of Rupees Hundred (LKR 100/-) each ('Debentures') amounting to Rupees Twenty Billion (LKR 20,000,000,000.00), with a Non-Viability Conversion to Ordinary Voting Shares by the Bank in the event of 'Trigger Event' and it was also decided that such Debentures shall be issued in one or more issuances during the calendar year, 2022. The approval of the shareholders was obtained at an Extraordinary General Meeting of the Bank held on 11 January 2022 in respect of this Issue.

The Board further approved the issue of 40,000,000 Debentures of LKR 100/- each amounting to LKR 4,000,000,000/- with an option to issue a further 20,000,000 Debentures amounting to LKR 2,000,000,000/- in the event

of an oversubscription, and this issue will be the first issuance of the above mentioned maximum issue of 200,000,000 Debentures. The tenure of these Debentures will be not less than five years.

19. EQUITABLE TREATMENT OF SHAREHOLDERS AND EFFECTIVE SHAREHOLDER COMMUNICATION

The Bank has at all times ensured that shareholders are treated equitably. The general meetings of the Bank are the main forums adopted by the Board as well as the shareholders of the Bank for an effective dialogue with one another while other channels of communication were also being used to ensure that shareholders and all interested parties have equal access to corporate information in the public domain. The Bank has adopted a Shareholder Communication Policy which is published on its corporate website, the objective of which is to enhance long term shareholder value through regular communication with shareholders.

20. DIRECTORATE

20.1 Directors who held office as at 31 December 2021

Name of Director	Status of Directorship
Mr W M R S Dias	Non-Executive Director/ Chairman
Mr W D K Jayawardena	Non-Executive Director/Deputy Chairman
Ms M C Pietersz	Independent Non-Executive Director/ Senior Director
Mr K P Ariyaratne	Director/Chief Executive Officer
Mr S V Corea	Non-Executive Director
Mr A S Wijesinha	Independent Non-Executive Director
Ms S K Salgado	Independent Non-Executive Director
Mr D M D K Thilakarathne	Non-Executive Director
Mr D R Abey Suriya	Independent Non-Executive Director
Mr D M Rupasinghe	Independent Non-Executive Director
Ms V G S S Kotakadeniya	Alternate Director to Non-Executive Director, Mr W D K Jayawardena

The Profiles of the Directors who comprise the Board as at the date of this Report

including their membership/s in Board Subcommittees are given on pages 64 to 67 of the Annual Report.

20.2 Change of Directorate

Mr Dissanayake M Rupasinghe was appointed to the Board as an Independent Non-Executive Director on 1 October 2021. Mr P L S Kumar Perera, Independent Non-Executive Director retired from the Board with effect from 7 November 2021 in terms of Section 3(3)(j) of the Banking Act Direction No.11 of 2007, having reached the age of retirement of 70 years on such date.

20.3 Declarations by Directors – Independent/ Non-independent Status and Declaration of Relevant Relationships

All Non-Executive Directors have submitted signed declarations confirming their independent/non-independent status in compliance with Rule 7.10.2 and 7.10.4 of the CSE Rules on Corporate Governance as well as in compliance with Section 3(2)(iv) of the Banking Act Direction No.11 of 2007.

20.4 Declarations by Directors – ‘Fit and Proper’ Status of Continuing Directors

Signed Affidavits in terms of Section 42 of the Banking Act (as amended) issued by the Directors declaring their ‘fit and proper’ status, prior to the Annual General Meeting held in 2021 were submitted to the Director, Bank Supervision, Central Bank of Sri Lanka. The Central Bank approved the continuation of office of those Directors.

The Directors also signed Affidavits in terms of the Bank’s Fit and Proper Policy formulated by the Bank in compliance with the Guidelines issued by the Securities and Exchange Commission of Sri Lanka on Fitness and Propriety.

20.5 List of Directorships of the Directors in other Entities

Directorships held by the Directors in other entities and their substantial/material shareholdings if any, as at 31 December 2021 are provided in the Annexure that follows this Report of the Directors. The list has also identified the status of directorships (executive/non-executive/independent status) and the status where an entity is a listed entity.

20.6 Board Evaluation

A performance evaluation designed to improve the Board’s effectiveness and that of its Committees as conducted in line with good Corporate Governance practices during

the year. Further, each member of the Board carried out a self-assessment of his/her own effectiveness and the effectiveness as a team member of the Board.

21. RE-ELECTION/ ELECTION OF DIRECTORS

In terms of Article 82 of the Articles of Association, Non-Executive Director, Mr W M R S Dias and Independent Director, Mr D R Abeyesuriya retire by rotation at the forthcoming Annual General Meeting (AGM) of the Bank and offer themselves for re-election pursuant to the Board Nomination Committee and the Board of Directors evaluating and recommending their re-election as Directors.

In terms of Article 89 of the Articles of Association, Independent Director, Mr D M Rupasinghe who was appointed during the year 2021 to fill casual vacancy on the Board will be subject to election by the shareholders at the forthcoming AGM of the Bank. The Board Nomination Committee and the Board of Directors have recommended the proposal for his election.

22. MEETINGS OF THE BOARD OF DIRECTORS

Twelve Regular monthly meetings and four special meetings of the Board of Directors were held during the year. The special meetings were held to consider and decide on important and urgent issues. A schedule of Directors’ attendance at Board meetings and a schedule of Directors’ attendance at Board Subcommittee meetings have been disclosed in the Corporate Governance Report published in this Annual Report.

23. DIRECTORS’ INTEREST IN CONTRACTS AND DIRECTORS’ INTEREST REGISTER

The Bank maintains a Directors’ Interest Register as required under Section 168(1)(e) of the Companies Act No. 7 of 2007. The Directors submitted their declarations to the Board through the Company Secretary disclosing their interests from time to time in accordance with Section 192(2) of the Companies Act No. 7 of 2007 for purposes of identification of their interest in contracts/ transactions that the Bank enters into. Such disclosures are reported to the Board and minuted by the Company Secretary and thereafter recorded in the Directors’ Interest Register. The Directors’ Interest Register is available for inspection by the shareholders or their authorized representatives as required under Section 119(1)(d) of the Companies Act No.7 of 2007.

The Directors abstained from the meetings (both Board and Board Subcommittees) when matters in which they were interested (related party interest or directorship interest) were considered and they did not vote on such matters.

24. DIRECTORS’ INTEREST IN SHARES AND DEBENTURES OF THE BANK

Directors’ holdings in Shares and Debentures of the Bank as at 31 December 2021 and the comparative figures of the previous year are given below:

Name of Director	31.12.2021	31.12.2020	Shares /Debentures
Mr W M R S Dias	50,000	50,000	Debenture Issue 2018
	100,000	N/A	Debenture Issue 2021
Mr W D K Jayawardena	Nil	Nil	
Ms M C Pietersz	50,000	50,000	Debenture Issue 2019
Mr K P Ariyaratne	66,399	64,502	Ordinary Voting shares
	222,061	214,150	Ordinary Non-voting shares
	200,000	200,000	Debenture Issue 2018
	300,000	300,000	Debenture Issue 2019
	80,000	N/A	Debenture Issue 2021
	100,000	N/A	Debenture Issue 2021
Mr S V Corea	101	99	Ordinary Voting Shares
Mr A S Wijesinha	Nil	Nil	
Ms S K Salgado	Nil	Nil	
Mr D M D K Thilakaratne	Nil	Nil	
Mr D R Abeyesuriya	Nil	Nil	
Mr D M Rupasinghe	Nil	N/A	
Ms V G S S Kotakadeniya	Nil	Nil	

Report of The Board of Directors on the State of Affairs of the Company

Percentage Shareholdings of Directors:

Type of shares	% as at 31.12.2021	% as at 31.12.2020
Ordinary voting shares	0.025%	0.025%
Ordinary non-voting shares	0.08%	0.08%

There were no changes to the above information on Directors' interest in Shares and Debentures from 1 January 2022 and until the date of this Report of the Board of Directors.

25. DIRECTORS' REMUNERATION

Details of Directors' emoluments paid in respect of the Bank and the Group for the year 2021 are given as a note to the Financial Statements in the Annual Report.

26. INSURANCE AND INDEMNITY

As authorized by the Articles of Association of the Bank and as approved by the Board of Directors, the Bank obtained a Directors and Officers Liability Insurance Cover in respect of the year 2021/2022.

27. BOARD SUBCOMMITTEES

The Board is empowered by the Articles of Association to delegate any of its powers to the Board appointed Subcommittees within the scope of the respective Board approved Terms of Reference. The Subcommittees consist of members appointed as the Board thinks fit subject to meeting the criteria specified in the Terms of Reference of certain Subcommittees. The following Board Subcommittees were functional as at 31 December 2021. The respective scope, composition and responsibilities of these Subcommittees have been provided in the Corporate Governance Report published in the Annual Report.

- 1) Board Audit Committee
- 2) Board Human Resources and Remuneration Committee
- 3) Board Nomination Committee
- 4) Board Integrated Risk Management Committee
- 5) Related Party Transactions Review Committee
- 6) Board Credit Committee
- 7) Board Marketing and Product Development Committee
- 8) Board Sustainability Committee
- 9) Board Governance and Compliance Committee
- 10) Board Strategic Plan Committee
- 11) Board Information Technology Committee

28. RELATED PARTY TRANSACTIONS

The Board of Directors has vested the responsibility for ensuring compliance with Section 9 of the Rules of the CSE and the Securities & Exchange Commission of Sri Lanka's Code on Related Party Transactions to the Related Party Transactions Review Committee of the Bank. During the year, the Bank did not carry out any recurrent or non-recurrent related party transaction which required disclosure and/or shareholder approval as described below:

- The aggregate value of non-recurrent related party transactions entered into with the same related party did not exceed 10% of the equity or 5% of the total assets of the Bank (whichever is lower) during the year requiring immediate disclosure in terms of section 9.3.1 and disclosure in the Annual Report in terms of section 9.3.2(a) of the Listing Rules of the CSE.
- The aggregate value of the recurrent related party transactions with the same related party did not exceed 10% of the gross revenue/income of the Bank during the year requiring disclosure in the Annual Report in terms of Section 9.3.2(b) of the Listing Rules of the CSE.

29. DIRECTORATE OF THE SUBSIDIARY, SEYLAN DEVELOPMENTS PLC

The Board of the Bank's Subsidiary, Seylan Developments PLC as at 31 December 2021 comprised the following all of whom continued to be on the Board of the Subsidiary as at the date of this Report:

- Mr K P Ariyaratne (Non-Executive Director/Chairman);
- Mr S Palihawadana (Independent Director/Deputy Chairman);
- Mr Sunil De Silva (Senior Independent Director);
- Mr R J Jayasekara (Non-Executive Director); and
- Mr P D Hennayake (Independent Director);

30. HUMAN RESOURCES

The Board Human Resources and Remuneration Committee and the Board of Directors continued directing the Bank in driving the total Human Resource (HR) value proposition to ensure uninterrupted banking services and improving operational excellence which remains paramount. The pandemic underscored the urgency for more dynamic people management solutions and work models, building critical skills, competencies, employee safety and wellbeing, practicing structured/new work arrangements and managing the life experience of employees in the Bank. These were the priorities for the HR during 2021.

The HR team was at the forefront of initiatives to respond to a wide range of internal and external transformative trends, from employee wellbeing to new work arrangements, staff engagement and performance. Key focus was on the transformation of business and operational culture in the Bank in order to build a strong organizational culture to accommodate organizational growth responding to the market dynamics confidently with innovative people strategies. Learning Management System was also strengthened creating multiple learning platforms which improved the competency index covering behavioural, business and technical pillars.

31. CORPORATE GOVERNANCE

The year 2021 too continued to be a challenging year for the Bank as much as for the industry and other businesses due to the COVID-19 pandemic. The Board of Directors played an active role in ensuring that the interests of its various stakeholders, namely the shareholders, customers, employees, regulators, general public, etc., were handled in a way that was consistent with its obligations to these groups and with the long-term health of the Bank. The Board ensured that the systems and procedures established were adequately and practically adopted and followed by the management.

The extent of compliance with the regulatory directions, rules and best practice guidelines on corporate governance have been disclosed in the Corporate Governance Report published in the Annual Report.

The External Auditors carried out an agreed upon procedure in accordance with the Sri Lanka Related Services Practice Statement (SLRSPS 4750) with regard to the Bank's compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance and confirmed that the findings were

consistent with the matters reported in the Corporate Governance Report in the Annual Report.

32. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

32.1 Risk Management

The Board Integrated Risk Management Committee (BIRMC) was vested with this responsibility by the Board and the BIRMC ensured the implementation of a sound risk management framework by means of an ongoing process to identify, evaluate and manage the risks that are faced by the Bank. The Chief Risk Officer reported and updated the status of the Bank's overall risks to the Committee at its regular quarterly meetings. The Report of the BIRMC and a detailed report on Risk Management of the Bank are published in the Annual Report.

Capital Management

The Bank has an ongoing process to evaluate the adequacy of capital in line with strategic aspirations and to comply with the Basal III guidelines. The detailed review on Capital Management is discussed in the Risk Management Report published in the Annual Report.

32.2 System of Internal Control

The Board recognises that upholding of a robust and effective internal control mechanism is indispensable due to its positive effect on the Bank's financial performance and the governance framework adopted by the Bank. Internal control is a process, carried out at various levels in the Bank aiming to provide a reasonable certainty of achievement of the objectives; safeguarding of assets; efficiency and effectiveness of operating activities; reliability of accounting information and compliance with laws and regulations. The internal control framework of the Bank consists of organizational structures; effectively designed, documented and periodically reviewed business processes with inbuilt control mechanisms, instructions and guidelines and duly approved delegated authority levels. An effective internal controls system is a key decisive factor for the sustainability of the Bank in the long run in terms of market share, service quality, profitability and stakeholder confidence.

The Board confirms the existence of an effective system of internal controls for managing the risks faced by the Bank by taking timely risk mitigation actions and ensuring operational effectiveness of such

internal controls, which had been in place throughout the year under review up to the date of approval of this Annual Report and have been consistently reviewed.

33. COMPLIANCE WITH LAWS AND REGULATIONS

The Bank has not engaged in any activities contravening any laws and regulations currently in force. Key management personnel confirm compliance with various laws and regulations and their confirmations were reported to the Board on a monthly basis by the Compliance Officer during the year.

34. OUTSTANDING LITIGATIONS

In the opinion of the Directors and external legal counsels retained by the Bank, litigations currently pending against the Bank as disclosed in Note 48 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

35. SHARE TRUST COMPANIES AND THE SEYLAN BANK EMPLOYEES' GRATUITY TRUST FUND

Six share trust companies ("companies") were established by the Bank in 1995 and in 1999/2000 which have acquired shares of the Bank ("subject shares") from time to time at the market prices prevailing at that time. The Bank was the Settlor of the trusts and the purchase of the subject shares were fully funded by the Bank. The Seylan Bank Employees Gratuity Trust Fund was established by the Bank to make the provision for payment of gratuity to all employees of the Bank who are entitled for payment of gratuity under the Gratuity Act; to pay and discharge the liability of payment of gratuity to those employees and where the Trustees of the said Fund should manage and superintend the affairs of the Trust Fund and the investments made thereunder.

During the course of 2019 and 2020, current employees and former employees satisfying certain criteria reached agreement with the Bank for the receipt of an 'enhanced gratuity' based on one-month basic salary for each year of service and for the Bank to settle such liability by utilizing the proceeds from the disposal of the shares held in the companies. For this purpose, the Bank arranged for the transfer of shares to the Seylan Bank PLC A/C No 4 established on the Central Depository Systems (Pvt) Ltd

for the Seylan Bank Employees Gratuity Trust Fund and such shares were transferred through the trading floor of the Colombo Stock Exchange.

36. ENVIRONMENTAL PROTECTION

The Bank has not engaged in any activity that is harmful or hazardous to the environment and has always taken measures on environmental protection and its sustainability.

37. STATUTORY PAYMENTS

The Directors are satisfied that all statutory payments including all taxes, duties and levies payable by the Bank and its Subsidiary, to the government, regulatory institutions and related to the employees have been made or where relevant provided for.

38. EVENTS AFTER THE REPORTING DATE

No events have occurred after the reporting date which would require adjustments to or disclosure in the Accounts, other than those given in Note 50 to the Financial Statements.

39. GOING CONCERN

The Directors are satisfied that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code and potential implications of COVID-19, the Bank has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Bank have accordingly been prepared on a going concern basis.

40. AUDITORS

The Bank's Auditors during the period under review were M/s KPMG, Chartered Accountants. The current Audit Engagement Partner was assigned for the Bank's external audit with effect from the financial year, 2019. The audit fees and consolidated audit fees for the accounting period are given in Note 14 to the Financial Statements.

Based on the declaration made by M/s KPMG and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Company or its subsidiary other than the provision of audit and non-audit and related services as given in the said Note 14.

The retiring Auditors, M/s KPMG have expressed their willingness to continue in

Report of The Board of Directors on the State of Affairs of the Company

office and a resolution to re-appoint them as Auditors and to authorize the Directors to fix their remuneration will be proposed at the Annual General Meeting.

41. INDEPENDENCE OF THE AUDITORS

Based on an assessment carried out by the Board Audit Committee, the Board concluded that the External Auditors, M/s KPMG can be deemed to be independent for all intents and purposes considering the following factors:

- No partner from the Firm is on the Board of Seylan Bank or on the Board of its subsidiary.
- The audit and non-audit fees paid/ payable to the Auditors are negotiated and are not above industry norms and they do not receive fees from other assignments except as stated in Note 14 to the Financial Statements.
- M/s KPMG is a firm of high repute and the firm had the necessary skills to competently carry out the non-audit related assignments entrusted to them.
- Partner and Audit-team rotation was complied with in the financial year 2019.

42. NOTICE OF ANNUAL GENERAL MEETING

Notice of Meeting relating to the Thirty Fifth (35th) Annual General Meeting of the Bank scheduled to be held on Wednesday, 30 March 2022 at 11.30 a.m., together with the relevant circulars/forms will be dispatched to the shareholders. They will also be uploaded on the websites of the CSE (www.cse.lk) and that of the Bank (www.seylan.lk) together with the Annual Report of the Bank. Hardcopies of the Annual Report will be issued by the Company Secretary to any securities holder on receiving a formal request.

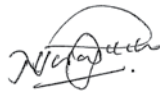
We, the undersigned acknowledge the contents of this Report and its' Annexure and have placed our signatures for and on behalf of the Board of Directors of Seylan Bank PLC, at Colombo, this 22 day of February, 2022.



W M R S Dias
Chairman



K P Ariyaratne
Director/Chief Executive Officer



(Ms) N N Najumudeen
Company Secretary

Annexure to the Report of the Board of Directors on the State of Affairs of the Company

Directors' Interest Register and Directors' Interest in transactions as at 31 December 2021

The Bank carried out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Bank is the Chairman or a Director of such entities. Please refer Note 51 to the Financial Statements for information on related party transactions.

The entities in which the Directors of the Bank held directorships and substantial shareholdings as at the 31 December 2021 are disclosed below.

	Directorships (Executive/ Non-Executive status)	Substantial Shareholding % (if any)
Mr W M R S Dias (Non-Executive Director/Chairman)		
Listed Entities		
1. Carson Cumberbatch PLC	Independent Non-Executive Director	-
2. Senkadagala Finance PLC	Independent Non-Executive Chairman	-
3. Tokyo Cement Co (Lanka) PLC	Independent Non-Executive Director	-
Unlisted Entities		
4. Ceylon Tea Marketing (Pvt) Ltd	Independent Non-Executive Chairman	-
5. Jay-Cey-Tea (Pvt) Ltd	Non-Executive Chairman	-
6. McLarens Holdings Ltd	Independent Non-Executive Director	-
7. Superfine Teas (Pvt) Ltd	Non-Executive Chairman	-
8. Tokyo Super Cement Company Lanka (Pvt) Ltd	Non-Executive Director	-
9. Tokyo Cement Power Lanka (Pvt) Ltd	Non-Executive Director	-
10. Tokyo Eastern Cement Company (Pvt) Ltd	Non-Executive Director	-
11. Tokyo Supermix (Pvt) Ltd	Non-Executive Director	-
Mr W D K Jayawardena (Non-Executive Director/Deputy Chairman)		
Listed Entities		
1. Brown & Co PLC	Non-Executive Director	-
2. Browns Investments PLC	Non-Executive Director	-
3. Dolphin Hotels PLC	Non-Executive Chairman	-
4. Eden Hotel Lanka PLC	Non-Executive Chairman	-
5. Hotel Sigiriya PLC	Non-Executive Chairman	-
6. LOLC Development Finance PLC	Non-Executive Director	-
7. LOLC Holdings PLC	Managing Director/CEO	-
8. Palm Garden Hotels PLC	Non-Executive Chairman	-
9. Serendib Hotels PLC	Non-Executive Chairman	-
Unlisted Entities		
10. Ceylon Graphene Technologies (Pvt) Ltd	Non-Executive Director	-
11. Leapstitch Technologies (Pvt) Ltd	Non-Executive Director	-
12. LOLC Advanced Technologies (Pvt) Ltd	Non-Executive Director	-
13. LOLC Africa Holdings (Pvt) Ltd	Non-Executive Director	-
14. LOLC Asia Private Limited	Non-Executive Director	-
15. LOLC General Insurance Ltd	Non-Executive Chairman	-
16. LOLC International (Pvt) Ltd	Non-Executive Director	-
17. LOLC (Pvt) Ltd	Non-Executive Director	-
18. LOLC Securities Ltd	Non-Executive Chairman	-
19. Riverina Resort (Pvt) Ltd	Non-Executive Director	-
Ms M C Pietersz (Independent Director/Senior Director)		
Listed Entities		
1. Bogala Graphite Lanka PLC	Independent Non-Executive Director	-
2. People's Leasing & Finance PLC	Independent Non-Executive Director	-
3. RIL Properties PLC	Independent Non-Executive Director	-
4. United Motors Lanka PLC	Independent Non-Executive Director	-
Unlisted Entities		
5. Compass Advisory Services (Pvt) Ltd	Executive Director	100%
6. Hemas Pharmaceuticals (Pvt) Ltd	Independent Non-Executive Director	-
7. Tambapanni Academic Publishers (Pvt) Ltd	Executive Director	25%

Annexure to the Report of the Board of Directors on the State of Affairs of the Company

	Directorships (Executive/ Non-Executive status)	Substantial Shareholding % (if any)
Mr K P Ariyaratne (Director/Chief Executive Officer)		
Listed Entities		
1. Seylan Developments PLC	Chairman /Non-Executive Director	-
Unlisted Entities		
2. Esots (Pvt) Ltd	Non-Executive Chairman	-
3. Lanka Financial Services Bureau Ltd	Non-Executive Director	-
4. Sesot (Pvt) Ltd	Non-Executive Chairman	-
5. Seyshop (Pvt) Ltd	Non-Executive Chairman	-
6. Seybest (Pvt) Ltd	Non-Executive Chairman	-
7. Seyfest (Pvt) Ltd	Non-Executive Chairman	-
8. Sotse (Pvt) Ltd	Non-Executive Chairman	-
Mr Anushka S Wijesinha (Independent Director)		
Listed Entities		
1. HNB Finance PLC	Independent Non-Executive Director	-
Unlisted Entities		
2. BizEx Consulting (Pvt) Ltd	Executive Director	-
3. FairFirst Insurance Ltd	Independent Non-Executive Director	-
4. Smart Future (Pvt) Ltd	Executive Director	-
5. Good Life X (Pvt) Ltd	Executive Director	-
Ms Sandya K Salgado (Independent Director)		
Unlisted Entities		
1. Carnival Movies Lanka Ltd	Executive Director	-
2. Film Island (Pvt) Ltd	Non-Executive Director	55%
3. Jigsaw International (Pvt) Ltd	Executive Director	50%
4. WAD International (Pvt) Ltd	Non-Executive Director	25% (indirect)
5. The Drug Shop	Partner	50% (partnership)
Mr D M D Krishan Thilakarathne (Non-Executive Director)		
Listed Entities		
1. Commercial Factors PLC	Non-Executive Director	-
2. Commercial Leasing & Finance PLC	Director/Chief Executive Officer	-
Unlisted Entities		
3. Commercial Insurance Brokers (Pvt) Ltd	Non-Executive Director	-
4. LOLC Myanmar Micro Finance Company Limited	Non-Executive Director	-
Mr D Ravindra Abeysuriya (Independent Director)		
Listed Entities		
1. HNB Assurance PLC	Independent Non-Executive Director	-
2. Colombo City Holdings PLC	Independent Non-Executive Director	-
Unlisted Entities		
3. Bio-Foods (Pvt) Ltd	Non-Executive Director	-
4. SenFin Asset Management (Pvt) Ltd	Non-Executive Director	-
5. Candor Capital (Pvt) Ltd	Executive Director	-
6. SenFin Securities Ltd (formerly known as Candor Equities Ltd)	Executive Director	-
7. Candor Shared Services (Pvt) Ltd	Executive Director	-
8. Straight Sale (Pvt) Ltd	Non-Executive Director	-
9. Sri Lanka Institute of Directors	Non-Executive Director	-
Ms V G S Sunjeevani Kotakadeniya (Alternate Director to Non-Executive Director, Mr W D K Jayawardena)		
Unlisted Entities		
1. Ajax Engineers (Pvt) Ltd	Non-Executive Director	-
2. Browns Engineering & Construction (Pvt) Ltd	Non-Executive Director	-
3. Browns Hotels & Resorts Ltd	Non-Executive Director	-
4. Browns Metal & Sands (Pvt) Ltd	Non-Executive Director	-
5. BI Commodities and Logistics (Pvt) Ltd	Non-Executive Director	-
6. Creation Wooden Fabrication (Pvt) Ltd	Non-Executive Director	-
7. General Accessories and Coating (Pvt) Ltd	Non-Executive Director	-
8. Gurind Accor (Pvt) Ltd	Non-Executive Director	-
9. Iconic Trust (Pvt) Ltd	Non-Executive Director	-
10. LOLC General Insurance Ltd	Non-Executive Director	-
11. LOLC Motors Ltd	Non-Executive Director	-
12. Maturata Plantations Ltd	Executive Director	-
13. NPH Investment (Pvt) Ltd	Non-Executive Director	-
14. Sagasolar Power (Pvt) Ltd	Non-Executive Director	-
15. Samudra Beach Resorts (Pvt) Ltd	Non-Executive Director	-
16. Serendib Microinsurance PLC, Cambodia	Non-Executive Director	-
17. Tropical Island Commodities (Pvt) Ltd	Non-Executive Director	-

Non-Executive Director, Mr S V Corea and Independent Director, Mr D M Rupasinghe did not hold any directorships or substantial shareholdings in other entities as at 31 December 2021.

Risk Management

Seylan Bank undertakes risk management with the primary aim of adopting and advocating an enterprise-wide approach towards the management of risk. The Bank takes a holistic approach towards risk management which enables both the pursuit of business objectives and the fulfilment of stakeholder expectations efficiently and effectively while withstanding the evolving challenges in the external environment.

The risk management process provides a cohesive structure and framework to identify, assess, prioritise and manage the current and inherent risks of business activities. The risk management process is designed to embed risk management behaviours within every aspect of the Bank's operations in such a way as to fit the complexity and size of the organisation while allowing for sustainable future growth. Additionally, the Bank has also developed a Risk Governance Framework which underpins the risk culture of the Bank as a means to safeguard the environment in which risk management can exist and prosper.

The Three Lines of Defence

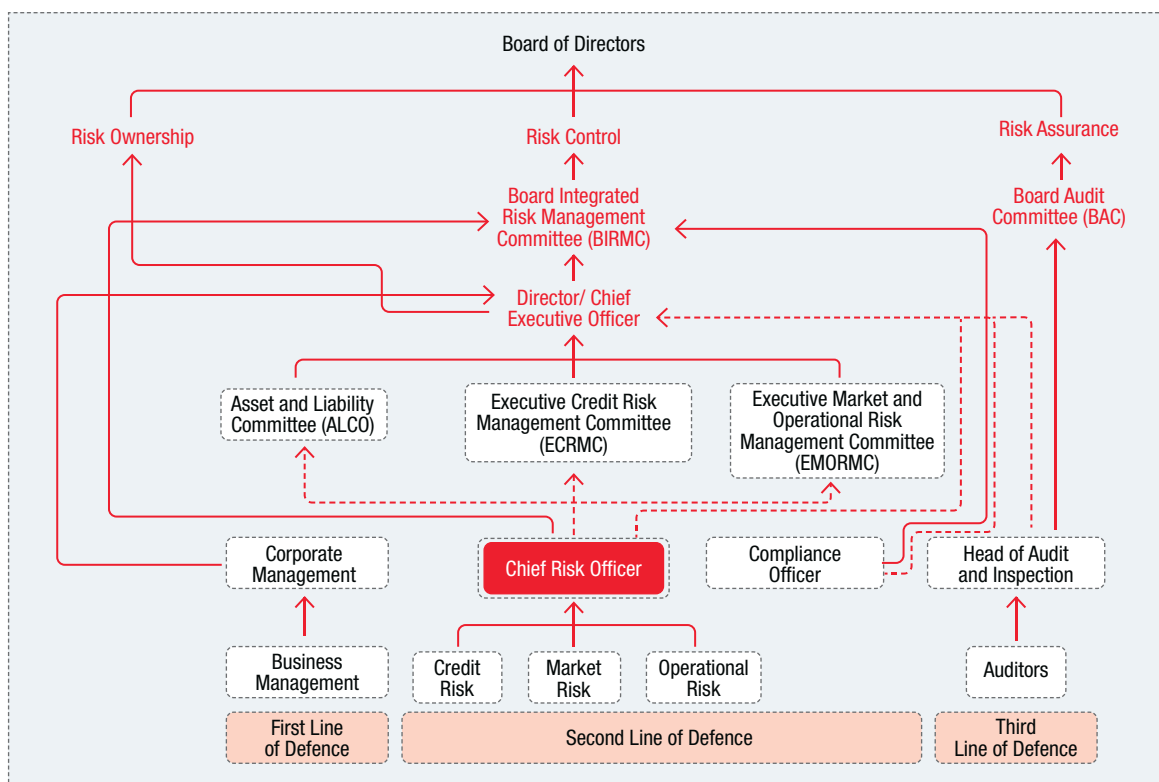
Seylan Bank manages its business risk using the 'Three Lines of Defence' model. This approach ensures that each employee is fully aware of their responsibilities in management of risk, irrespective of whether their role is in a commercial, policymaking or control function. The Three Lines of Defence approach also ensures that risk management responsibilities are properly aligned to strategic plans and corporate objectives, thereby directing the actions of all employees who must perform an important role in the risk management process.

The first line of defence includes the branches, business units and departments which are responsible for managing the risks related to day-to-day operations. The Director/Chief Executive Officer and the Corporate Management team are responsible for managing and steering the relevant business units which ensures proper risk management and controls are adhered to and complied with.

The second line of defence is a separate but integral part of the first line of defence. The second line ensures that risks are appropriately identified, monitored, assessed and managed. The second line is established mainly at the Head Office but works hand in hand with the business

units to ensure business operations are carried out with due diligence and in a risk mitigated environment. The second line of defence is comprised of the Risk Management Unit and Compliance Department, with responsibilities to create and maintain the corporate risk governance framework, risk management systems and the policies and procedures which provide the boundaries within which business activities will be carried out. The second line also performs the risk control function. The third line of defence is the Internal and External Audit functions which provide an independent and objective assurance of the Bank's corporate governance and internal control systems and processes. This includes the effectiveness and efficiency of the internal controls in the first and second lines of defence.

This approach to managing risk has enabled the Bank's risk management function to evolve and become stronger over the years while complying with local and global best practices in risk management. It has supported the development of risk management policies and procedures which are adaptable to emerging trends in the operating environment while taking into consideration business needs as well as regulatory requirements and recommendations.

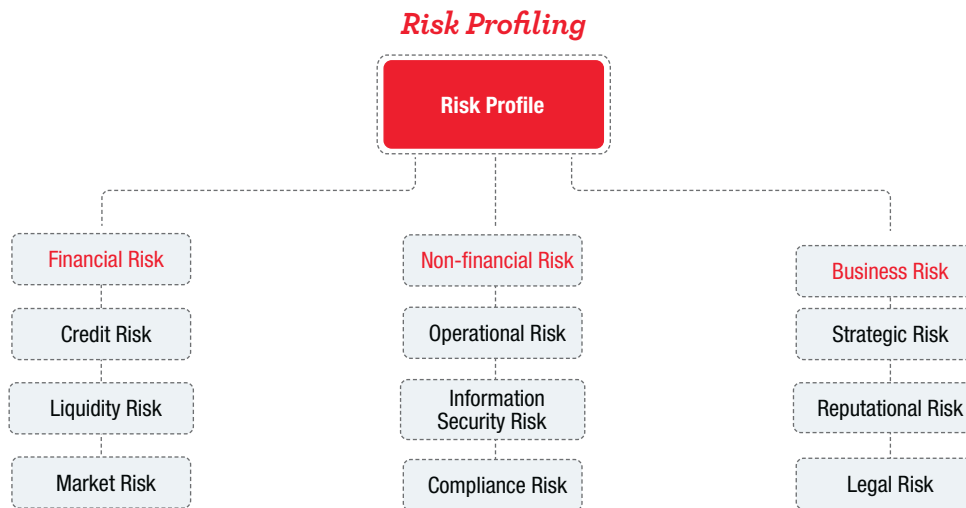


Risk Management

Risk Culture

The risk management culture is embedded within the larger organisational culture. The essence of our mission and business model supports to mitigate the risks and seek opportunities allowing the Bank to develop a resilient business that is able to play its part in the sphere of banking in a more diverse, sustainable and transparent manner.

In addition, our internal governance structure provides a sound basis to enable an effective risk culture; the 'Three Lines of Defence' model in particular, ensures merging of responsibilities across the organisation in terms of business, risk and compliance; and internal audit ensuring each employee understands the boundaries of their responsibilities and how their position fits into the organisation's internal control and risk management framework. This also relates to the aspect of segregation of duties, which is an important element of the internal governance and organisational structure. The Board Integrated Risk Management Committee (BIRMC) performs its 'oversight' role by setting the 'Tone at the Top'. They lead in the development of the key elements of the internal control and risk management framework, including setting of risk appetite, strategy, targets, values and company culture, approval of risk and compliance frameworks, overall policies and the approval of internal control system over financial reporting.



The main Board has delegated decision-making authority to the following risk committees at a central level:

Financial Risks

The financial risks of the Bank are denoted by Credit Risk, Liquidity Risk and Market Risk

- **Credit Risk** – *The Executive Credit Risk Management Committee (ECRMC) manages the credit process throughout the Bank. It also formulates clear credit policies and makes recommendations for the Board approval. The ECRMC ensures that the Board of Directors and the BIRMC have all the credit risk related information needed for decision making. However, it is the Board Credit Committee (BCC) that has the authority to review and where appropriate, approve credit facilities and recommend them to the Board of Directors which is the final approving authority.*
- **Liquidity and Market Risk** - *The Asset and Liability Committee (ALCO) has authority to decide on acceptable exposures and how to manage market, interest rate and liquidity risks, while BIRMC is appraised with information for decision making, the final approval is with the Board.*

Non-Financial Risk

- *The Executive Market and Operational Risk Management Committee (EMORMC) has the authority to oversee and approve on all Operational Risk, Information Security Risk, Market and Liquidity Risk and Compliance Risk matters related to the Bank's business activities.*

The committee is responsible to co-ordinate the processes of implementing and managing the effectiveness of Operational Risk Management Policies, Information Security Risk Management Policies and Market Risk Management Policies which are formulated and approved by the Board Integrated Risk Management Committee (BIRMC)/Board.

The Organisational Structure clearly defines the roles and responsibilities of the executives involved in managing risk, the risk appetite, strategy and related risk limits for non-credit risks for approval by the Board Integrated Risk Management Committee (BIRMC)/Board taking into account the Bank's Corporate Plan.

- *The New Product Development Committee has the authority to recommend new products and are responsible for reviewing updates and changes to existing products.*

Business Risk

- *In addition to the financial and non-financial risks, the BIRMC has the authority to review the strategic and reputational risks of the Bank and take necessary decisions.*
- *The committee is chaired by an Independent Non - Executive Board member and ensures consistent decision making on material risks of the Bank's wider strategy including business risk and any other risks that may have adverse effects on the Bank's sustainable operations.*

The Risk Appetite Statement

The risk appetite outlines the amount of risk the Bank is willing to accept in the pursuit of its objectives. The Bank has set comprehensive and robust risk tolerance limits based on the Risk Appetite of the Bank. The BIRMC/ Board of Directors are responsible for approving the risk appetite limit structure which is reviewed annually to align with business growth and strategy.

The Bank sets risk tolerance limits for its key risk indicators pertaining to credit risk, market risk, liquidity risk, operational risk and information security risk.

Bank-wide Risks	Credit Risk	Market Risk	Liquidity Risk	Operational Risk	Information Security Risk
Target credit rating	NPL ratio - Increase in NPL	Negative Maturity Gap less than one year to total liabilities	Statutory Liquid Asset Ratio for DBU & FCBU	Pawning - Operational Losses	Hacking Attacks & Password Compromises
Capital adequacy	Overdrafts without limits	Government securities to total Int. Bearing assets	Liquidity Coverage Ratio	Non-rectified high risk audit findings	Data Leakages
Profitability	Large exposures to core capital	Market value of equity investments to total Int. Bearing Assets	Advances to Deposit Ratio	Cheque returns	ATM/CDM Downtime
Growth	Specific provision cover to Gross NPL	Net Open Position	Advances to Stable Funds	Fraudulent transactions relating to credit cards	EMV Card Conversions
	Watch list to performing advances	Interest Rate Risk in the Banking Book	Advances to Deposits + Debentures	Customer Complaints	System Vulnerabilities
	Related-party lending to core capital		Funding Risk	Staff Turnover	
	Geographical and industry concentration		Net Stable Funding Ratio	Labour Tribunal Cases	
			SWAP Funding	Cash Shortages	
			External Borrowings	Key Compromises	

The Bank puts forth and follows a comprehensive risk appetite agenda in managing all risks emanating from banking operations. The risk appetite statement takes a holistic view of the way in which risks are managed and mitigated.

Key Risk Indicators of the Bank

		Limit	2021	2020
1	Gross NPA Ratio	7.64%	7.01%	7.49%
2	Gross NPA Ratio (Net of IIS as per CBSL)	6.72%	5.94%	6.43%
3	Overdue +NPA/Total Advances	16.45%	13.17%	18.08%
4	Specific provision/ NPL (Net of IIS)	46.46%	59.08%	36.27%
5	Watch list/Total Performing Advances	9.27%	5.80%	11.94%
6	Performing Overdrafts without limits (LKR Mn)	500	110	171
7	Large exposures (over LKR 500 Mn)/Total capital	8 Times	6.39 Times	6.06 Times
8	Exposures on the Related parties/Total Capital	max of 55%	44.85%	31.43%
9	Open Credit Exposure	Less than 36.06%	21.78%	34.31%
10	Total Government Security Investments to Total Assets (Interest Earning)	Less than 30%	18.50%	20.80%
11	Equity Investment Value(Quoted CSE) to Total Assets (Interest Earning)	Less than 1%	0.43%	0.57%
12	Net Open Position (USD Mn)	+10/-16	-11.51	-1.285
13	Statutory Liquidity Ratio - Domestic Banking Unit	Greater than 21.00%	22.84%	31.31%
14	Statutory Liquidity Ratio - Foreign Currency Banking Unit	Greater than 21.00%	23.30%	22.47%
15	Advances to Deposits Ratio Bank	Less than 97.50%	95.34%	92.96%
16	Advances to Deposits + Debentures	Less than 95.00%	91.31%	89.49%
17	Advances to Stable Funds	Less than 100.00%	94.02%	90.04%
18	SWAPs (USD Mn)	175	117.10	103.75
19	External Borrowings (LKR Bn)	50	10.57	16.55

Risk Management

Managing the Impact of COVID-19

The impact on COVID-19 continued in year 2021, further straining the Sri Lankan economy with a major impact on the banking sector with disruption on branch operations/credit growth/liquidity generation/shortage of foreign currency reserves in the market and additional risk on cyber security.

The COVID management Task Force of the Bank was established in 2020 to closely monitor the situation and to take decisions to ensure uninterrupted service to customers while taking all necessary precautions against the spread and contraction of COVID-19.

Some of the precautionary measures that were taken can be listed as follows;

- To maintain advocated social distancing measures, the Bank enabled the staff to Work from Home (WFH)
- Branches operated within limited business hours/ limited staff in areas which were closed due to COVID infections
- Digital Banking Channels were expedited to enable customers to fulfil their financial obligations without visiting the branches
- Suspension of recovery activities in compliance to regulatory requirements
- A fully fledged dealing room was set up in Nugegoda for Treasury Operations. Treasury staff functioned from both Head Office and Nugegoda site.
- DR site in Borella was also in operation for selected critical departments

As of 31 December 2021, 7.45% of the Bank's loan portfolio was under the Moratorium scheme introduced by CBSL for COVID-19 impacted customers.

The Bank encouraged the staff to get the vaccines available in the country to curtail the spread of virus. By the end of 2021 more than 95% of the staff were vaccinated with both doses. Currently the staff had been requested to obtain the booster vaccine at the earliest.

Banking Act Direction No.13 of 2021 – Classification, Recognition and Measurement of Credit Facilities in Licensed Banks

Central Bank of Sri Lanka issued the Direction on Classification, Recognition and Measurement of Credit Facilities in Licensed Banks dated 14/09/2021. The Direction has been issued with a view to further strengthening and harmonizing the regulatory framework on Classification, Recognition and Measurement of Credit Facilities in Licensed Banks with the Sri Lanka Accounting Standard, SLFRS 9: Financial Instruments and establishing consistent and prudent practices in the Banking industry.

To be in compliance with the Banking Act Direction No. 13 of 2021, the Bank developed and implemented the following Policies, Procedures & Guidelines with effect from 1 January 2022 with the approval of the Board of Directors.

- Procedure and Guidelines on Estimating Impairment Allowance under SLFRS 9.
- Model Validation Policy Document for Expected Credit Loss Model in line with the SLFRS 9 "Financial Instruments".
- Policy on Upgrading/ Downgrading of Rescheduled/ Restructured Facilities.
- Policy on Staging of Credit Facilities under Stage 2 & Stage 3 due to Significant Increase in Credit Risk (SICR) and the Rebuttals.
- Policy on Write off/ Write down of Non performing Advances.

Need for Monitoring of Credit Facilities

Once when credit facilities are granted to the worthy clients after a careful credit evaluation, the Lending Officers need to recognize the importance of closely monitoring the relevant credit exposures during the total tenor of the facilities to ensure that such credit facilities remain in the Performing Category to derive the expected financial benefits to the Bank. If not properly monitored the possibility of any credit facility later getting classified under the "Under Performing Credit Facilities - UPCFs (Stage-2)" or "Non-Performing Credit Facilities – NPCFs (Stage-3)" is more and such deterioration in the credit exposures will generate many adverse impacts.

Noting the importance of closely monitoring the credit facilities and to take timely corrective action to prevent slippage of such facilities in to the "Under Performing" or "Non Performing" categories, the Bank has already made arrangements by issuing internal guidelines to effectively establish a strong mechanism to monitor the Early Warning Indicators [EWIs] and SICR factors across the Bank's network and to take required remedial measures in time.

Monitoring of Early Warning Indicators

As part of our Bank's efforts in automating the monitoring of the EWIs which are based on the account conduct of the clients, the Business Intelligence Unit is currently in the process of developing the required Data Bases/System Query Reports to identify the credit exposures that have triggered off EWIs. These System Query Reports will be made available to the Lending Units from the 1st Quarter of 2022 at monthly intervals for necessary follow up action.

Managing Credit Risk

Credit risk is defined as the risk of a potential loss to the Bank, when a counterparty fails to perform on an obligation, in accordance with the agreed terms; or its ability to perform such obligation is impaired resulting in a loss to the Bank. In essence, the proper management of credit risk underpins a Bank's financial stability, growth prospects and profitability and as such Seylan Bank has developed a well- structured credit risk management process in order to maintain the quality of the credit portfolio of the Bank at an optimal level.

Accordingly, credit risk is managed through a comprehensive framework which includes well- defined policies and procedures comprising clearly structured approval hierarchies and different committees to oversee various aspects of credit risk management processes. In addition, the Bank manages its credit exposures through diversification strategies across products, geographies, industries and customer segments.

The Bank's Credit Standards and Policy Manual outlines the fundamental standards and disciplines that must be implemented to actively manage credit risk across our lending book. The Lending Guidelines conversely outlines the Bank's strategic risk/reward objectives in the light of evolving market conditions by clearly setting out the preferred industries and lending types to be targeted for lending growth during each calendar year.

These standards, policies and guidelines lay down key roles and responsibilities of those required to originate, identify, analyse, rate, review, price, report, diversify, control/mitigate and manage credit risks and are applicable to all lending activities undertaken by the Bank.

In addition to setting up exposure limits for individual customers, the Bank manages counterparty credit exposures, using the 'one obligor principle', so that all facilities to a group of borrowers wholly or substantially owned or controlled by common or related parties are aggregated and evaluated together under the coordination of a designated lead relationship manager.

The monitoring of credit concentration is an integral part of the credit risk monitoring process at Seylan Bank. Accordingly, the Bank constantly reviews its credit concentration on a number of areas such as geography, product type, industrial sectors and maturity. Close monitoring of key ratios/internal thresholds on a continuous basis and stress testing of the credit portfolios form another strategy to measure and monitor the credit concentration risk of the Bank's loan portfolio.

Additionally, the Bank's credit risk management strategy includes identifying emerging customer risks which can impact on business activities well in advance. This ensures that the credit facility or the relationship returns the expected profitability while the close monitoring of the usage of working capital facilities to prevent diversion of funds into unintended areas ensures timely repayment of the facilities.

Assessment of Credit Risk

In order to grow the Bank's loan book through high quality loans and advances, there is a clear segregation of duties between transaction originators in business areas and approving authorities under the risk function. All credit exposure limits are approved within a well-defined credit approval authority framework. Credit risk evaluation and approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers entrusted with the higher levels of delegated authority. All high value credit propositions above a certain threshold level are approved by the Internal Credit Committee, Board Credit Committee, or the Board of Directors; as relevant.

The Bank has delegated credit approval authority to individual lending officers based on a consistent set of standards such as experience, judgement and ability. These authority levels are subject to review annually. If an individual lending officer's authority is insufficient to establish, materially change, or restructure the required credit limits; the proposals are escalated to an officer or committee having the required higher delegated authority. In addition, the individual credit exposure limits of customers are subject to a critical review annually and require the approval at the appropriate authority level. Managers recommending, reviewing, or approving facilities are held accountable for the outcome.

Credit Risk Mitigation

In mitigating credit risk, the Bank primarily relies on a rigorous assessment of credit applicants, the strength of their business model, sustainable financial conditions and our ability to meet their current and future financial requirements. Further, the lending proposals are typically required to show more than one independent credible source of repayment. The primary source is established through a conservative evaluation of whether the borrower's realistic projected cash flows will be sufficient to repay their debts. The Bank normally requires this to be supported by at least one alternative way of settling the debt in the event of unforeseen adverse circumstances, but firmly believes that the availability of collateral does not in itself make an unacceptable lending proposition acceptable.

In instances where the Bank accommodates highly reputable and financially strong corporate borrowers whose performance is regularly and rigorously reassessed on the basis of reliable financial information;

we exceptionally grant facilities on an unsecured basis solely based on their cash flows.

The Bank uses various techniques and controls to limit and mitigate credit risk exposures and reduce potential credit losses. These include documenting credit transactions with adequate terms, conditions and covenants in a comprehensive and legally enforceable basis; and obtaining of guarantees, financial or other collaterals to provide a secondary recourse to minimise credit losses. Such guarantees serve to mitigate the inherent risk due to credit default and minimise any related losses by either substituting the borrower default risk or improving recoveries.

The Bank nets off collateralised cash deposits against the on- balance sheet non-performing advances in the instances where the relevant documentation which is legally binding on all parties and enforceable across all jurisdictions are available.

In the standardised approach, collateral recognition is limited to eligible financial collateral such as gold only, but this approach provides a preferred (lower) risk weight for 'SME exposures secured by immovable property' and 'claims secured by residential property'. Though the Bank relies on the individual and corporate guarantees in granting credit facilities, the Bank has not relied upon any credit derivative instruments to transfer the credit risk assumed on customers.

Collateral impairment haircuts are applied to security valuations, based on conservative and predetermined Loan/Collateral ratios in compliance with the Banking Act Direction No. 03 of 2008, "Classification of Loans and Receivables, Income Recognition and Provisioning"

Non-performing advances by collateral type (net of IIS)

Collateral type (Secured)	2021	2020
	LKR '000	LKR '000
Cash/Shares	172,528	690,689
Clean	8,054,328	3,921,257
Immovable property	14,790,237	17,017,522
Movable assets	1,107,447	963,259
Other Securities	3,552,725	3,750,189
Pawned articles	27,305	22,608
Grand Total	27,704,570	26,365,524

Risk Management

Monitoring, Reporting and Disclosure of Credit Risk

Respective Business Unit Heads are primarily responsible for monitoring the performance of their lending to ensure that the Bank's credit portfolio profitability and lending quality objectives are achieved. Credit risk management uses a comprehensive range of quantitative tools and Bank-wide credit limits to monitor lending, contingent commitments and other off-balance sheet exposures, profitability, quality trends and concentrations and identifies whether the Bank is growing undue exposure concentrations and whether credit risks are adequately remunerated. The Risk Management Unit makes recommendations for suitable amendments if required, after reviewing the existing credit policy framework.

The Chief Risk Officer (CRO) reports these concentrations regularly together with his recommendations for corrective actions to the ECRMC and escalates the significantly important matters to the attention of the BIRMC. This rigorous process enables the Board of Directors to oversee the Bank's credit risk exposures, ensuring that the Bank quickly identifies emerging risks and risks that are not aligned with the Board approved credit risk appetite while initiating timely corrective measures.

Loan Review Mechanism

In line with the Banking Act Direction No. 07 of 2011 under the "Integrated Risk Management Framework", the Bank has adopted a Loan Review Mechanism (LRM) which stands as an effective tool for constantly evaluating the quality of the loan book and bringing about qualitative improvements in credit administration.

Under the purview of the CRO, the Credit Risk Review Unit conducts independent risk reviews of high value loans (LKR 500.0 Mn and above)/ small and mid-tier facilities (through Regional Risk Officers)/product portfolio reviews. Independent risk reviews are conducted within three months of sanction/renewal of facilities covering at least 30%-40% of the loan portfolio within a calendar year.

For the year 2021, the Credit Risk Review Unit has performed a total of 508 reviews to the value of LKR 153.9 Bn which covers 31.5% of the Net Loans and Receivables of the Bank.

The main focus of the independent risk reviews is on the approval process, accuracy and timelines of credit ratings assigned by loan officers, adherence to internal policies and procedures, applicable laws/regulations, compliance with covenants and conditions, post sanction follow-up, sufficiency of documentation and portfolio quality.

The findings of the reviews and the recommendations for improving the portfolio quality are presented to the ECRMC and to the attention of the BIRMC.

Qualitative Disclosures

Definition of Past due and Impaired Based on CBSL Guidelines

A Non-Performing Loan is any loan that is 90 days or more past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- *Loans renegotiated before 90 days past due and on which no default in interest payments or loss of principal is expected.*
- *Loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation and against which no loss of principal is expected.*

Impaired Loans comprise both individually and collectively identified loans for the assessment of impairment allowances. These loans also include collateralised loans or loans where indebtedness has already been written down to the expected realisable value. This category includes all loans that have been transferred to legal/recovery departments. The impaired loan category may include loans, which, while impaired, are still performing. The accruing past due 90 days or more loan category comprises loans that are 90 days or more past due with respect to principal or interest. An impairment allowance will be raised against these loans, if the expected cash flows discounted at the effective interest rate are less than the carrying value.

The Impaired and Restructured Loans category comprises loans which are not included above, where for economic or legal reasons related to the debtor's financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results in the expected cash flows discounted at the effective interest rate being less than the loan's carrying value, an impairment allowance will be raised.

Approach on Individually Significant and Collective Loan Loss Provisioning

The Bank's loan loss provisions are established to recognise impairment losses incurred either on specific loan assets or within a portfolio of loans and receivables.

Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high volume groups of homogeneous loans that are not considered individually significant. Individually impaired loans are those loans against which individual impairment provisions have been raised.

Estimating the amount and timing of future recoveries involves significant judgement and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the Statement of Financial Position date is determined on a portfolio basis and considers Expected Credit Loss (ECL) experienced as a result of uncertainties arising from the economic environment and defaults based on portfolio trends. Under SLFRS/LKAS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary. Impairment allowances are measured individually for assets that are

individually significant and collectively where a portfolio comprises homogeneous assets and where appropriate statistical techniques are available.

As per SLFRS 9, calculation of the impairment has been assessed and disclosed based on Stages 1, 2 and 3 of the portfolios and such disclosures are explained in Note 25 of Financial Statements.

Credit Risk

Concentrations with Limits

Credit concentration risk may arise where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in the inability to meet contractual obligations being similarly affected by changes in economic or environmental conditions. Concentration risk is mitigated to a large extent by stipulating prudent credit risk limits on various parameters. CBSL also has

specified certain guidelines on maximum exposures in respect of single/related party borrower limits and large exposures.

Related Party Lending

Related parties include the Major Shareholders, Subsidiary Directors and Key Management Personnel of the Bank and their close family members (CFM). The Bank has set an internal limit on the overall exposure to the related parties and ensures that credit decisions are made on a rational basis, as per the relevant legislation, approved policies and procedures; and is based on market terms, with no preferential treatment.

Over Exposure to Geographical Areas, Economic Sectors and Lending Products

Exposure to a single sector of the economy or lending product or to a narrow geographical region is another dimension of risk concentration. Borrowers may be vulnerable in the event of an economic or market downturn affecting their economic sector, which in turn can affect their ability to service the loans. In order to mitigate this risk, the Bank sets individual concentration limits for exposure to various sectors. The Bank closely monitors the quantum and quality of lending by geography (area).

Quantitative Disclosures

Credit Exposure by Product Types as at 31 December 2021

The core banking products such as term loans and overdrafts account for more than 70% of total advances. The specialised products are closely monitored to mitigate inherent risks. Refer Note 25 in financial statements.

Age analysis of non-performing loans by product distribution 31 December 2021 based on CBSL Directions

Loan Category	3-6 months NPA: Special Mention	6-12 months NPA: Substandard	12-18 months NPA: Doubtful	18 months and above NPA: Loss	NPA Grand Total
	LKR (000)	LKR (000)	LKR (000)	LKR (000)	LKR (000)
Credit cards	25,551	53,106	48,506	168,633	295,796
Housing	218,461	245,497	191,343	1,180,069	1,835,371
Leasing	222,452	156,018	91,141	637,836	1,107,447
Overdraft	211,359	517,024	662,704	4,439,004	5,830,092
Pawning	-	-	-	27,005	27,005
Staff Term Loans	1,528	7,123	2,116	26,266	37,034
Term Loans	310,609	1,284,832	2,746,353	11,573,937	15,915,730
Trade Finance	243,868	935,481	630,769	845,978	2,656,095
Grand Total	1,233,828	3,199,081	4,372,932	18,898,728	27,704,570

Credit Risk Management Outlook for 2022

- Commencing 2022 the Bank has made arrangements to improve the credit risk management ecosystem by implementing an internally developed Early Warning System (EWS). As the first step internally available quantitative data will be captured from the clients' accounts. Going forward relevant quantitative data too will be used in this System to take pro-active measures to prevent accounts being classified especially under stage 2 and stage 3 due to significant increase in Credit Risk.
- The Bank has obtained professional expertise to validate and further develop the internal customer rating models and score cards so that these models can be used for Risk Based Pricing/SLFRS 9 Impairment calculation in the future.
- The Customer Credit Risk Rating system will also be revamped to reflect the financial and non-financial data which is required to generate an effective and reliable customer rating.

Managing Market Risk

Market Risk is the risk taken in relation to price fluctuations in the financial markets which would have an adverse impact on the trading exposures and the foreign exchange Net Open Exposure as well as the risk that

would impact the on-balance-sheet and off-balance-sheet risk triggered by interest rate fluctuations.

Market Risk is the risk where market value of portfolios, instruments or investments increase or decrease as a result of volatility

and unpredicted movement in market factors such as exchange rates, interest rates and prices. Several types of risk may arise due to market volatility in prices and interest rates and the Bank manages and monitors these risks diligently.

Risk Management

Policy and Responsibility

The Board of Directors defines the overall policies / limits for the market risk exposures. The limits on market risks are defined giving due consideration of the risk they imply and how they match the Bank's strategic plan. On behalf of the Board, the Risk Committee (EMORMC) and ALCO are responsible for managing the market risk in the Bank's major business areas especially Treasury. In the first line of defence; Treasury is responsible in monitoring and managing the Bank's market risks and positions. Business Units are closely monitored for their market risk operations but is managed and monitored under the Treasury exposures. The Risk Management Unit (RMU) reports market risks to ALCO on a monthly basis. RMU also reports to EMORMC and to BIRMC on a quarterly basis the risk monitoring process for the information and necessary direction of the Corporate management and the Board.

Treasury Middle Office

Treasury Middle Office (TMO) is the arm of the Market Risk Unit which oversee and monitor the controls put in place by the Board of Directors for Market Risk management on a daily basis.

Some of the monitoring tools set by the Management and Board which enables TMO to adopt a stringent monitoring mechanism includes but is not limited to;

- *A set of limits to ensure that risk-takers do not exceed the aggregate risk and concentration parameters set by the Board. Limits are proposed for business units and risk sources by the management and is Board approved.*
- *Online and real time monitoring of Treasury dealing and trading through the dynamic Treasury Risk Management System*
- *Independent mark-to-market valuation, reconciliation of positions and tracking of stop losses for trading positions on a timely basis.*
- *Independent valuation models, such as the Value at Risk (VaR) Modules using the following*
 - a. *Variance-covariance method*
 - b. *Historical simulation method*
 - c. *Structured Monte Carlo method*
- *A process for assessing the risk of new products.*

Stress Testing

Stress testing is an integral component of our risk and capital management framework. It allows the Bank to assess potential vulnerabilities to the business, models or portfolios. It also helps to understand the sensitivities of the core assumptions in our strategic and capital plans; and improve decision-making through balancing risk and return.

In addition to internal stress test scenarios reflecting the outcome of the annual risk assessments, the Bank also performs regular stress test exercises taking into consideration external stress test scenarios for management insight and timely decision making.

The stress tests are generally carried out applying static balance sheet assumptions either at a close of a month, quarter or the end of a financial year.

The result of the stress test reaffirms the resilience of our business models and the strength of the Banks capital base. Our commitment to maintain a robust, Capital Adequacy Ratio (CAR) in excess of the prevailing requirements as well as to minimise Earning at Risk remains.

The Bank possesses a comprehensive Stress Testing Policy which outlines various scenarios and sensitivity analysis to measure the stress levels of exposures of Market and Interest Rate Risk as well as Liquidity Risk scenarios which covers the Bank Specific Risk Impacts and Systemic Risk Impacts which the Bank would have to proactively manage.

Likely effects from changes in holding Value of Exposures as at 31 December 2021 (LKR' 000)				
	Carrying Value '000	Subject to Stress	Impact on Earnings	% Impact on Capital
Equity risk	2,402,958	2,162,663	(240,295)	(0.02%)
Exchange Rate Risk	(2,312,946)	(2,081,651)	(231,295)	(0.02%)
Trading Interest Rate Risk (PVO1-T/Bonds)	1,002,626	960,037	(42,589)	0.00%

- *All share prices fall by 10%.*
- *All currencies change by 10%*
- *Upward parallel shift of the yield curve of 100 bps*

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) arises principally from mismatches of assets and their funding cost (deposit liabilities) as a result of interest rate changes. The aim through the management of IRRBB is to mitigate the effect of prospective interest rate movements that could reduce future net interest income, while balancing the cost of such hedging activities on the net revenue stream. In most instances, the contractual terms of products differ due to customer behaviours. For these products, assumptions are used on behavioural analysis to allow more accurate and feasible risk management techniques to be adopted.

The Bank considers the IRRBB as an essential tool to monitor the risk of product repricing and the impact it has on Earnings as well as Equity.

For structural interest rate risk, the primary focus is achieving a desired overall interest rate profile which may change over time based on management's longer term view of interest rates and economic conditions.

The Bank manages the interest rate risks primarily through interest sensitive asset and liability repricing gap analysis, which distributes rate sensitive assets and liabilities into the relevant repricing maturity buckets. Board defined limits are in place for interest rate gaps and positions, which are monitored on a periodic basis to ensure compliance to the prescribed limits.

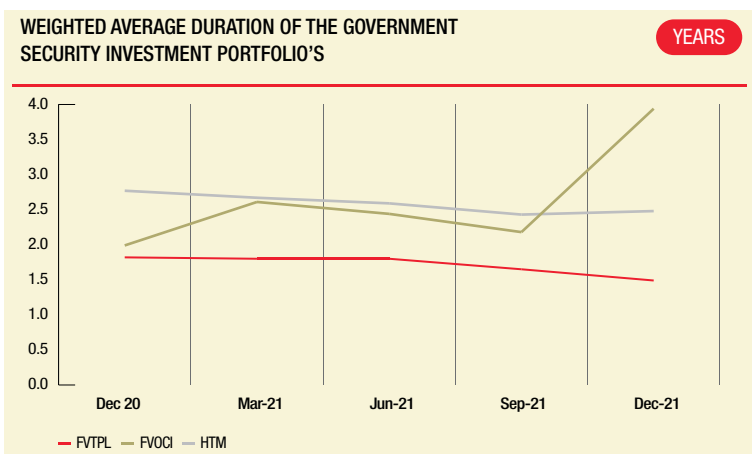
The economic conditions in the country saw a downturn during the financial year. However, monetary policy measures ensured that increase in interest rates were mostly regulated. Despite weak economic growth, policies were made to keep rates down. This led to a growth in credit and broad money which also saw inflationary pressure. However, during the second half of the year the economy experienced most price controls being lifted which also led to more successful Treasury Bill and Bond auctions which in turn saw interest rates rising gradually during this period.

As a result of these economic conditions, the Bank was able to manage the re-pricing risk; when the liabilities in the shorter tenors were repriced at lower interest rates enabling the Bank to prudently manage the Nil.

Portfolio Interest Rate Risk

The Bank’s policy is to invest mostly in Government Securities such as Treasury Bills and Treasury Bonds to meet the liquidity requirements of the Bank and for trading purposes. As a consequence, the Bank holds a large portfolio of Government security Treasury Bills and Bonds as well as a considerable portion of SLDBs and ISBs. As a result, the Bank is exposed to the Interest Rate Risk of these portfolio’s which is strategically managed and close monitoring takes place to avoid adverse impact to Capital and Earnings.

The following graph represent the weighted average duration of the Government Security portfolios during 2021:



The Bank adopts a monthly Earnings at Risk (EaR) methodology that estimates the Bank’s interest rate risk of the balance sheet, with a given level of confidence, over a one-year horizon. The EaR considers all pertinent risk factors and covers all financial instruments which expose the Bank to interest rate risk across nearly all product groups.

Mostly the interest rate risk is measured as the effects of a percentage point parallel shift of the yield curve. The analysis depicted in page 178 represents a change in annual net interest income with the rate change by (+/-) 100 and 200 bps and the balance sheet, presumed to be stable, assumes that the rate sensitive assets and liabilities are bucketed on their reprising maturities, or failing which, on their contractual maturities or assumed maturities.

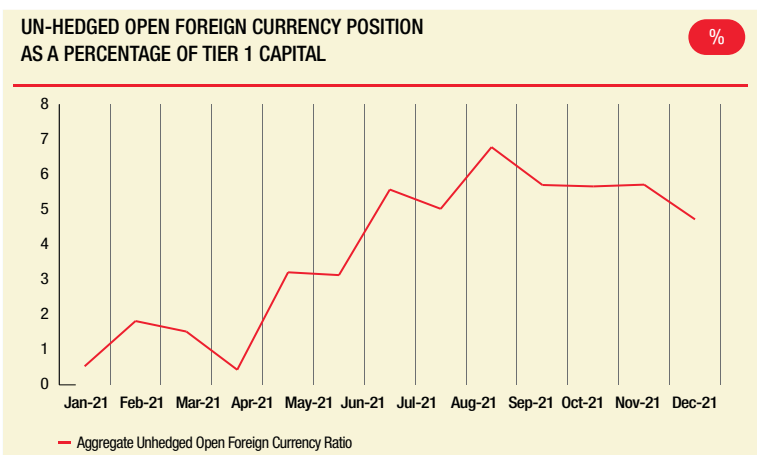
Exchange Rate Risk

The Bank considers that assets and liabilities in other currencies denote an exchange rate risk as they may vary in value over time relative to LKR. The Bank’s core business as a commercial bank makes it necessary to have access to foreign currencies and to hold positions in the most common currencies.

currency exposures applying individual currency limits and the overall exposure is managed within the Net Open Position (NOP) limit defined by the regulator. Individual and cumulative intraday limits, daylight limits and overnight limits are defined for the treasury

dealers to operate within these boundaries to mitigate the risk stemming through these exposures.

The foreign exchange risk is monitored



Share Investment Risk

The Bank’s risk policy restricts equity positions to listed shares; invested for trading purposes and invested for strategic reasons. The Bank also holds unlisted shares made for reasons such as investing in shares of unlisted banking related companies. These are mainly investments in companies providing financial infrastructure and financial services to the Bank. For some of these investments, the holding is revalued yearly according to the net worth of the companies.

The management of the price risk of equity investments is the responsibility of the Treasury Unit with oversight of the Treasury Investment Committee. The Market Risk Management Unit acts independently in monitoring and reporting the Share Investment Risk and is responsible for reporting the impact on earnings on a daily basis to the Treasury Investment Committee and the impact on earnings and regulatory capital on a monthly basis to ALCO and EMORMC and subsequently to BIRMC.

and reported to the respective management heads daily and is discussed at the ALCO on a monthly basis or more frequently as the need arose given the market conditions which saw a shortfall in foreign exchange during the year. The foreign exchange risk limits are agreed and approved by the Board of Directors.

The Bank’s exchange rate risk mainly stems from:

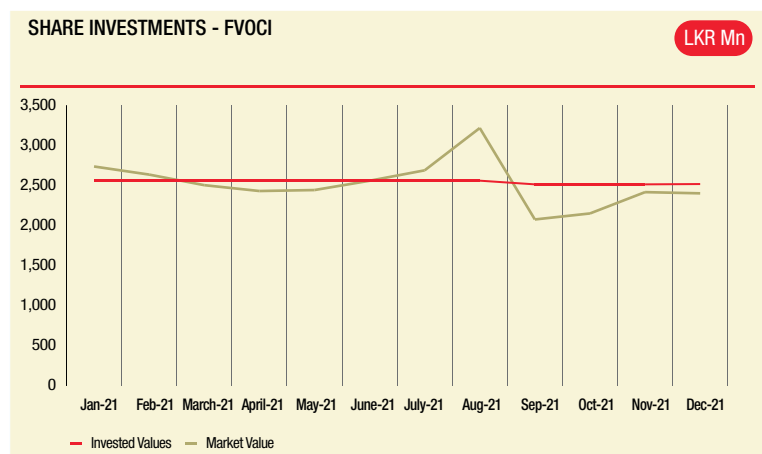
- Customer loans/deposits in foreign currency and
- Treasury’s positions in foreign currency

Given the uncertainty of currency fluctuations, the Bank’s policy is to maintain a low foreign currency exposure. However, on certain days the Bank was compelled to maintain the Net Open Exposure at maximum levels due to the scarcity of foreign exchange conversions which prevailed in the market throughout the year. Even so, the Bank was successful in meeting customer needs to the maximum level as well as to maintain the NOP at regulatory levels.

The following graph presents the NOP as a percentage of the Tier 1 Capital during the year 2021:

Risk Management

The graph represents the investments in shares and the behaviour of market values of the share investments in the FVOCI portfolio during the year 2021:



Value At Risk

While managing risk has always been an integral part of the Bank, risk management using global standards is always given priority and emphasis. As such the Bank acquired a Market Risk System which help the Bank to measure and Monitor risk using the Value at Risk (VaR) approach which enables the Bank to manage and mitigate market risk with a forward looking approach using historical trends and performance of prices and exchange rates.

The Bank mainly use the Historical simulation, where the VaR is computed on a daily basis, at a 99th percentile confidence interval and a price shock to a 10-day movement in prices is being used. The historical observation period is a minimum length of one year or 250 business days.

By measuring the risk exposures through the VaR methodology, the Bank aims at moving to the Internal Model Approach in managing and calculation of the Capital Requirement as per Basel standards. In order to meet these standards, the Bank sought professional expertise to do an independent Model Validation of the VaR Models as well as the Back Testing approaches available in the models.

Managing Liquidity Risk

Liquidity risk is the risk that the Bank either does not hold sufficient financial resources to meet our obligations as they fall due or can only access these financial resources at an excessive cost.

The Bank's policy is to maintain adequate liquidity at all times to meet local currency requirements and for all other major currencies and hence to be in a position to meet obligations as they fall due. The Bank manages liquidity risk both on a short-term and medium-term basis. In the short-term, our focus is on ensuring that the cash flow demands can be met when and where required. In the medium term, the focus is on ensuring that the balance sheet remains

structurally sound and aligned to the Bank's long-term strategy.

ALCO is the responsible governing body that oversees the Bank's liquidity management policies. The Treasury receives authority from ALCO which is responsible in managing the liquidity positions of the Bank. Liquidity is managed within the pre-defined liquidity limits approved by the Board and in compliance with internal liquidity policies and practices, as well as and external regulatory requirements. The Treasury proposes strategies in managing liquidity risk, while RMU is instrumental in setting up and overseeing the implementation of policies and other controls relating to liquidity risk.

There have been occasions where exceptional market events have had an impact in the management of liquidity, thereby slowing down the pace in the Bank's ability to manage liquidity risk to the full potential. However, under the current COVID-19 pandemic situation, the Bank was able to manage liquidity risk at satisfying levels and achieved high liquidity buffers, even though regulatory measures were taken to once again increase the SRR from 2% to 4% since 19th August 2021 which led to an absorption in excess liquidity in the market.

Control and Management

The Bank considers tapping available sources of liquidity, preserving necessary funding capacity and continuous contingency planning as the essential ingredients in managing liquidity risk. Liquidity targets are maintained to ensure that even under adverse conditions; funds are available to cover customer needs, maturing liabilities and other funding requirements.

Deposits represent the Bank's principal source of funding. Our well-diversified retail deposit portfolio represents a large portion of our funding concentration while a

portion of hot money has been raised from corporate and institutional customers. The Bank raises funds, locally or globally, which includes repurchase agreements and money market instruments.

To mitigate uncertainties, in the customer behavioural patterns, the customer deposit base is diversified by type and maturity levels. In addition, the Bank has in place a contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Measurement and Management of Liquidity Risk

The Bank's liquidity strategy, including policies and procedures for measuring, managing and controlling liquidity, helps to fulfil the objectives of maintaining sufficient sources of liquid funds to meet funding obligations as they come due. The strategy, policies and processes are designed to ensure that the Bank is in a position to fund all obligations across planned time horizons, during both normal operations and under stress situations.

The policies and procedures outline appropriate early warning indicators to alert the bank to a pending liquidity issue through a number of prudential ratios and funding concentration levels. Measuring liquidity risk is key to ensuring liquidity issues are identified timely.

In terms of measuring liquidity, Basel III introduced two minimum standards for measuring adequate funding and liquidity in stress situations. The Bank ensures to measure and manage liquidity risk as per these Basel III standards and requirements.

The liquidity coverage ratio (LCR), shown in the table on page 133 under Basel III computation of liquidity coverage ratio enables the Bank to measure the short-term resilience of the Bank's liquidity risk profile by ensuring that the Bank has sufficient high-quality liquid assets (HQLA) to survive a stress scenario lasting 30 days. The Net Stable Funding Ratio (NSFR), shown in the table on page 128 under Key Regulatory Ratios also enables to reduce the funding risk over a one year time horizon by requiring the Bank to fund activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

As envisaged in the ALM policy, while the Liquidity Risk is managed through the stock approach, liquidity risk is also managed through the traditional flow approach better known as the 'Gap Analysis' based on the residual maturity/behavioural pattern of assets and liabilities as prescribed by the CBSL and against prudential (tolerance) limits set for different residual maturity time buckets. In addition to the contractual

maturity mis-matches the Bank mostly concentrate on the behavioural patterns of the assets and liabilities which give a more realistic scenario to the asset and liability mismatches.

The Maturity Gap Based on Behavioural Analysis is depicted in the following table

Category	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total as at 31.12.2021
		LKR (000)	LKR (000)	LKR (000)	LKR (000)	LKR (000)
Interest Earning Assets						
Loans & Advances	155,527,397	93,001,899	94,586,347	51,179,962	47,681,057	441,976,662
Placements with Banks and Finance Companies	8,246,909	-	-	-	-	8,246,909
Government of Sri Lanka Treasury Bills/ Bonds, Development and Sovereign Bonds	9,608,882	19,977,751	51,406,366	6,309,739	11,102,548	98,405,286
Investments in Debentures	23,988	33,250	341,487	66,500	432,146	897,371
Securities Purchased under Resale Agreements	10,029,031	-	-	-	-	10,029,031
	183,436,207	113,012,900	146,334,200	57,556,201	59,215,751	559,555,259
Non Interest Earning Assets						
Cash In Hand	9,193,840	-	-	-	-	9,193,840
Balances with Central Bank of Sri Lanka	2,118,998	2,072,801	867,450	1,771,412	1,895,173	8,725,834
Balances with Banks	6,885,214	-	-	-	-	6,885,214
Investments in Equities	-	2,735,210	-	-	1,153,602	3,888,812
Group Balances Receivable	-	40,000	-	-	-	40,000
Property, Plant & Equipment/ Intangible Assets/Right of Use Assets	-	-	-	-	9,673,986	9,673,986
Assets Held-for-Sale	-	-	-	-	-	-
Deferred Tax Assets	-	-	-	-	-	-
Derivative Financial Instruments	290,141	-	-	-	-	290,141
Other Assets	9,322,264	27	1	94	1,439	9,323,825
	27,810,457	4,848,038	867,451	1,771,506	12,724,200	48,021,652
Total Assets	211,246,664	117,860,938	147,201,651	59,327,707	71,939,951	607,576,911

Liabilities & Equity

Category	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total as at 31.12.2021
		LKR (000)	LKR (000)	LKR (000)	LKR (000)	LKR (000)
Interest Bearing Liabilities						
Financial Liabilities at amortised cost due to Depositors	105,521,716	107,712,425	44,976,950	93,505,396	100,316,849	452,033,336
Financial Liabilities at amortised cost due to Debt Securities Holders	2,581,526	80,851	-	-	-	2,662,377
Due to Banks and Other Borrowings	3,997,968	3,804,643	16,709,071	-	-	24,511,682
Debt Securities Issued	606,570	633,605	12,053,280	6,715,000	1,609,000	21,617,455
Group Balances Payable	47,059	3,075	129,000	-	-	179,134
Lease Liabilities	74,655	207,534	537,036	394,620	3,675,753	4,889,598
	112,829,494	112,442,133	74,405,337	100,615,016	105,601,602	505,893,582
Non Interest Bearing Liabilities						
Demand Deposits	19,508,851	6,369,065	2,765,178	3,988,449	3,988,449	36,619,992
Other Liabilities	10,864,805	-	-	-	-	10,864,805
Derivative Financial Instruments	137,688	79,491	-	-	-	217,179
Current Tax Liabilities	1,623,966	-	-	-	-	1,623,966
Deferred Tax Liabilities	257,574	-	-	-	-	257,574
Dividend Payable	34,128	-	-	-	-	34,128
Group Balances Payable	12,676	-	-	-	-	12,676
Equity	-	-	-	-	52,053,009	52,053,009
	32,439,688	6,448,556	2,765,178	3,988,449	56,041,458	101,683,329
Total Liabilities and Equity	145,269,182	118,890,689	77,170,515	104,603,465	161,643,060	607,576,911

Risk Management

Other Risks Managed Under Market Risk Management

Counterparty Credit Risk

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on amounts owned on a transaction. Financial transactions that derive their value from the performance of assets, interest rates, or currency exchange rates get included in structuring the obligation where debt obligations and deposits, swaps, futures and forward contracts are considered for the combination.

Counterparty credit risk which is managed and monitored by the Treasury Middle Office (TMO) are mostly transactions entered into by the Treasury Unit and a combination of trade transactions entered with foreign and local financial counterparts. The Treasury-related transactions include all foreign currency contracts, money market transactions and outright treasury transactions entered into with local and foreign counterparts. A limit framework is put in place to manage the counterparty credit risk. The TMO monitors on a real-time basis the utilisation of each counterparty against the stipulated limit; and a daily reporting is carried out to appraise the Senior Management of any irregularities in the limits.

Country Risk Concentration

The Bank manages the exposure to country risk through a framework of limits, specifically limiting and monitoring its exposures to countries with trade barriers and embargos. Limits are reviewed annually at a minimum, in conjunction with the review of country risk ratings. Country risk limits are approved by the Board and are monitored daily by the TMO.

Linkage Between Accounting and Regulatory Exposure Amounts

Exposure to market risk is separated into two portfolios:

- *Trading portfolios comprising positions arising from market making. The instruments classified under this portfolio are Disclosed in Note 24 to the Financial Statements*
- *Non-trading portfolios comprising positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as Fair Value through Other Comprehensive Income (FVOCI) and Amortised Cost. The instruments classified as FVOCI and Amortised Cost are disclosed in Notes 27 and 26 to the Financial Statements.*

Recovery Plan

The Bank has established a policy framework to implement the Recovery Planning (RCP) for financial institutions, in line with the CBSL Banking Act Direction No. 09 of 2021 on the Recovery Plans for Licensed Commercial Banks and Licensed Specialized Banks.

The RCP framework seeks to put in place an effective and efficient process to enhance supervisability, recoverability and resolvability of the Bank, by incorporating essential elements and key attributes given in the regulatory framework.

The RCP framework aims to –

- facilitate the preparation and maintenance of robust recovery plans by the Bank which serve as a strategic planning tool that –
- integrates with the risk appetite framework and reinforces risk management functions; and
- strengthens the Bank to establish arrangements to recover from a wide range of stress events;

The RCP will be developed in harmony with the ICAAP, Contingency Funding Plan (CFP) and the BCP of the Bank.

Managing Operational Risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events such as natural disasters, social or political events that may impact the Bank. Operational risk includes legal risk but excludes strategic and reputational risks.

The Bank has a well-established Operational Risk Management Policy developed in line with the CBSL and Basel guidelines. Under the comprehensive Operational Risk Management Policy, the roles and responsibilities for operational risk have been defined from Board level to business unit levels. The Board of Directors oversee the major aspects of the Bank's Operational Risk as a distinct risk category and approves periodical reviews of this framework.

Being the second line of defence, the objective of the Operational Risk Management Unit (ORMU) is to implement and enforce an appropriate framework for identification, assessment, monitoring and reporting of operational risks. The policies and guidelines listed here in are established within the Bank to manage operational risk effectively.



The Operational Risk Management function is enabled through the day-to-day processes within a predefined framework. The EMORMC is chaired by the Director/CEO of the Bank and consists of members from Operations, IT, Treasury, Finance, Compliance, Internal Audit and Risk Management units. The CRO represents the risk management function at the BIRMC for reporting and accountability. The BIRMC ensures appropriate implementation of its instructions through the defined governance structure.

Operational Risk Management Policy

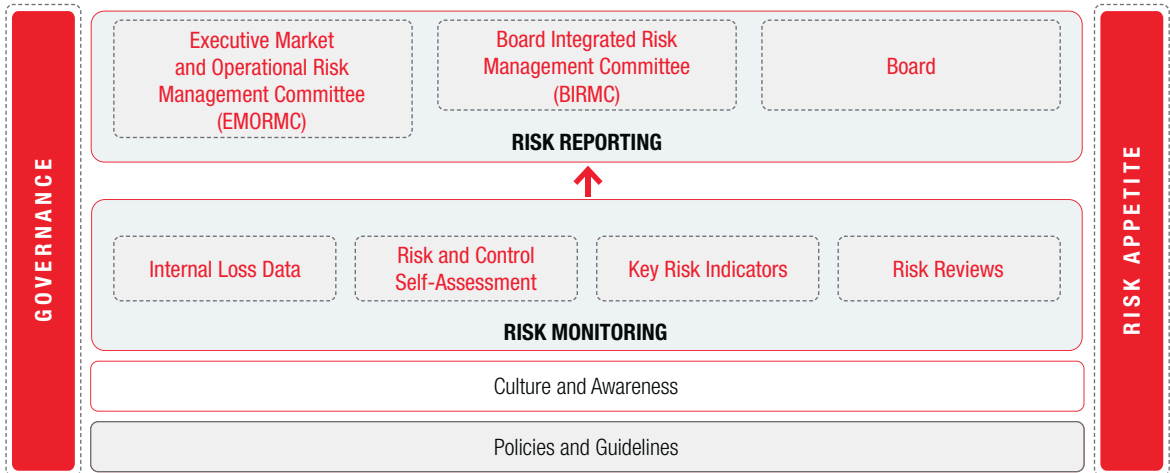
Corporate Information Security Policy

Business Continuity Management Policy

Operational Risk Incidents Reporting and Management Policy

Fraud Risk Management Policy

Business Process Outsourcing Policy



Technique	Management/Mitigation												
Risk and Control Self-Assessment (RCSA)	RCSA is defined for key business units of the Bank and is reviewed annually to identify the inherent risks proactively. RCSA is a process through which operational risks and the effectiveness of controls are assessed and examined. Findings from the RCSA exercise are used to manage the residual risks through implementation of proper action plans and control improvements.												
Key Risk Indicators (KRIs)	Key risk indicators are metrics used in risk management to provide an early signal of increasing risk exposures in various areas of the Bank. KRIs are reported to the EMORMC and the BIRMC by way of a dashboard and monitored against the corresponding threshold levels. The appropriate action plans are directed to mitigate the risks based on those thresholds.												
Collecting, Analysing and Reporting Operational Risk Incidents	Incident reporting is encouraged within the Bank and ORMU has developed internal guidelines on incident reporting which is made available on the Intranet for staff. Furthermore, monthly reminders on reporting incidents are circulated among the Unit Operational Risk Coordinators (UORC) and branches. All incidents reported by respective departments are recorded in a database and a root-cause analysis is performed in order to provide recommendations to ensure non-recurrence of the same incidents in the future. As per CBSL guidelines, loss events exceeding LKR 500,000 are reported on a quarterly basis to the CBSL.												
Operational Risk Incidents	<table border="1"> <caption>Operational Risk Incidents Distribution</caption> <thead> <tr> <th>Year</th> <th>Execution, Delivery and process management</th> <th>Business disruption and system failures</th> <th>External fraud</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>93%</td> <td>7%</td> <td>0%</td> </tr> <tr> <td>2020</td> <td>96%</td> <td>3%</td> <td>1%</td> </tr> </tbody> </table>	Year	Execution, Delivery and process management	Business disruption and system failures	External fraud	2021	93%	7%	0%	2020	96%	3%	1%
Year	Execution, Delivery and process management	Business disruption and system failures	External fraud										
2021	93%	7%	0%										
2020	96%	3%	1%										
Appointment of Unit Operational Risk Coordinators (UORC)	The ORMU has appointed UORC for all departments/units of the Bank and explained responsibilities through an awareness session. The UORC have to report incidents as and when they occur, provide information for Key Risk Indicators and complete the RCSA annually.												

Risk Management

Technique	Management/Mitigation
Insurance Arrangements	The Bank has taken cover from insurance providers as one form of risk mitigation for high severity, low probability and uncontrollable operational risk events such as natural disasters, or fire, as well as internal and external frauds, errors, omissions, hold-ups, employee infidelity etc. However, insurance has not been used for taking of risks that would otherwise not be undertaken, thereby avoiding moral hazards. These insurance policies are reviewed at regular intervals and enhanced on an ongoing basis to ensure adequate coverage for any plausible losses. The Bank has engaged an insurance broker to source terms, evaluate and add value by using their expertise.
Reviewing New Products/Services/ Processes	The Bank provides risk assurance for newly implemented products through the New Products and Services Policy. This procedure includes proactive risk identification, assessment and introduction of risk mitigation controls for inherent risks of new products, processes, systems and their amended versions; as well as for projects that have a material impact on the Bank's operations.
Reviewing information risk, integrity and availability	<p>The Bank is positioned to identify and respond to suspicious information flow and intruder attacks while observing system readiness through its information risk management practices which use tools and techniques such as firewall technologies, intruder detection and hacking prevention systems.</p> <p>The Bank has introduced sound Data Leakage Prevention (DLP) solution, Data classification software, Security Information and Event Management (SIEM), Web Application Firewall system and Internal Firewall system.</p> <p>Data centre infrastructure was completely refurbished with modern physical security controls and a virtual patch management solution has been introduced for critical servers in the data centre</p>
Effectiveness Business Continuity Plan (BCP) and Disaster Recovery (DR)	<p>The BCP ensures the resilience to business disruption that may arise from internal or external events and focuses on reducing any adverse impact on human safety, business operations as well as profitability and reputation of the Bank. The Bank's well-established Disaster Recovery Site and separate Disaster Recovery Operating Centres (DROC) carry out several drills for critical systems including the core banking system in order to verify the readiness of business continuity related issues. The relevant Executive Committees and regulators are updated on outcomes of the BCP and DR drills with the appropriate actions.</p> <p>The BCP was effectively enacted due to the COVID-19 pandemic which disrupted normal operations of the Bank due to extended curfews and lockdowns.</p>

OPERATIONAL RISK OUTLOOK FOR 2022

The Bank has initiated actions to move into Alternative Standardised Approach in quantifying operational risk capital charge.

Risk Management Unit is to procure and launch an operational risk management system in order to enhance the operational risk management process within the Bank

Information Security Management System

Well established Information Security Management System (ISMS) based on Baseline Security Standard provides methodical approach to managing Bank's information security risk. It ensures compliance with regulatory requirements and alignment with business objectives. Continuous Risk assessments are carried out to all critical information assets. Information Security Risk related KRIs are regularly monitored and reported. Continuous vulnerability assessments are conducted and comprehensive information security user awareness programmes and E-Certification are implemented. The Bank is in the planning stage of implementing the

CBSL Direction No16 of 2021 on Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks.

Managing Risks of Outsourcing Activities

Outsourcing involves transferring responsibility for carrying out Information Technology and Business Processing functions (previously carried out internally) to an outsourcer for an agreed charge. The outsourcer provides services to the Bank based on a mutually agreed service level, normally defined in a formal contract.

Despite the potential benefits; information security incidents such as inappropriate access to or disclosure of sensitive information, loss of intellectual property

protection or the inability of the outsourcer to live up to agreed service levels, would reduce the benefits and could jeopardise the security posture of the Bank.

Outsourcing arrangements shall be entered into only with "External Service Providers" who have specialised resources and skills to perform the related activities (In compliance with CBSL Direction No. 2 of 2012).

The Bank has developed a comprehensive policy in line with CBSL Direction No. 02 of 2012 which is fully implemented. This covers all aspects of due diligence controls such as comprehensive assessment, complaint handling, service quality monitoring and review of information security and business continuity plans of service providers.

Managing Capital Risk

Current and Future Capital Requirements

Capital Planning Overview and Assessment Process

The capital structure of the Bank is rigorously regulated by CBSL in view of the systemic risk that a bank failure carries and loss it can cause to the depositors and also the consequent cost of bail-outs by the Government. Basel III focuses on risk management in the Bank and intends to link the business profile of the Bank to the risk profile and subsequently to the regulatory capital. There is thus an automatic calibration of the business profile to the regulatory capital. Internal capital can, however, be different from the regulatory capital, which may require an equity cushion to the risk profile of the Bank.

In practical terms, the role of capital in the Bank is to provide stakeholder protection. In other words, the role of capital is to act as a buffer against future unexpected losses, thereby protecting depositors and other stakeholders of the Bank. The amount of capital the Bank would hold therefore depends on the Bank's risk appetite, loss distribution (whether arising from credit, market, operational or any other kinds of risk), among other things.

As of 31/12/2021, the Bank was well within the regulatory Capital Adequacy Ratios as depicted below:

Capital Adequacy Ratio	Regulatory Requirement	Bank's Position as at 31/12/2021
Common Equity Tier 1 Capital Ratio	7.00%	10.72%
Total Tier 1 Capital Ratio	8.50%	10.72%
Total Capital Ratio	12.50%	14.11%

Overall, the Statement of Financial Position remains strong.

The total capital base is the summation of the Tier 1 and Tier 2 Capital after adjustments to CET1 Capital, AT1 and Tier 2 Capital as specified in the Banking Act Direction.

Risk Exposures in Line with the Budget 2022 and Profit / Balance Sheet Forecasts thereafter.

The Bank's Board Approved Capital Augmentation Plan, based on the Budget and the Profit and Balance Sheet Forecasts thereafter has estimated the required Tier 1 and Tier 2 capital infusion during the period till 2024.

Furthermore the Bank's 3 Year Projection on the Performance has projected the capital infusion required from 2021 to 2024.

The Bank is planning to revise the Strategic Plan 2021-2023 considering the Bank's future growth outlook, average industry growth, peer growth and necessary inputs from the CBSL published documents etc. Furthermore, the relevant macroeconomic parameters will be factored in the calculations. Currently, the Bank employs a mix of top-down and bottom-up approach to arrive at the forecasts.

Basel III minimum capital requirements and buffers

Every licensed bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I of the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.

Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 (CET1).

Components of Capital	Capital Adequacy Ratio to be maintained by Non-D-SIBs	Capital Adequacy Ratio to be maintained by D-SIBs
Common Equity Tier 1 including Capital Conservation Buffer	7.00%	7.00% + HLA
Total Tier 1 including Capital Conservation Buffer	8.50%	8.50% + HLA
Total Capital Ratio including Capital Conservation Buffer	12.50%	12.50% + HLA

Further, as per the CBSL letter dated 27 March, 2020 issued by the Governor on "Extraordinary Regulatory Measures taken by the Central Bank of Sri Lanka to provide flexibility to the Licensed Banks to support Businesses and Individuals affected by the outbreak of Corona Virus Disease (COVID-19), the Non-DSIBs were permitted to draw down their Capital Conservation Buffer by 50 basis points out of total 250 basis points.

However, the Bank acknowledges the challenges associated with increasing demand on capital as per the roadmap given by CBSL and is mindful about the contributory factors that require in recording a healthy CAR in the ensuing period.

Assessment of the adequacy of Bank's capital, commensurate with all material risks and other capital needs in relation to its current position and future activities.

Risk Management

The Bank has adopted the Standardised Approach (SA) for credit risk capital calculation under Pillar 1. By nature of Bank's operations the capital charge for the credit risk remains high.

The Bank has adopted the Standardised Measurement Approach (SMA) for calculation of the market risk capital charge. The capital charge for market risk continues to remain low, considering the limited market operations of the Bank and due to the exposure to interest rate risk, equity risk and foreign exchange risk to a lesser extent.

With regard to operational risk, the Basic Indicator Approach (BIA) has been adopted under Pillar 1. The Bank is also geared to move into the Alternative Standardised Approach for operational risk calculation and has already done a parallel computation which has shown an improved capital adequacy requirement under operational risk.

Liquidity risk is managed by Treasury, Risk Management Unit and ALCO using the gap assessment and ratios. To ascertain the current liquidity position, the Bank has conducted strong stress tests to gauge the Bank's position under a liquidity crunch of different intensities.

Under the Internal Capital Adequacy Assessment Process (ICAAP) Credit concentration in the corporate loan portfolio has been analysed using the Normalised Herfindahl–Hirschman Index (HHI) method and an adjustment to the capital charge is administered in the light of concentration of the Bank's business in large size borrowers.

The capital charge for interest rate risk in the banking book is calculated using the Economic Value of Equity (EVE) approach and the Earnings at Risk (EAR) approach. Overall, the ALM process in the Bank is well- managed and monitored using various indicators of liquidity and interest rate risks.

For reputational and strategic risk, detailed scorecards have been developed and the scorecard results have been calibrated to the capital charge.

The Board and Senior Management critically review the strategic direction of the Bank at the time the Strategic Plan is prepared and approved. Risk management is an integral part of the strategic planning process.

Quantitative and Qualitative Disclosures

The Pillar III disclosures are published in line with disclosure dates that commensurate with the Financial Reporting disclosure timelines.

Key Regulatory Ratios - Capital and Liquidity

Item	Minimum Requirement	Reporting Period 31.12.2021	Previous Reporting Period 31.12.2020
Regulatory Capital (LKR '000)			
Common Equity Tier 1 Capital		49,026,742	45,810,093
Tier 1 Capital		49,026,742	45,810,093
Total Capital		64,551,489	57,122,556
Regulatory Capital Ratios (%)			
Common Equity Tier 1 Capital Ratio	7.00%	10.72%	11.46%
Tier 1 Capital Ratio	8.50%	10.72%	11.46%
Total Capital Ratio	12.50%	14.11%	14.30%
Leverage Ratio	3.00%	7.62%	7.94%
Net Stable Funding Ratio	100.00%	109.34%	110.38%
Regulatory Liquidity			
Statutory Liquid Assets			
Domestic Banking Unit (LKR 000)		116,089,908	144,503,849
Off-Shore Banking Unit (USD 000)		36,430	33,828
Statutory Liquid Assets Ratio			
Domestic Banking Unit	20.00%	22.84%	31.31%
Off-Shore Banking Unit	20.00%	23.30%	22.47%
Liquidity Coverage Ratio - Rupee	100.00%	163.02%	176.95%
Liquidity Coverage Ratio - All Currency	100.00%	132.70%	142.75%

Basel III Computation of Capital Ratios

Item	Amount (LKR'000)	
	Reporting Period 31.12.2021	Previous Reporting Period 31.12.2020
Common Equity Tier I (CET1) Capital after Adjustments	49,026,742	45,810,093
Common Equity Tier I (CET1) Capital	49,931,524	46,774,785
Equity capital (Stated Capital)/Assigned Capital	18,323,882	17,548,347
Reserve fund	2,332,549	2,103,522
Published Retained Earnings/(Accumulated Retained Losses)	28,712,398	24,237,845
Published Accumulated Other Comprehensive Income (OCI)	(413,623)	1,396,833
General and Other Disclosed Reserves	976,318	1,488,238
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	904,782	964,692
Goodwill (net)		
Intangible Assets (net)	592,894	620,530
Others *	311,888	344,162
Additional Tier 1 (AT1) Capital after Adjustments		
Total Additional Tier 1 (AT1) Capital		
Qualifying Additional Tier 1 Capital Instruments		
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to AT1 Capital		
Investment in Own Shares		
Others (Specify)		
Tier 2 Capital after Adjustments	15,524,747	11,312,463
Total Tier 2 Capital	15,524,747	11,312,463
Qualifying Tier 2 Capital Instruments	11,383,975	9,122,763
Revaluation gains	393,149	393,149
Loan Loss Provision (General Provision)	3,747,623	1,796,551
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to Tier 2	-	-
Investment in own shares		
Others (Specify)	-	-
Total Tier 1 Capital	49,026,742	45,810,093
Total Capital	64,551,489	57,122,556
Total Risk Weighted Assets (RWA)	457,465,775	399,575,469
RWAs for Credit Risk	418,069,178	369,871,446
RWAs for Market Risk	7,586,464	1,016,973
RWAs for Operational Risk	31,810,133	28,687,050
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	10.72%	11.46%
of which: Capital Conservation Buffer (%)	2.500%	2.500%
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		
Total Tier 1 Capital Ratio (%)	10.72%	11.46%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	14.11%	14.30%
of which: Capital Conservation Buffer (%)	2.500%	2.500%
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		

Risk Management

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories - Bank Only

Item	Amount (LKR'000) as at 31 December 2021				
	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	607,576,911	614,007,612	615,309,551	7,301,913	592,894
Cash and Cash Equivalents	16,079,054	16,199,537	16,199,537		
Balances with Central Bank	8,725,834	8,725,834	8,725,834		
Placements with Banks	8,246,909	8,287,000	8,287,000		
Derivative Financial Instruments	290,141				
Other Financial Assets Held-For-Trading	4,969,913	4,947,530	4,947,530	4,969,913	
Securities Purchased under Resale Agreements	10,029,031	10,027,060	10,027,060		
Loans and Receivables to Banks	-	-			
Loans and Receivables to Other Customers	441,976,662	447,992,238	449,887,072		-
Financial Investments - Available-For-Sale	39,104,536			2,332,000	
Financial Investments - Held-To-Maturity	57,963,418	92,335,219	92,335,219		
Investments in Subsidiaries	1,153,602	1,153,602	1,153,602		
Investments in Associates and Joint Ventures		-			
Property, Plant and Equipment	4,289,917	4,322,561	4,322,561		
Investment Properties	-	-			
Goodwill and Intangible Assets	592,894	592,894			592,894
Deferred Tax Assets	-				
Other Assets	14,155,000	19,424,137	19,424,136		
Liabilities	555,523,902	-	-	-	-
Due to Banks	24,504,387				
Derivative Financial Instruments	217,179				
Other Financial Assets Held-For-Trading					
Financial Liabilities Designated at Fair Value Through Profit or Loss					
Due to Other Customers	488,653,328				
Other Borrowings	7,295				
Debt Securities Issued	2,662,377				
Current Tax Liabilities	1,623,966				
Deferred Tax Liabilities	257,574				
Other Provisions					
Other Liabilities	15,788,531				
Due to Subsidiaries	191,810				
Subordinated Term Debts	21,617,455				
Off-Balance Sheet Liabilities	224,389,878	-	-	-	-
Guarantees	74,432,958	-			
Performance Bonds					
Letters of Credit	17,368,687	-			
Foreign Exchange Contracts	197,248	-			
Other Contingent Items	24,498,951	-			
Undrawn Loan Commitments	107,427,402	-			
Other Commitments	464,632	-			
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital					
of which Amount Eligible for CET1	18,323,882	-			
of which Amount Eligible for AT1		-			
Retained Earnings	29,196,617	-			
Accumulated Other Comprehensive Income	(245,179)				
Other Reserves	4,777,689	-			
Total Shareholders' Equity	52,053,009	-	-	-	-

The following regulatory risk measurement approaches are applied for purposes of capital adequacy:

1. Credit risk: The Standardised Approach
2. Operational risk: The Basic Indicator Approach
3. Market risk: The Standardised Measurement Approach

CREDIT RISK UNDER STANDARDISED APPROACH

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Item	Amount (LKR'000) as at 31 December 2021						
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM			RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	Total	RWA	RWA Density (ii)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Claims on Central Government and CBSL	115,285,276	-	115,285,276	-	115,285,276	1,434,763	1.24%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	0.00%
Claims on Public Sector Entities	2,683,913	-	2,683,913	-	2,683,913	536,783	20.00%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-
Claims on Banks Exposures	22,195,214	-	22,195,214	-	22,195,214	7,939,927	35.77%
Claims on Financial Institutions	23,501,080	-	23,501,080	-	23,501,080	15,409,103	65.57%
Claims on Corporates	213,123,681	243,752,945	204,867,307	42,207,645	247,074,952	243,711,578	98.64%
Retail Claims	172,365,304	33,006,369	141,039,066	14,218,962	155,258,028	101,010,590	65.06%
Claims Secured by Residential Property	19,566,832	-	19,566,832	-	19,566,832	9,525,023	48.68%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	0.00%
Non-Performing Assets (NPAs) (i)	11,350,417	-	11,350,417	-	11,350,417	12,529,712	110.39%
Higher-Risk Categories	-	-	-	-	-	-	-
Cash Items and Other Assets	35,237,834	-	35,237,834	-	35,237,834	25,971,697	73.70%
Total	615,309,552	276,759,314	575,726,939	56,426,607	632,153,546	418,069,177	66.13%

(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

Risk Management

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Risk Weight	Amount (LKR '000) as at 31 December 2021 (Post CCF and CRM)										Total Credit Exposures Amount
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	
Asset Classes											
Claims on Central Government and CBSL	100,937,647	14,347,629	-								115,285,276
Claims on Foreign Sovereigns and their Central Banks											-
Claims on Public Sector Entities			2,683,913								2,683,913
Claims on Official Entities and Multilateral Development Banks											-
Claims on Banks Exposures			14,391,385		5,484,359			2,319,470			22,195,214
Claims on Financial Institutions			721,830		15,029,027			7,750,223	-		23,501,080
Claims on Corporates			-		6,726,748			240,348,205	-		247,074,953
Retail Claims						33,671,435	88,916,152	10,347,861			132,935,448
Claims Secured by Gold	3,459,973		18,862,314					292			22,322,579
Claims Secured by Residential Property				15,448,937				4,117,896			19,566,833
Claims Secured by Commercial Real Estate								-			-
Non-Performing Assets (NPAs) (i)					772,860			7,446,106	3,131,451		11,350,417
Higher-Risk Categories											-
Cash Items and Other Assets	9,194,839		89,122					25,953,873			35,237,834
Total	113,592,459	14,347,629	36,748,564	15,448,937	28,012,994	33,671,435	88,916,152	298,283,926	3,131,451	-	632,153,547

OPERATIONAL RISK

Operational Risk Under Basic Indicator Approach

Item		Gross Income (LKR'000)		
		2021	2020	2019
Gross Income		30,878,490	24,623,812	24,023,031
Capital Charges for Operational Risk (15%) - (LKR' 000)	3,976,267			
Risk-Weighted Amount for Operational Risk (LKR'000)	31,810,133			

MARKET RISK

Market Risk under Standardised Measurement Approach

Item	Capital Charge Amount as at 31 December 2021 (LKR'000)
Capital Charge for Market Risk	948,308
(a) Capital Charge Interest Rate Risk	59,869
General Interest Rate Risk	59,869
(i) Net Long or Short Position	59,869
(ii) Horizontal Disallowance	
(iii) Vertical Disallowance	
(iv) Options	
Specific Interest Rate Risk	
(b) Capital Charge for Equity	597,033
(i) General Equity Risk	300,370
(ii) Specific Equity Risk	296,663
(c) Capital Charge for Foreign Exchange & Gold	291,406
Total Risk Weighted Amount on Market Risk [(a)+(b)+(c)]*CAR	7,586,464

Computation of Liquidity Coverage Ratio (LCR)

The objective of the Liquidity Coverage ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring there is sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days.

Basel III Computation of Liquidity Coverage Ratio

Item	Amount (LKR'000)					
	Reporting Period - 31.12.2021			Previous Reporting Period - 31.12.2020		
	Total Un-weighted Value	Factor (%)	Total Weighted Value	Total Un-weighted Value	Factor (%)	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)			94,700,915			100,209,155
Total Adjusted Level 1A Assets			93,426,488	100,002,267		100,002,267
Level 1A Assets	93,426,488	100%	94,618,796	100,123,279	100%	100,123,279
Total Adjusted Level 2A Assets			-			-
Level 2A Assets			-			-
Total Adjusted Level 2B Assets			82,119			85,876
Level 2B Assets	164,239	50%	82,119	171,753	50%	85,876
Total Cash Outflows			103,280,199			98,346,660
Deposits	372,813,987	10%	37,281,399	341,486,750	10%	34,148,675
Unsecured Wholesale Funding	108,923,206	25% -100%	51,664,273	90,266,536	25% -100%	48,186,985
Secured Funding Transactions			-			-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	218,901,577	0% -100%	11,050,521	189,540,464	0% -100%	9,617,217
Additional Requirements	3,284,007	100%	3,284,007	6,393,784	100%	6,393,784
Total Cash Inflows			31,917,946			28,147,748
Maturing Secured Lending Transactions Backed by Collateral			-			-
Committed Facilities	-		-	-		-
Other Inflows by Counterparty which are Maturing within 30 Days	48,809,632	50%-100%	31,556,533	41,245,414	50%-100%	27,367,533
Operational Deposits	6,975,880		-	2,257,009		-
Other Cash Inflows	525,579	50% -100%	361,413	1,158,293	50% -100%	780,215
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)*100			132.70			142.75

Computation of Leverage Ratio

Item	Amount (LKR '000)	
	Reporting Period 31.12.2021	Previous Reporting Period 31.12.2020
Tier 1 Capital	49,026,742	45,810,094
Total Exposures	643,499,708	577,103,922
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	575,726,940	525,893,986
Derivative Exposures	1,317,130	1,732,936
Securities Financing Transaction Exposures	10,029,031	6,142,893
Other Off-Balance Sheet Exposures	56,426,607	43,334,107
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	7.62%	7.94%

Risk Management

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Voting Shares	Ordinary Non-Voting Shares	Debenture Issue - 2016 (5 years and 7 years)	Debenture Issue - 2018 (5 years, 7 years & 10 years)	Debenture Issue - 2019 (5 years)	Debenture Issue - 2021 (5 years)
Issuer	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC
Unique Identifier (e., ISIN or Bloomberg Identifier for Private Placement)	LK0182N00002	LK0182X00001	LK0182023559	LK0182023955	LK0182D24219	LK0182D24722
			LK0182023567	LK0182023963	LK0182D24227	LK0182D24730
			LK0182023542	LK0182023971		
Governing Law (s) of the Instrument	Provisions of the Banking Act, Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007 and the Articles of Association of the Bank	Provisions of the Banking Act, Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007 and the Articles of Association of the Bank	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007, the Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007, the Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007, the Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, Provisions of the Companies Act No. 7 of 2007, the Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed
Original Date of Issuance	April 1988	September 2003	15th July 2016	29th March 2018	18th April 2019	12th April 2021
Par Value of Instrument	N/A	N/A	LKR 100/- each	LKR 100/- each	LKR 100/- each	LKR 100/- each
Perpetual or Dated	N/A	N/A	dated	dated	dated	dated
Original Maturity Date, if Applicable	N/A	N/A	15th July 2021	28th March 2023 28th March 2025 28th March 2028	18th April 2024	12th April 2026
Amount Recognized in Regulatory Capital (in '000 as at the Reporting Date)	11,521,263	6,802,619	982,725	3,051,250	2,250,000	5,100,000
Accounting Classification (Equity /Liability)	Equity	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	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends						
Fixed or Floating Dividend / Coupon	Dividend as decided by the Board annually	Dividend as decided by the Board annually	Fixed and floating interest rate	Fixed interest rate	Fixed interest rate	Fixed interest rate
Coupon Rate and any Related Index	As decided by the Board	As decided by the Board	Semi-Annual Interest - 13.0% p.a. (for 5 years), Semi-Annual Interest - 6 month T-Bill (gross) + 1.50% (for 5 years), Semi-Annual Interest - 13.75% p.a. (for 7 years)	Semi-Annual Interest - 12.85% p.a. (for 5 years), Semi-Annual Interest - 13.20% (for 7 years), Semi-Annual Interest - 13.50% p.a. (for 10 years)	Semi-Annual Interest - 14.5% p.a. Semi-Annual Interest - 10.50% p.a	Annual Interest - 9.75% p.a., Quarterly Interest - 9.25% p.a.
Non-Cumulative or Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Convertible	Convertible	Convertible
If Convertible, Conversion Trigger (s)				when determined a 'Trigger Event' at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	when determined a 'Trigger Event' at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	Convertible in the event of a "Trigger Event" in terms of the Banking Act Direction No.1 of 2016

Description of the Capital Instrument	Ordinary Voting Shares	Ordinary Non-Voting Shares	Debenture Issue - 2016 (5 years and 7 years)	Debenture Issue - 2018 (5 years, 7 years & 10 years)	Debenture Issue - 2019 (5 years)	Debenture Issue - 2021 (5 years)
If Convertible, Fully or Partially				when determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	when determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	when determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka
If Convertible, Mandatory or Optional				Mandatory in the event of a 'Trigger Event'	Mandatory in the event of a 'Trigger Event'	Mandatory in the event of a 'Trigger Event'
If Convertible, Conversion Rate				Simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank (as published by the Colombo Stock Exchange) during the three (03) months period immediately preceding the Trigger Event, as determined by the Monetary Board.	Simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank (as published by the Colombo Stock Exchange) during the three (03) months period immediately preceding the Trigger Event, as determined by the Monetary Board.	Simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank (as published by the Colombo Stock Exchange) during the three (03) months period immediately preceding the Trigger Event, as determined by the Monetary Board.

Managing other Risks

Legal Risk

Legal risk is the risk of financial or reputational loss that could arise from failure to comply with statutory and regulatory requirements, internal policies, prescribed best practices, lack of awareness, uncertainty of the outcome of all litigation and probable adverse consequences resulting from deficient documentation.

The Bank manages these legal risks effectively having proper monitoring and controls in all business and supporting areas. Further, through the Legal Department all contracts and security documentation are legally vetted taking into consideration the applicable laws and regulations. Interpretation of provisions of statutes that may be applicable is referred to the Legal Department by the business lines, thus, minimising the risk of non-compliance with laws and regulations.

Compliance Risk

The Compliance Department is entrusted with the responsibility of safeguarding the Bank from potential losses, financial or otherwise, that may arise due to the Bank's failure to comply with laws, regulations, rules, or self-regulated organisational standards applicable to the Bank's operations. Accordingly, the key focus areas of the compliance function are:

- Legal and Regulatory Compliance
- Anti-Money Laundering/ Financial Crime Compliance
- Corporate Governance

The Compliance Department functions as a key working committee focusing and ensuring long-term success and sustainability of the Bank via an improved compliance culture.

The Compliance Department closely liaises with the BIRMC, its direct reporting line, while performing its responsibilities. Periodic communication to the Board of Directors is also undertaken for necessary updates and obtaining additional advice.

The Bank's corporate culture and ethics related matters are specifically dealt by two dedicated Board sub committees:

- Board Governance and Compliance Committee
- Related Party Transactions Review Committee

Strategic Risk

Strategic risk is the possibility of current and prospective impact on earnings or capital arising from adverse strategic decisions, improper and incomplete implementation of strategic initiatives, or lack of agility to the changes in the external environment.

The Corporate Management and the Board of Directors are responsible for leading the Bank on the right strategic direction while selecting most suitable strategic choices, aligned to the Bank's vision and mission. Minimising the adverse impact arising from making the specious strategic directions and strategic choices is integral part of the Strategic Risk Management of the Bank.

In pursuing the Bank's strategic goals and business objectives, the Bank has

established a solid governance structure to ensure the effectiveness of the strategies subsequent to implementation. KPI's are developed to measure the effectiveness and efficiency of strategic initiatives. The Bank has established clear communication channels at all levels of the organisation, allocated systems for efficient operations of business lines / banking activities and enhanced employee capabilities through training and development and recognition programmes to ensure better accountability in achieving strategic objectives.

Reputational Risk

Reputational risk arises from the loss caused by adverse perception of Seylan Bank PLC by the public, shareholders, investors, customers, regulators and other internal and external stakeholders, which can adversely impact earnings, value of assets and liabilities, capital position and the brand value.

As risk mitigating actions; the Bank has established sound policies and procedures such as customer complaint management, whistle-blowing policy to maintain the goodwill in a positive manner. The Bank has established a well-structured customer complaint management process to provide solutions to customers on a 24x7 basis.

The Bank also recognises the importance of making a positive contribution to the society by promoting Corporate Social Responsibility (CSR) through ethical banking practices, environmental awareness and contribution to the community. Accordingly, the Bank has in place a Board Sustainability Committee which guides and monitors the progress of CSR contribution and its effectiveness.

SUSTAINABLE RESULTS

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Financial Calendar

Financial Calendar – 2021

	Released to the Colombo Stock Exchange (CSE)
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2020	23 February 2021
Audited Financial Statements for the Year ended 31 December 2020 and Annual Report – 2020	3 March 2021
1st Quarter/Three months ended 31 March 2021	29 April 2021
2nd Quarter/Six months ended 30 June 2021	10 August 2021
3rd Quarter/Nine months ended 30 September 2021	28 October 2021
34th Annual General Meeting (AGM)	Held on Tuesday, 30 March 2021 at 11.00 a.m. conducted on-line (virtual platform) hosted from Seylan Bank Head Office, 'Seylan Towers', 90, Galle Road, Colombo 03.
First and Final Ordinary Dividend for the year ended 31 December 2020	Scrip dividend of LKR 1.50 per share issued on 30 March 2021

The Interim Financial Statements were also published in the newspapers as per the requirements of the Central Bank of Sri Lanka.

Proposed Financial Calendar – 2022

	Proposed Date
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2021	To be released to the Colombo Stock Exchange (CSE) In February 2022
Audited Financial Statements for the Year ended 31 December 2021 and Annual Report 2021	To be released to the CSE Before 7 March 2022
35th Annual General Meeting (AGM)	Scheduled to be held on-line (Virtual platform) which will be hosted from Seylan Bank Head Office, Seylan Towers, 90, Galle Road, Colombo 03. On Wednesday, 30 March 2022 at 11.30 a.m.
First and Final Ordinary Dividend for the year ended 31 December 2021	Subject to the approval of the shareholders at the AGM In April 2022 (as per the Rules of the CSE)
Interim (unaudited or audited) Financial Statements	Statements in respect of the four quarters of 2022 will be released as per the Rules of the CSE and will be published in the newspapers as per the requirements of the Central Bank of Sri Lanka.

Statement of Directors' Responsibility for Financial Reporting

The Statement of Responsibility of the Directors of Seylan Bank PLC ("Bank") in relation to the Financial Statements of the Bank and the Consolidated Financial Statements of the Group is set out in this Report in terms of the provisions of the Companies Act No. 07 of 2007 (the Act) and the Banking Act Direction No. 11 of 2007 (as amended).

The Directors of the Bank ensure that the Bank maintains proper books of account of all its transactions so as to enable the financial position of the Bank to be determined with reasonable accuracy at any time; enable the preparation of Financial Statements of the Bank in accordance with the Act; and enable the Financial Statements of the Bank to be readily and properly audited.

Confirmation of Directors' responsibility

The Directors of Seylan Bank PLC confirm that to the best of their knowledge -

- the Financial Statements prepared and published on pages 145 to 248 of this Annual Report in terms of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act, give a true and fair view of the state of affairs of the Bank and the Group and the profit for the year ended 31 December 2021;
- the Financial Statements for the year ended 31 December 2021 presented in this Annual Report are consistent with the underlying books of account of the Bank and are in conformity with the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 (as amended), Directions and Guidelines of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, and the Code of Best Practice on Corporate Governance (2017) published by The Institute of Chartered Accountants of Sri Lanka;
- in preparing the Financial Statements for the year ended 31 December 2021, appropriate accounting policies, judgements and estimates have been considered and applied on a consistent basis with material departures if any disclosed in the Financial Statements together with the rationale for same;

- proper books of account have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

The Directors further confirm that -

- The financial reporting system was reviewed by the Board through the management accounts submitted monthly at Board Meetings. The Bank's Interim and Audited Financial Statements were also reviewed by the Board Audit Committee and the Board prior to the said statements being released and published.
- The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation and signed on behalf of the Board of Directors by two Directors of the Bank on 22 February 2022.

External Auditors' reviews and opinions

The Bank's Auditors, M/s KPMG was engaged to carry out reviews and sample checks on the effectiveness of the systems of internal control as they consider appropriate and necessary in providing their opinion on the Financial Statements. M/s KPMG have examined the Financial Statements made available together with all other financial records, Minutes of Meetings of the Board and the Board Sub-committees and related information and have expressed their opinion which appears on page 140 of this Annual Report.

Internal control mechanism over financial reporting

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Bank's assets and ensure continuity of operations. To this end, the Board has identified principal risks and implemented a system to continually assess such risks and established an appropriate control environment for ensuring proper monitoring of effectiveness of internal controls and correction of deficiencies.

The Board's Statement on the effectiveness of Bank's internal control mechanism over financial reporting, prepared in accordance with the Guidelines issued by the Institute

of Chartered Accountants of Sri Lanka and in compliance with Section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on page 101 and Bank's Independent Auditors' Report on our assessment of Bank's internal controls over financial reporting is published on page 102 of this Annual Report.

Solvency

The Board of Directors confirm that they have authorized the distribution of the proposed dividend having been satisfied that the Bank would meet the solvency test in terms of the provisions of Section 56(2) of the Companies Act No. 07 of 2007 immediately after the proposed dividend payment. The Board has obtained a statement of solvency from the External Auditors which confirms that the Bank satisfied the solvency as per Section 57 of the Companies Act.

The Directors confirm that to the best of their knowledge and belief, all statutory payments due and payable to all statutory and regulatory authorities as at the Reporting date, have been paid by the Bank and its subsidiary or where relevant provided for.

Going concern

The Directors further confirm that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code and potential implications of COVID - 19, the Bank and the Subsidiary, Seylan Developments PLC have adequate resources to continue the operations of the Bank and the Group in the foreseeable future. The Financial Statements of the Bank and the Group have accordingly been prepared on a going concern basis.

The Directors are of the view that they have discharged their obligations as set out in this statement.

By Order of the Board of Directors



Mrs. N N Najumudeen
Company Secretary

22 February 2022
Colombo

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of Seylan Bank and the Group for the year ended 31 December 2021 are prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka (CBSL), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The formats used in the Financial Statements and disclosures are in conformity with the specified formats prescribed by the CBSL, which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements).

The Board of Directors and Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. We continue to adopt the Going Concern basis in preparing the Financial Statements, since there are reasonable grounds to believe that the Group has adequate resources to continue in operation.

The Financial Statements of the Bank and the Group were audited by Messrs KPMG, Chartered Accountants, and their report on pages 140 to 144 of this Annual Report. The Audit Committee of the Bank meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

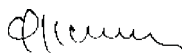
The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG's independence.

It is also declared and confirmed that the Bank has complied with and ensured compliance by the Auditors with the guidelines for the audit of listed companies where mandatory compliance is required, it is further confirmed that all the other guidelines have been complied with.

We confirm that the Bank and its Subsidiary have complied with all applicable laws, regulations and guidelines and there are no material litigations against the Group, other than those disclosed in Note 48 of the Financial Statements in this Annual Report.



K P Ariyaratne
Director/ Chief Executive Officer



Ms Champika Dodanwela
Chief Financial Officer

22 February 2022
Colombo

Independent Auditor's Report



KPMG
(Chartered Accountants)
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THE SHAREHOLDERS OF SEYLAN BANK PLC Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of Seylan Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiary ("the Group"), which comprise the statement of financial position as at 31st December 2021, and the income statement, statement of profit or loss or other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 145 to 248 of this Annual Report.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31st December 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are relevant to our audit of the financial statements,

and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank's financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for Expected Credit Losses "Financial Assets at Amortised Cost - Loans and Advances"

Refer to Note 3 (Use of Estimates and Judgements), Note 5.4.5 (Impairment) and Note 25 (Financial assets at amortised cost - loans and advances), to these financial statements

Risk Description	Our Responses
As disclosed in Note 25 to these financial statements, the Bank has recorded financial assets measured at amortised cost against loans and advances to customers, of LKR 465,905 Mn as at 31st December 2021. High degree of complexity and judgment are involved in estimating Expected Credit Loss (ECL) of LKR 23,929 Mn as at the reporting date.	Our audit procedures for the allowances for ECL included the following: Testing key controls of the Bank in relation to: <ul style="list-style-type: none"> Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems; IT system controls which record loans days past due, and non-performing loan classification.
Allowance for expected credit losses is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the Bank's ECL models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).	Assessing impairment for individually significant customers Selecting a sample (based on quantitative thresholds) of larger customers where impairment indicators have been identified by management and assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19). Obtaining management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions, or lack of, were appropriate.

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

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

P. Y. S. Perera FCA
W. W. J. C. Perera FCA
R M D B Rajapakse FCA
S M Nayeem FCA
Ms. C.T.K.N Perera ACA
Ms. P.M.K. Sumanasekara FCA

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



Allowance for Expected Credit Losses “Financial Assets at Amortised Cost - Loans and Advances”

Refer to Note 3 (Use of Estimates and Judgements), Note 5.4.5 (Impairment) and Note 25 (Financial assets at amortised cost - loans and advances), to these financial statements

Risk Description	Our Responses
<p>SLFRS 9 <i>Financial Instruments</i> requires the Bank to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Bank to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement when evaluating the economic scenarios used and the judgmental post model adjustments the Bank applies to the ECL results. The Bank’s criteria selected to identify a SICR are key areas of judgement within the Bank’s ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.</p>	<p>This included the following procedures</p> <ul style="list-style-type: none"> • Evaluating management’s assessment of recoverability of the forecasted cash flows by comparing them to the historical performance of the customers, their financial position and the expected future performance where applicable; • Assessing external collateral valuer’s credentials and comparing external valuations to values used in management’s impairment assessments • Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used by the Bank in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and business plans and evaluating the key assumptions in the valuations • Testing the implementation of the Bank’s SICR methodology by re-performing the staging calculation for a sample of loans • For a sample of customer loans which were not identified as displaying indicators of impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and from our own view whether any impairment indicators were present.
<p>The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Bank in calculating the ECL, and the associated audit risk.</p>	<p>Assessing the adequacy of collectively assessed provisions</p> <p>We tested key controls of the Bank in relation to:</p>
<p>Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgment in evaluating the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of the loans.</p>	<ul style="list-style-type: none"> • The ECL model governance and validation processes which involved assessment of model performance; • The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work we assessed the reasonableness of the Bank considerations of the economic uncertainty relating to COVID-19.
<p>The disclosures regarding the Bank’s application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.</p>	<p>Our further audit procedures included;</p> <ul style="list-style-type: none"> • Assessing the ongoing effectiveness of the SICR criteria and independently calculated the loans’ stage. In addition, we assessed the reasonableness of the Bank’s treatment of COVID-19 payment relief customers (moratorium/ debt concessionary) from a SICR perspective. • Evaluating key assumptions in the components of the Bank’s post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Bank’s ECL model and data limitations identified by the Bank’s ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses; • Working with our own risk consulting specialist, we assessed the reasonability of the adjustments made by the Bank to the forward looking macro-economic factors and assumptions used in the ECL model.

Independent Auditor's Report



Allowance for Expected Credit Losses "Financial Assets at Amortised Cost - Loans and Advances"

Refer to Note 3 (Use of Estimates and Judgements), Note 5.4.5 (Impairment) and Note 25 (Financial assets at amortised cost - loans and advances), to these financial statements

Risk Description	Our Responses
	<ul style="list-style-type: none"> Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank's assessment. Assessing the appropriateness of the Bank's disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards. <p>We challenged the key assumptions in the components of the Bank's post-model adjustments to the ECL allowance balance based on assessment of implications of COVID- 19 pandemic. This included:</p> <ul style="list-style-type: none"> Assessing the requirement for additional allowances considering the Bank's ECL model and data limitations identified by the Bank's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses; Evaluating the approach taken by the management is in identifying the risk elevated sectors and assessing the current market conditions and specific risks in of the Bank's loan portfolios due to exposure to risk elevated sectors; Assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the expected increase in delinquencies. We also assessed assumptions used to determine whether a SICR event has occurred; and Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank's assessment

IT systems and controls over financial reporting

Risk Description	Our Responses
<p>The Bank utilise many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of financial statements which provides a true and fair view of the Bank's financial position and performance.</p> <p>The IT systems and controls, as they impact the recording and reporting of financial transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank's IT controls.</p>	<p>We worked with our IT specialists to perform audit procedures to test the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes.</p> <p><i>Our further audit procedures included:</i></p> <p>General IT controls design , observation and operation</p> <ul style="list-style-type: none"> Assessing the governance and higher-level controls in place across the IT Environment, including those regarding policy design, review and awareness, and IT Risk Management practices. Obtaining an understanding and testing operating effectiveness of the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management , monitor system integrity, program development and computer operations Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate Financial statements.



IT systems and controls over financial reporting

Risk Description	Our Responses
	<p><i>Application controls</i></p> <ul style="list-style-type: none"> On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger; <p><i>User access controls operation</i></p> <ul style="list-style-type: none"> Assessing the management's evaluation of access rights granted to applicants relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions. Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial

statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify

Independent Auditor's Report



our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 2294.

Chartered Accountants

Colombo, Sri Lanka
22 February 2022

Income Statement

For the Year ended 31st December	Note	Bank			Group		
		2021 LKR '000	2020 LKR '000	Change %	2021 LKR '000	2020 LKR '000	Change %
Gross Income	7	54,767,049	57,224,196	(4.29)	54,750,691	57,227,750	(4.33)
Interest Income		46,770,415	51,104,755	(8.48)	46,781,204	51,112,436	(8.47)
Less: Interest Expenses		23,181,313	31,607,000	(26.66)	22,877,295	31,301,653	(26.91)
Net Interest Income	8	23,589,102	19,497,755	20.98	23,903,909	19,810,783	20.66
Fee and Commission Income		4,784,698	3,931,545	21.70	4,784,426	3,931,327	21.70
Less : Fee and Commission Expenses		143,498	201,935	(28.94)	143,950	203,023	(29.10)
Net Fee and Commission Income	9	4,641,200	3,729,610	24.44	4,640,476	3,728,304	24.47
Net Gains/(Losses) from Trading	10	(219,044)	347,554	(163.02)	(217,844)	348,743	(162.47)
Net Gains from Derecognition of Financial Assets	11	553,425	782,565	(29.28)	553,425	782,565	(29.28)
Net Other Operating Income	12	2,877,555	1,057,777	172.04	2,849,480	1,052,679	170.69
Total Operating Income		31,442,238	25,415,261	23.71	31,729,446	25,723,074	23.35
Less : Impairment Charges	13	10,421,913	6,992,976	49.03	10,421,913	6,992,976	49.03
Net Operating Income		21,020,325	18,422,285	14.10	21,307,533	18,730,098	13.76
Less : Operating Expenses	14						
Personnel Expenses	15	7,252,152	7,240,951	0.15	7,288,380	7,274,876	0.19
Depreciation and Amortization Expenses		1,429,469	1,447,311	(1.23)	1,479,466	1,486,206	(0.45)
Other Expenses		4,376,116	4,094,480	6.88	4,420,195	4,145,084	6.64
Total Operating Expenses		13,057,737	12,782,742	2.15	13,188,041	12,906,166	2.18
Operating Profit before Taxes		7,962,588	5,639,543	41.19	8,119,492	5,823,932	39.42
Less : Value Added Tax on Financial Services		1,934,812	1,528,296	26.60	1,934,812	1,528,296	26.60
Profit before Income Tax		6,027,776	4,111,247	46.62	6,184,680	4,295,636	43.98
Less : Income Tax Expense	16	1,447,236	1,099,947	31.57	1,449,010	1,197,578	21.00
Profit for the Year		4,580,540	3,011,300	52.11	4,735,670	3,098,058	52.86
Profit Attributable to:							
Equity Holders of the Bank		4,580,540	3,011,300	52.11	4,653,003	3,038,629	53.13
Non-controlling Interest		-	-	-	82,667	59,429	39.10
Profit for the Year		4,580,540	3,011,300	52.11	4,735,670	3,098,058	52.86
Basic/Diluted Earnings per Share (LKR)	17	8.57	5.64	51.95	8.71	5.69	53.08

Notes on pages 154 to 248 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31st December	Note	Bank			Group		
		2021 LKR '000	2020 LKR '000	Change %	2021 LKR '000	2020 LKR '000	Change %
Profit for the Year		4,580,540	3,011,300	52.11	4,735,670	3,098,058	52.86
Other Comprehensive Income, net of Tax							
Items that are or may be reclassified to Income Statement in Subsequent Periods							
Net Movement of Cash Flow Hedge Reserve	46.5	(77,485)	26,772	(389.43)	(77,485)	26,772	(389.43)
Net Gains/(Losses) on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	(2,884,037)	1,720,427	(267.63)	(2,880,457)	1,723,699	(267.11)
Less: Deferred Tax effect Relating to Items that are or may be reclassified to Income Statement	42	(790,071)	481,720	(264.01)	(789,713)	482,047	(263.82)
Items that will never be reclassified to Income Statement in Subsequent Periods							
Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	436,898	1,548,622	(71.79)	436,898	1,548,622	(71.79)
Revaluation of Property, Plant and Equipment	46.2	748,182	-	-	800,032	41,639	1,821.35
Actuarial Gains/(Losses) on Defined Benefit Obligations	43.1.8	(390,122)	(495,480)	(21.26)	(390,919)	(495,323)	(21.08)
Less: Deferred Tax Effect Relating to Items that will Never be reclassified to Income Statement	42	144,527	486,596	(70.30)	156,881	498,255	(68.51)
Other Comprehensive Income for the Year, net of Tax		(1,521,020)	1,832,025	(183.02)	(1,479,099)	1,865,107	(179.30)
Total Comprehensive Income for the Year		3,059,520	4,843,325	(36.83)	3,256,571	4,963,165	(34.39)
Total Comprehensive Income							
Attributable to:							
Equity Holders of the Bank		3,059,520	4,843,325	(36.83)	3,161,541	4,893,981	(35.40)
Non-controlling Interest		-	-	-	95,030	69,184	37.36
Total Comprehensive Income for the Year		3,059,520	4,843,325	(36.83)	3,256,571	4,963,165	(34.39)

Notes on pages 154 to 248 form an integral part of these Financial Statements.

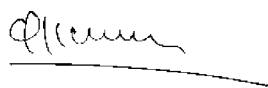
Statement of Financial Position

As at 31st December	Note	Bank			Group		
		2021 LKR '000	2020 LKR '000	Change %	2021 LKR '000	2020 LKR '000	Change %
Assets							
Cash and Cash Equivalents	20	16,079,054	10,036,144	60.21	16,079,094	10,036,184	60.21
Balances with Central Bank of Sri Lanka	21	8,725,834	7,371,203	18.38	8,725,834	7,371,203	18.38
Placements with Banks and Finance Companies	22	8,246,909	10,730,528	(23.15)	8,246,909	10,730,528	(23.15)
Derivative Financial Instruments	23	290,141	403,984	(28.18)	290,141	403,984	(28.18)
Financial Assets recognised through Profit or Loss							
- Measured at Fair Value	24	4,969,913	4,545,853	9.33	4,969,913	4,553,778	9.14
- Designated at Fair Value		-	-	-	-	-	-
Financial Assets at Amortised Cost							
- Loans and Advances	25	441,976,662	393,766,147	12.24	441,976,662	393,766,147	12.24
- Debt and Other Instruments	26	67,992,449	53,692,471	26.63	68,156,417	53,692,471	26.94
Financial Assets measured at Fair Value through Other Comprehensive Income	27	39,104,536	59,024,231	(33.75)	39,165,399	59,081,506	(33.71)
Investment in Subsidiary	28	1,153,602	1,153,602	-	-	-	-
Group Balances Receivable	29	40,000	40,000	-	-	-	-
Property, Plant & Equipment	30	4,289,917	4,031,453	6.41	7,063,747	6,772,711	4.30
Right-of-use Assets	31	4,791,175	4,450,659	7.65	2,594,737	2,220,501	16.85
Investment Properties	32	-	-	-	870,258	856,604	1.59
Intangible Assets	33	592,894	620,530	(4.45)	592,894	620,530	(4.45)
Other Assets	34	9,323,825	7,840,615	18.92	9,358,128	7,899,785	18.46
Total Assets		607,576,911	557,707,420	8.94	608,090,133	558,005,932	8.98
Liabilities							
Due to Banks	35	24,504,387	32,679,687	(25.02)	24,504,387	32,679,687	(25.02)
Derivative Financial Instruments	23	217,179	39,981	443.21	217,179	39,981	443.21
Financial Liabilities at Amortised Cost							
- Due to Depositors	36	488,653,328	440,303,126	10.98	488,653,328	440,303,126	10.98
- Due to Debt Securities Holders	37	2,662,377	2,575,873	3.36	2,662,377	2,575,873	3.36
- Due to Other Borrowers	38	7,295	14,123	(48.35)	7,295	14,123	(48.35)
Group Balances Payable	39	191,810	261,462	(26.64)	-	-	-
Debt Securities Issued	40	21,617,455	17,058,558	26.72	21,617,455	17,058,558	26.72
Current Tax Liabilities	41	1,623,966	869,896	86.69	1,611,832	846,582	90.39
Deferred Tax Liabilities	42	257,574	1,469,778	(82.48)	582,395	1,789,866	(67.46)
Lease Liabilities	31	4,889,598	4,446,175	9.97	2,007,245	1,582,937	26.81
Other Liabilities	43	10,898,933	9,021,786	20.81	10,939,813	9,059,600	20.75
Total Liabilities		555,523,902	508,740,445	9.20	552,803,306	505,950,333	9.26
Equity							
Stated Capital	44	18,323,882	17,548,347	4.42	18,323,882	17,548,347	4.42
Statutory Reserve Fund	45	2,332,549	2,103,522	10.89	2,332,549	2,103,522	10.89
Retained Earnings		29,196,617	24,683,224	18.29	29,967,349	25,381,609	18.07
Other Reserves	46	2,199,961	4,631,882	(52.50)	3,334,454	5,736,345	(41.87)
Total Equity Attributable to Equity Holders of the Bank		52,053,009	48,966,975	6.30	53,958,234	50,769,823	6.28
Non-controlling Interest	28.1	-	-	-	1,328,593	1,285,776	3.33
Total Equity		52,053,009	48,966,975	6.30	55,286,827	52,055,599	6.21
Total Equity and Liabilities		607,576,911	557,707,420	8.94	608,090,133	558,005,932	8.98
Contingent Liabilities and Commitments	47	224,389,878	195,154,154	14.98	224,389,963	195,173,315	14.97
Net Asset Value per Share (LKR)		97.44	94.71	2.88	101.01	98.20	2.86
Memorandum Information							
No. of Employees		3,148	3,251	(3.17)	3,167	3,271	(3.18)
No. of Banking Centres		171	172	(0.58)	171	172	(0.58)

Notes on pages 154 to 248 form an integral part of these Financial Statements.

Certification

The Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

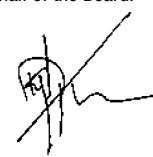


Champika Dodanwela (Ms.)
Chief Financial Officer

Approved and signed for and on behalf of the Board.



W.M.R.S.Dias
Chairman



Kapila Ariyaratne
Director/ Chief Executive Officer

22 February 2022
Colombo

Statement of Changes in Equity

Bank

	Note	Stated Capital	
		Ordinary Shares - Voting LKR '000	Ordinary Shares - Non Voting LKR '000
1			
Balance as at 01st January 2020		10,884,710	6,160,014
Total Comprehensive Income for the Year			
Profit for the Year		-	-
Other Comprehensive Income (net of tax)			
- Actuarial Losses on Defined Benefit Obligations	43.1.8	-	-
- Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Net Movement of Cash Flow Hedge Reserve	46.5	-	-
2			
Total Comprehensive Income for the Year		-	-
Transactions with Equity Holders , Recognised Directly In Equity			
Cash/Scrip Dividend to Equity Holders	18	251,477	252,146
Transferred to Statutory Reserve Fund*	45	-	-
Transferred from Investment Fund Reserve	46.6	-	-
Net Gains on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income	46.4	-	-
Net Losses on Reclassification of Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
3			
Total Transactions with Equity Holders		251,477	252,146
Balance as at 31st December 2020 (1 + 2 + 3)		11,136,187	6,412,160
1			
Balance as at 01st January 2021		11,136,187	6,412,160
Total Comprehensive Income for the Year			
Profit for the Year		-	-
Other Comprehensive Income (net of tax)			
- Revaluation of Property, Plant and Equipment	46.2	-	-
- Actuarial Losses on Defined Benefit Obligations	43.1.8	-	-
- Net Losses on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
- Net Movement of Cash Flow Hedge Reserve	46.5	-	-
2			
Total Comprehensive Income for the Year		-	-
Transactions with Equity Holders , Recognised Directly In Equity			
Scrip Dividend to Equity Holders	18	385,076	390,459
Unclaimed Dividend Absorbed/(Dividend Paid) in respect of Previous Years		-	-
Reversal of Revaluation on Disposed Property, Plant and Equipment	46.2	-	-
Transferred to Statutory Reserve Fund*	45	-	-
Transferred from Investment Fund Reserve	46.6	-	-
Net Gains on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income	46.4	-	-
3			
Total Transactions with Equity Holders		385,076	390,459
Balance as at 31st December 2021 (1 + 2 + 3)		11,521,263	6,802,619

* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20(1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

** FVOCI Reserve - Fair Value through Other Comprehensive Income Reserve

Notes on pages 154 to 248 form an integral part of these Financial Statements.

Statutory Reserve Fund*	Retained Earnings	Other Reserves			Total
		Revaluation Reserve	FVOCI Reserve **	Other Reserves	
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
1,952,957	22,823,239	858,312	(14,219)	1,962,261	44,627,274
-	3,011,300	-	-	-	3,011,300
-	(495,480)	-	-	-	(495,480)
-	-	-	1,238,707	-	1,238,707
-	-	-	1,062,026	-	1,062,026
-	-	-	-	26,772	26,772
-	2,515,820	-	2,300,733	26,772	4,843,325
-	(1,007,247)	-	-	-	(503,624)
150,565	(150,565)	-	-	-	-
-	500,795	-	-	(500,795)	-
-	1,490	-	(1,490)	-	-
-	(308)	-	308	-	-
150,565	(655,835)	-	(1,182)	(500,795)	(503,624)
2,103,522	24,683,224	858,312	2,285,332	1,488,238	48,966,975
2,103,522	24,683,224	858,312	2,285,332	1,488,238	48,966,975
-	4,580,540	-	-	-	4,580,540
-	-	601,759	-	-	601,759
-	(390,122)	-	-	-	(390,122)
-	-	-	(2,093,966)	-	(2,093,966)
-	-	-	438,794	-	438,794
-	-	-	-	(77,485)	(77,485)
-	4,190,418	601,759	(1,655,172)	(77,485)	3,059,520
-	(775,535)	-	-	-	-
-	9,228	-	-	-	9,228
-	8,535	8,751	-	-	17,286
229,027	(229,027)	-	-	-	-
-	434,435	-	-	(434,435)	-
-	875,339	-	(875,339)	-	-
229,027	322,975	8,751	(875,339)	(434,435)	26,514
2,332,549	29,196,617	1,468,822	(245,179)	976,318	52,053,009

Statement of Changes in Equity

Group	Note	Stated Capital		Statutory Reserve Fund*
		Ordinary Shares - Voting LKR '000	Ordinary Shares - Non Voting LKR '000	
1	Balance as at 01st January 2020	10,884,710	6,160,014	1,952,957
	Total Comprehensive Income for the Year			
	Profit for the Year	-	-	-
	Other Comprehensive Income (net of tax)			
	- Revaluation of Property, Plant and Equipment	46.2	-	-
	- Actuarial Losses on Defined Benefit Obligations	43.1.8	-	-
	- Net Gains on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
	- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
	- Net Movement of Cash Flow Hedge Reserve	46.5	-	-
2	Total Comprehensive Income for the Year	-	-	-
	Transactions with Equity Holders , Recognised Directly In Equity			
	Cash/Script Dividend	18	251,477	252,146
	Transferred to Statutory Reserve Fund*	45	-	-
	Transferred from Investment Fund Reserve	46.6	-	-
	Net Gains on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income	46.4	-	-
	Net Losses on reclassification of Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
3	Total Transactions with Equity Holders	251,477	252,146	150,565
	Balance as at 31st December 2020 (1 + 2 + 3)	11,136,187	6,412,160	2,103,522
1	Balance as at 01st January 2021	11,136,187	6,412,160	2,103,522
	Total Comprehensive Income for the Year			
	Profit for the Year	-	-	-
	Other Comprehensive Income (net of tax)			
	- Revaluation of Property, Plant and Equipment	46.2	-	-
	- Actuarial Losses on Defined Benefit Obligations	43.1.8	-	-
	- Net Losses on Investments in Debt Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
	- Change in Fair Value on Investments in Equity Instruments measured at Fair Value through Other Comprehensive Income	46.4	-	-
	- Net Movement of Cash Flow Hedge Reserve	46.5	-	-
2	Total Comprehensive Income for the Year	-	-	-
	Transactions with Equity Holders , Recognised Directly In Equity			
	Script Dividend	18	385,076	390,459
	Unclaimed Dividend Absorbed/(Dividend Paid) in respect of Previous Years		-	-
	Reversal of Revaluation on Disposed Property, Plant and Equipment	46.2	-	-
	Transferred to Statutory Reserve Fund*	45	-	-
	Transferred from Investment Fund Reserve	46.6	-	-
	Net Gains on Disposal of Equity Investments measured at Fair Value through Other Comprehensive Income	46.4	-	-
	Others		-	-
3	Total Transactions with Equity Holders	385,076	390,459	229,027
	Balance as at 31st December 2021 (1 + 2 + 3)	11,521,263	6,802,619	2,332,549

* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20(1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

** FVOCI Reserve - Fair Value through Other Comprehensive Income Reserve

Notes on pages 154 to 248 form an integral part of these Financial Statements.

Retained Earnings LKR '000	Other Reserves			Total LKR '000	Non-Controlling Interest LKR '000	Total Equity LKR '000
	Revaluation Reserve LKR '000	FVOCI Reserve ** LKR '000	Other Reserves LKR '000			
23,494,184	1,714,728	(44,601)	2,217,474	46,379,466	1,264,588	47,644,054
3,038,629	-	-	-	3,038,629	59,429	3,098,058
-	21,139	-	-	21,139	8,841	29,980
(495,369)	-	-	-	(495,369)	46	(495,323)
-	-	1,240,784	-	1,240,784	868	1,241,652
-	-	1,062,026	-	1,062,026	-	1,062,026
-	-	-	26,772	26,772	-	26,772
2,543,260	21,139	2,302,810	26,772	4,893,981	69,184	4,963,165
(1,007,247)	-	-	-	(503,624)	(47,996)	(551,620)
(150,565)	-	-	-	-	-	-
500,795	-	-	(500,795)	-	-	-
1,490	-	(1,490)	-	-	-	-
(308)	-	308	-	-	-	-
(655,835)	-	(1,182)	(500,795)	(503,624)	(47,996)	(551,620)
25,381,609	1,735,867	2,257,027	1,743,451	50,769,823	1,285,776	52,055,599
25,381,609	1,735,867	2,257,027	1,743,451	50,769,823	1,285,776	52,055,599
4,653,003	-	-	-	4,653,003	82,667	4,735,670
-	629,607	-	-	629,607	11,648	641,255
(390,684)	-	-	-	(390,684)	(235)	(390,919)
-	-	(2,091,694)	-	(2,091,694)	950	(2,090,744)
-	-	438,794	-	438,794	-	438,794
-	-	-	(77,485)	(77,485)	-	(77,485)
4,262,319	629,607	(1,652,900)	(77,485)	3,161,541	95,030	3,256,571
(775,535)	-	-	-	-	(52,362)	(52,362)
9,228	-	-	-	9,228	-	9,228
8,654	8,661	-	-	17,315	12	17,327
(229,027)	-	-	-	-	-	-
434,435	-	-	(434,435)	-	-	-
875,339	-	(875,339)	-	-	-	-
327	-	-	-	327	137	464
323,421	8,661	(875,339)	(434,435)	26,870	(52,213)	(25,343)
29,967,349	2,374,135	(271,212)	1,231,531	53,958,234	1,328,593	55,286,827

Statement of Cash Flows

For the Year ended 31st December	Note	Bank		Group	
		2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cash Flows from Operating Activities					
Interest Receipts		41,685,072	48,732,142	41,695,861	48,739,823
Interest Payments		(21,411,294)	(29,889,168)	(21,402,467)	(29,879,048)
Net Commission Receipts	9	4,641,200	3,729,610	4,640,476	3,728,304
Trading Income		28,216	165,587	29,416	166,776
Payments to Employees		(7,353,685)	(6,961,878)	(7,390,910)	(6,995,809)
VAT on Financial Services Paid		(2,164,565)	(1,199,766)	(2,164,565)	(1,199,766)
Receipts from Other Operating Activities		3,707,288	2,455,564	3,804,412	2,565,231
Payments on Other Operating Activities		(3,850,485)	(4,062,152)	(3,892,235)	(4,111,841)
Operating Profit before Changes in Operating Assets and Liabilities [Note (a)]		15,281,747	12,969,939	15,319,988	13,013,670
(Increase)/Decrease in Operating Assets :					
Balances with Central Bank of Sri Lanka	21	(1,354,631)	7,087,767	(1,354,631)	7,087,767
Financial Assets at Amortised Cost - Loans and Advances		(54,727,268)	(18,421,886)	(54,727,317)	(18,421,886)
Other Assets		103,576	178,558	94,723	125,778
Increase/(Decrease) in Operating Liabilities :					
Financial Liabilities at Amortised Cost - Due to Depositors		49,744,819	40,673,176	49,744,819	40,673,176
Financial Liabilities at Amortised Cost - Due to Debt Securities Holders		89,286	(5,824,851)	89,286	(5,824,851)
Financial Liabilities at Amortised Cost - Due to Other Borrowers	38	(6,828)	(9,284)	(6,828)	(9,284)
Other Liabilities		181,437	(704,858)	262,403	(787,487)
Due to Banks	35	(8,175,300)	3,910,058	(8,175,300)	3,910,058
Cash Generated from Operating Activities before Income Tax		1,136,838	39,858,619	1,247,143	39,766,941
Income Tax Paid	41	(1,242,538)	(976,468)	(1,242,538)	(976,468)
Net Cash (Used in) / Generated from Operating Activities		(105,700)	38,882,151	4,605	38,790,473
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	30	(312,432)	(512,836)	(356,854)	(528,926)
Improvements in Investment Properties	32	-	-	(33,725)	(18,863)
Proceeds from Sale of Property, Plant and Equipment		10,323	15,896	10,323	15,896
Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Government of Sri Lanka Treasury Bills/Bonds, Development and International Sovereign Bonds maturing after Three Months [Note (b)]		4,966,410	(19,049,799)	4,966,410	(19,049,799)
Net Proceeds From Sale, Maturity and Purchase of Financial Investments of Shares and Debentures		767,816	36,381	772,153	31,929
Reverse Repurchase Agreements maturing after Three Months		1,801	4,433	1,801	4,433
Net Purchase of Intangible Assets	33	(149,882)	(177,129)	(149,882)	(177,129)
Net Cash Flow from Acquisition of Investment in Subsidiaries		-	-	-	-
Net Cash Flow from Disposal of Subsidiaries		-	-	-	-
Dividend Received from Investment in Subsidiaries	12	125,199	114,765	-	-
Dividend Received from Other Investments	12	32,674	19,173	32,674	19,173
Net Cash (Used in) / Generated from Investing Activities		5,441,909	(19,549,116)	5,242,900	(19,703,286)
Cash Flows from Financing Activities					
Net Proceeds from the Issue of Ordinary Share Capital		-	-	-	-
Net Proceeds from the Issue of Other Equity Instruments		-	-	-	-
Net Proceeds from the Issue of Subordinated Debt		6,000,000	-	6,000,000	-
Repayment of Subordinated Debt		(1,727,720)	(2,806,040)	(1,727,720)	(2,806,040)
Interest Paid on Subordinated Debt		(2,261,775)	(2,232,788)	(2,250,959)	(2,221,972)
Interest Paid on Un-Subordinated Debt		-	(241,770)	-	(241,770)
Dividend Paid to Non-Controlling Interest		-	-	(42,931)	(49,720)
Dividend Paid to Shareholders of the Bank		(229)	(502,788)	(229)	(502,788)
Dividend Paid to Holders of Other Equity Instruments		-	-	-	-
Repayment of Principal Portion of Lease Liabilities	31.1.3	(822,434)	(750,450)	(537,647)	(465,698)
Net Cash (Used in) / Generated from Financing Activities		1,187,842	(6,533,836)	1,440,514	(6,287,988)

For the Year ended 31st December	Note	<i>Bank</i>		<i>Group</i>	
		2021	2020	2021	2020
		LKR '000	LKR '000	LKR '000	LKR '000
Net Increase in Cash and Cash Equivalents		6,524,051	12,799,199	6,688,019	12,799,199
Cash and Cash Equivalents at Beginning of the Year		37,515,866	24,716,667	37,516,404	24,717,205
Cash and Cash Equivalents at End of the Year		44,039,917	37,515,866	44,204,423	37,516,404
Reconciliation of Cash and Cash Equivalents					
Cash and Cash Equivalents	20	16,113,653	10,044,937	16,113,693	10,044,977
Placements with Banks and Finance Companies	22	8,288,351	10,784,450	8,288,849	10,784,948
Government of Sri Lanka Treasury Bills/Bonds, Development and International Sovereign Bonds maturing within Three Months		9,608,882	10,543,586	9,772,850	10,543,586
Securities Purchased Under Resale Agreements maturing within Three Months		10,029,031	6,142,893	10,029,031	6,142,893
		44,039,917	37,515,866	44,204,423	37,516,404

Note (a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

For the Year ended 31st December	Note	<i>Bank</i>		<i>Group</i>	
		2021	2020	2021	2020
		LKR '000	LKR '000	LKR '000	LKR '000
Profit before Income Tax		6,027,776	4,111,247	6,184,680	4,295,636
Accrual for Interest Income		(5,085,343)	(2,372,613)	(5,085,343)	(2,372,613)
Accrual for Interest Expenses		(491,755)	(756,726)	(776,130)	(1,041,137)
Fair Value Adjustment on Derivative Financial Instruments	10	191,910	(200,726)	191,910	(200,726)
Loss on Revaluation of Foreign Exchange		444,503	758,044	444,503	758,044
Dividend Income	12	(157,873)	(133,938)	(32,674)	(19,173)
Unrealised Fair Value (Gains)/Losses on Financial Instruments Measured at Fair Value Through Profit or Loss		55,350	18,759	55,350	18,759
Profit from Sale of Property, Plant and Equipment	12	(10,323)	(8,884)	(10,323)	(8,884)
Depreciation of Property, Plant and Equipment	14	796,791	822,304	860,436	879,282
Depreciation of Right-of-Use Assets	14	455,160	461,141	421,441	427,642
Depreciation of Investment Properties	14	-	-	20,071	15,416
Amortization of Intangible Assets	14	177,518	163,866	177,518	163,866
Impairment Charges on Loans and Advances	13	8,985,084	6,668,894	8,985,084	6,668,894
Amortization of Pre Paid Staff Cost	15	280,371	265,654	280,420	265,770
Accrual for VAT on Financial Services		(229,753)	328,530	(229,753)	328,530
Accrual for Employee Retirement Benefits Liability		(381,904)	13,419	(382,950)	13,297
Impairment Charges other than Loans and Advances	13	1,436,829	324,082	1,436,829	324,082
Accrual for Leave Encashment Provision	43.2	(4,386)	69,336	(4,386)	69,336
Accrual for Other Expenses		530,017	(37,008)	532,346	(36,093)
Interest Paid to Debt Security Holders		2,261,775	2,474,558	2,250,959	2,463,742
Operating Profit before Changes in Operating Assets and Liabilities		15,281,747	12,969,939	15,319,988	13,013,670

Note (b) Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Government of Sri Lanka Treasury Bills/Bonds, Development and International Sovereign Bonds maturing after Three Months

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Treasury Bills	3,667,102	(2,842,078)	3,667,102	(2,842,078)
Treasury Bonds	(2,218,563)	(6,356,778)	(2,218,563)	(6,356,778)
Sri Lanka Development Bonds	646,228	(2,601,493)	646,228	(2,601,493)
Sri Lanka International Sovereign Bonds	2,871,643	(7,249,450)	2,871,643	(7,249,450)
Total	4,966,410	(19,049,799)	4,966,410	(19,049,799)

Notes on pages 154 to 248 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Reporting Entity

Seylan Bank is a Licensed Commercial Bank (LCB) regulated under the Banking Act No. 30 of 1988 and amendments thereto, and listed on Colombo Stock Exchange as a public limited liability company. The Bank was incorporated on 28 August 1987 and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 90, Galle Road, Colombo 03. The shares of the Bank have a primary listing on the Colombo Stock Exchange (CSE).

The consolidated Financial Statements comprises the Bank and its subsidiary (together referred to the Group).

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group.

The total number of employees of the Bank as at 31 December 2021 is 3,148 (2020 – 3,251).

1.1 Principal Activities and Nature of the Business

The Bank

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, salary remittance packages, pawning, margin trading, factoring, digital banking services, bancassurance, Islamic banking products and services, dealing in Government Securities, etc.

Subsidiary

The Subsidiary, Seylan Developments PLC, situated at No. 90, Galle Road, Colombo 03, is in the business of development, administration and maintenance of property.

2. Basis of Presentation of Financial Statements

2.1 Statement of Compliance

The Financial Statements of the Bank and Group have been prepared in accordance with the Sri Lanka Accounting Standards

(SLFRSs / LKASs) issued by The Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 7 of 2007 and Banking Act No. 30 of 1988 and amendments thereto and listing rules of Colombo Stock Exchange (CSE). The details of significant accounting policies are disclosed in Note 5.

2.2 Approval of Financial Statements by Directors

The Financial Statements as at 31 December 2021 were authorised for issue by the Board of Directors on 22 February 2022.

2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items, which are measured on the following alternative basis on each reporting date.

- Derivative financial instruments and non- derivative financial instruments held at Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value.
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Non-current assets held for sale are measured at lower of carrying amount and fair value less cost to sell.
- Liability for defined benefit obligations is measured as the present value of the defined benefit obligation less the fair value of the plan assets.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Bank's/Group's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

There was no change in the Bank's/Group's presentation and functional currency during the year under review.

2.5 Materiality and Aggregation

Each material class of similar item is presented separately in the Financial

Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated and Bank only Statement of Financial Position when, and only when, the Group/Bank has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs / LKASs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

2.7 Comparative Information

The comparative information is reclassified whenever necessary to conform with the current year's presentation and to be in compliance with the Circular No 2 of 2019 issued by Central Bank of Sri Lanka on publication of Annual and Quarterly Financial Statements and other disclosures by licensed banks in order to provide a better presentation.

As explained in Note 17.1 weighted average number of ordinary shares as at 31 December 2020 has been restated in arriving at Earnings per Share (EPS) for 2020.

3. Use of Estimates and Judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs / LKASs) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have

the most significant effect on the amounts recognised in the Financial Statements are described in the following notes.

Coronavirus (COVID-19) Pandemic

The COVID-19 pandemic and its effect on the global economy has impacted the customers, operations and Group performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these Financial Statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these Financial Statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(I) Judgements

(a) Classification of Financial Assets

The Group used judgements when assessing of the business model within which the assets are held and assessment whether the contractual terms of the financial assets are solely payments of principal and interest (SPPi) on the principal amount of the outstanding.

(b) Assessment of Credit Risk

The Group also used judgements when establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of Expected Credit Losses (ECL) and selection and approval of models to measure ECL.

(c) Determination of Control over Employee Share Option Scheme and Share Trusts

The judgement applied by management over determination of control over Employee Share Option Scheme and Share Trusts is set out in Note 5.1.5.

(d) Determination of Control over Investee

(II) Assumptions and Estimation Uncertainties

Going Concern

The management has made an assessment of the Bank's/Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's/Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Fair Value of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

The Bank uses estimates when determining inputs into the ECL measurement model, including incorporation of forward looking information.

This includes an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the change of which can result in different levels of allowances.

Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Measurement of Defined Benefit Obligations

The costs of the defined benefit plans are determined using an actuarial valuation. The actuarial valuation involves making assumptions about mortality rates, staff turnover, disability rate, retirement age, rate of discount, salary increments etc.

Contingencies

The management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

4. Changes in Accounting Policies

Specific Policies applicable from 1 January 2021 for Interest Rate Benchmark Reform ("IBOR") (Amendments to SLFRS 9, LKAS 39 and SLFRS 7)

A fundamental reform of major interest rate benchmark is being undertaken globally, replacing certain interbank offered rates ("IBORs") with alternative nearly risk-free rates (referred to as "IBOR reform"). Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform Phase 1 and Phase 2. The effective date of both IBOR reform Phase 1 and Phase 2 amendments are for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context and the requirements under phase 2 amendments have to be applied retrospectively.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms and revision of operational controls related to the reform and regulatory risk. Financial risk is predominantly limited to interest rate risk.

Bank has commenced a process to evaluate the impact from this reform on its financial instruments. This process will involve evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform, how to manage communication about IBOR reform with counterparties and the changes required for the existing credit policies.

Notes to the Financial Statements

As at 31 December 2021, the IBORs for certain key currencies to which the Bank has exposure to are in the process of reforming.

Except for the change above, the Group has consistently applied the accounting policies as set out in Note 5 to all periods presented in these Consolidated Financial Statements.

5. Significant Accounting Policies

The Accounting Policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

The Accounting Policies have been applied consistently by Group entities except for the changes in accounting policies described in Note 4.

5.1 Basis of Consolidation

5.1.1 Business Combination

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

5.1.2 Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Financial Statements of the Subsidiary are included in the Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The accounting policies of the Subsidiary have been changed when necessary to align them with the policies adopted by the Group. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its subsidiary incorporated in Sri Lanka, Seylan Developments PLC (70.51%).

The total profit/loss of the Subsidiary is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Non-Controlling Interest'. All assets and liabilities of the Bank and its subsidiary are included in the Consolidated Statement of Financial Position. The interest of the outside shareholders in the net assets of the Group is stated separately in the Consolidated Statement of Financial Position within Equity under the heading 'Non-Controlling Interest'.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

5.1.3 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the Subsidiary, any non-controlling interest and the other components of equity related to the Subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

5.1.4 Transactions Eliminated on Consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

5.1.5 Employee Share Option Schemes and Share Trusts

The Trusts are treated as external entities due to the uncertainties relating to the formation of the trusts and beneficial ownership.

5.1.6 Non-Controlling Interest

Non-controlling interest is measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a Subsidiary that do not result in a loss of control are accounted for as equity transactions.

5.1.7 Non-Uniform Accounting Policies

The impact of non-uniform accounting policies adopted by the Subsidiary has been adjusted in the Consolidated Financial Statements and disclosed in Note 54.

5.2 Foreign Currency Translations and Balances

Transactions in foreign currencies are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates ruling at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The following are the middle rate of exchange as at 31 December 2021.

Currency	LKR Value (per 1 Unit of Each Currency)
Great Britain Pound	271.5108
United States Dollar	201.0000
Euro	227.6325
Japanese Yen	1.7462
Australian Dollar	145.9059

5.3 Statutory Deposit with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

5.4 Financial Assets and Financial Liabilities

5.4.1 Recognition and Initial Measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

5.4.2 Classification

Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business Model Assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Notes to the Financial Statements

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or contractual cash flows such that it would not meet this condition. In making the assessment the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-Recourse Loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;

- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

5.4.3 Derecognition

Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are

securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Modification of Financial Assets and Liabilities

Financial Assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial Liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs

and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

5.4.4 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long

positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5.4.5 Impairment

Recognition of ECL

The Group recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- undrawn credit commitments.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Notes to the Financial Statements

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower,

then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-Impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other

indicators of impairment. In addition, a loan that is past due for a period more than 90 days or classified as non-performing under CBSL direction No. 03 of 2008 is considered credit-impaired.

Presentation of Allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities;
- debt instruments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the FVOCI reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'Other Income' in the Income Statement.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5.4.6 Designation at Fair Value Through Profit or Loss

The Group does not have any financial assets or financial liabilities designated as at FVTPL.

5.5 Securities Purchased Under Resale Agreements

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted.

The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

5.6 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins in hand and highly liquid financial assets with original maturities of three months or less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

5.7 Derivatives Held for Risk Management Purposes and Hedge Accounting

Derivatives are categorised as FVTPL unless they are designated as hedging instruments.

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

All derivatives are initially recognised and subsequently measured at fair value, with all fair value changes recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships.

Policy Applicable Generally to Hedging Relationships

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument is

expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. Currently, the Group has only cash flow hedging relationships.

The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk, if the portion is separately identifiable and reliably measurable.

Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affected profit or loss, and in the same line item in the Statement of Profit or Loss and Other Comprehensive Income.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

The Bank's Risk Management Division closely monitors the hedging activities that are been carried out by the Treasury Front Office for their compliance and effectiveness, as a Risk Management Strategy. The Bank enters into hedging transactions for exposures that pose a material risk to the Bank's financial health or threaten the strategic decisions. These hedging transactions are entered within the Bank's approved limits such as Per Transaction Limits Counter Party Limits, Currency Exposure Limits and Gap Limits, and always study the Market Outlook prior to entering into such transactions.

Fair Value Hedge of Foreign Exchange Risk

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

Notes to the Financial Statements

5.8 Non-Current Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

5.9 Intangible Assets

5.9.1 Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

5.9.2 Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.9.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows;

	Useful Life (years)
Seylan Bank PLC (Banking Software)	6
Seylan Developments PLC (Accounting Software)	5

5.10 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is completed. The Group applies the cost model for investment properties in accordance with LKAS 40 - 'Investment Property'. Accordingly, land classified as investment properties are stated at cost and buildings classified as investment properties are stated at cost, less any accumulated depreciation and any accumulated impairment losses. Fair values of these properties are disclosed in Note 32 to the Financial Statements. Seylan Developments PLC, the Subsidiary of the Bank, applies the fair value model in accordance with the above standard. Accordingly, investment properties are stated at fair value and an external independent valuation company having an appropriate recognised professional qualification values the portfolio annually. Any gain or loss arising from a change in fair value is recognised in profit or loss. Adjustment for non-uniform accounting policy is reported in Note 54.

When an item of Property, Plant and Equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value are recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as Property, Plant and Equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured, based on fair value model, and is not reclassified as Property, Plant and Equipment during the redevelopment.

A leasehold property under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both.

5.10.1 Derecognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.

5.10.2 Investment Property Leased within the Group

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes and changes are disclosed in Note 54 to the Financial Statements.

5.11 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

5.11.1 Recognition and Measurement

Items of Property and Equipment are measured at cost or revaluation, less accumulated depreciation and accumulated impairment losses except for land. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

5.11.2 Cost Model

The Bank applies cost model to Property, Plant and Equipment except for Land and Buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

5.11.3 Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings of the Bank are revalued within five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in Equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

Reclassification to Investment Property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

5.11.4 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

5.11.5 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in the Income Statement when the item is derecognised.

5.11.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term or their useful lives. Land is not depreciated.

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

	Useful Life (Years)	Depreciation Rate
Freehold Buildings	40	2.5%
Motor Vehicles	5	20%
Computer Equipment	6	16.67%
Office Machine, Equipment, Furniture and Fittings	3 - 10	33 1/3% - 10%
Freehold Buildings on Leasehold Lands	Remaining leased period or 40 years whichever is shorter	

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

The Bank does not require to reinstate fully depreciated assets as per the guidelines

issued by The Institute of Chartered Accountants of Sri Lanka on Reinstatement of Fully Depreciated Assets in the Statement of Financial Position, as those are neither critical nor a main revenue generating source.

Seylan Developments PLC

Property, Plant and Equipment are recorded at cost of purchase or valuation together with any incidental expenses thereon. The assets are stated at cost or valuation less accumulated depreciation which is provided for on the basis specified below.

Depreciation of common types of assets within the Group is in line with the Group policy disclosed above. Freehold land is not depreciated. The depreciation of other assets that are unique to Seylan Developments PLC is provided on the straight-line method at varying rates per annum based on their useful lives as follows:

	Useful Life (Years)	Depreciation Rate
Furniture and Fittings	10	10%
Office and Other Equipment	05	20%
Tools	03	33.3%

5.11.7 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

5.11.8 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard (LKAS) 23 "Borrowing Costs". Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

Other borrowing costs are recognised as an expense.

Notes to the Financial Statements

5.12 Leases

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

(a) Group Acting as a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the Statement of Financial Position.

Short-Term Leases and Leases of Low-Value Assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) Group Acting as a Lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

5.13 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU, subject to an operating segment ceiling test.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised

in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

5.14 Inventories

Inventory mainly consists of stationery, consumables, pre-printed material, Tikiri gifts and electronic cards. Bank accounts the inventory of stationery, consumables, pre-printed material and Tikiri gifts at first in first out method, and the electronic cards at cost.

5.15 Liabilities and Provisions

5.15.1 Deposits, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("Repo"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's Financial Statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

5.15.2 Dividend Payable

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

5.16 Employee Retirement Benefits

5.16.1 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

The Bank's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit Method - Sri Lanka Accounting Standard (LKAS 19) - 'Employee Benefits'.

Actuarial gains and losses occur when the actual plan experience differs from the assumed. The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the Plan in Other Comprehensive Income during the period in which it occurs.

When the calculations above result in a benefit to the Bank, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Bank if it is realisable during the life of the plan or on settlement of the plan liabilities.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The percentage of contributions is determined by the same actuary and retirement benefits are provided to all permanent staff. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', the method recommended by LKAS 19. The demographic assumptions underlying the valuation are mortality, staff turnover, disability, retirement age specified by the Bank, etc.

As per the Parliament Act 28 of 2021 Minimum Retirement Age of Workers, the retirement age has been changed to a range of 57 years to 60 years from 55

years. Earlier the Bank's retirement age of employees was increased to 57 years in 2017 from 55 years. These revisions in retirement age has been considered in estimating the provision for defined benefit obligations and leave encashment provision as changes in estimates.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Changes to Gratuity Policy

The Board has resolved to pay an additional half a month basic salary (last drawn) over and above the statutory gratuity entitlement for each year of service for eligible existing employees and ex-employees who joined before 5 March 2009 and retired/resigned after 5 March 2009 having completed uninterrupted and unblemished service period of ten years in the Bank, subject to the entering into a Memorandum of Settlement which confers on them the said entitlement to the additional payment and giving the right to the Bank to settle the said liability by disposal of the shares in the Share Trust companies.

All employees who joined on or after 5 March 2009 are entitled to receive a Gratuity of half a month basic salary (last drawn) for each completed year of service in terms of Gratuity Act No. 12 of 1983.

The Subsidiary has performed the calculation using the Projected Unit Credit Method based on Sri Lanka Accounting Standard (LKAS) 19 - "Employee Benefits", and the provisions have been made accordingly.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

Other Long-Term Employee Benefits – (Termination Benefit -Leave Encashment)

The Bank's net obligation in respect of long-term employee benefits other than gratuity funds is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed using the Projected Unit Credit Method.

Any actuarial gains and losses are recognised in profit or loss in the period in

Notes to the Financial Statements

which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long-term employee benefits.

Past Service Cost and Gain/Loss on Settlement

Before determining past service cost or gain or loss on settlements, the Bank re-measures the net defined benefit liability/ (asset) using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

A plan amendment occurs when an entity introduces, or withdraws a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost or gain or loss on settlement is calculated net of any related asset transferred and recognised in profit or loss.

Termination Benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

5.16.2 Defined Contribution Plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans

are recognised as expense in the Income Statement as and when they are due.

5.16.2(a) Employees' Provident Fund

The Bank and employees contribute 12% and a minimum of 8% respectively on the salary of each employee to the approved private Provident Fund while the Subsidiary and their employees contribute the same percentages to the Employees' Provident Fund.

5.16.2(b) Employees' Trust Fund

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Note 15 to Financial Statements.

5.17 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

5.18 Financial Guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

5.19 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary, for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

Income Statement

5.20 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income Statement.

Interest income on FVOCI investment securities calculated on an effective interest basis is also included in interest income.

Fee, Commission and Other Income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on a cash basis.

Net Gains/(Losses) from Trading

This income comprises gains less losses related to trading / FVTPL assets and includes all realised and unrealised fair value changes.

Dividend Income

Dividend income is recognised in the Income Statement when the Bank's right to receive the dividend is established.

Usually this is the ex-dividend date for equity securities. Dividends are presented in net other operating income.

Accounting for Finance Lease Income

Assets leased to customers to whom the Bank transfers substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

Profits / Losses from Sale of Property, Plant and Equipment

Any profits or losses from sale of property, plant and equipment are recognised in the period in which the sale occurs and is classified as net other operating income.

Profits / Losses from Sale of Investment Properties

Any profits or losses on retirement or disposal of investment properties are recognised in the month of retirement or disposal.

Rental Income

Rental income is recognised on an accrual basis.

5.21 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in Equity or in Other Comprehensive Income. According to Inland Revenue Act No. 10 of 2021, the Income Tax rate applicable on entities have changed with effect from 1 January 2020. As such, the Income Tax Return filed with the Inland Revenue for the Year of Assessment 2020/2021 contained a lower rate of 24% applicable on companies compared to its previous rate of 28%. The tax savings on such reduction of Income Tax rate from 28% to 24% has been ascertained for the Bank as LKR 197.56 Mn. The rate change effect on Income Tax from 28% to 24% for the Bank has been reflected in the current year (2021) deferred tax assets/ liabilities movement. The net change of deferred tax assets/ liabilities is LKR 207.50 Mn.

5.21.1 Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

5.21.2 Deferred Tax

Deferred taxation is a methodology identifying the temporary differences of income tax computation and accounting for the same to bring out true and fair view of an organisation. It accounts for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities which is the amount attributed for those assets and liabilities for tax purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the rates enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss.
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.
- Any permanent differences which are strictly prescribed by the tax statutes or any procedural guidelines.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is created on foreseen futuristic realisation of a tax payment, which is not taxed in the current period, and vice versa, a deferred tax liability shall be created for a foreseen futuristic realisation of a tax deduction, which is taxed in the current period. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced or increased in accordance with the existence of taxing probabilities in the future.

Details of the deferred tax assets and liabilities as at the reporting date are given in Notes 16.4 and in Notes 42 including the sub notes. Deferred tax impact of items that are recognised in OCI/directly in equity are also recognised in OCI/directly in equity.

Bank has already recognised the deferred tax liability for the revaluation surplus of land in accordance with the related tax provisions introduced by the Inland Revenue Act No 24 of 2017 by considering all the lands as business assets. The total related deferred tax charge was recognised in the Other Comprehensive Income from the year 2017 onwards.

5.21.3 Withholding Tax on Dividends

Dividends distributed out of profits after tax attract a 14% tax deduction in the hands of the dividend recipient (individuals are taxed at the progressive tax rates, 6%, 12%

Notes to the Financial Statements

and balance 18%). Unlike in the period before January 2020, withholding tax on dividends is not a tax at source and it shall not be deducted at the time of dividends are distributed; the shareholders shall receive dividends at gross.

Withholding Tax on Dividends has been abolished with effect from 1 January 2020 as per the Inland Revenue Amendment Act No 10 of 2021. Therefore, dividend income shall not be subject to withholding tax further with effect from 1 January 2020.

With the introduction of the Inland Revenue Amendment Act No 10 of 2021, any dividends paid out of the dividends received, shall be exempted from income tax net of the cost of funds. In addition, if a resident company pays the dividend to a non-resident person (including a company) such would be totally exempt from income tax.

5.21.4 Value Added Tax on Financial Services

The value base for Value Added Tax (VAT) for the Bank is the adjusted accounting profit before tax, emoluments of employees and economic depreciation computed for the owned fixed assets. The total value addition arrived for the entire bank has to be apportioned in accordance to the applicable turnover; turnover has to be quantified in line with the turnover applicable for general VAT and VAT on Financial Services. The Value Addition Attributable for Financial Services" shall be derived with the application of the turnover ratio distinguishing general VAT and VAT on Financial Services. Tax fraction 15/115 shall be applied (it has been proposed to change the rate on VAT on Financial Services from 15/115 to 18/118 with effect from January 2022) on the value addition attributable to financial services in order to derive the total VAT liability for a particular period.

5.21.5 Crop Insurance Levy

Section 14 of the Finance Act No. 12 of 2013 impose a crop insurance levy on institutions under the purview of;

- Banking Act No 30 of 1988
- Finance Companies Act No 78 of 1988
- Regulation of Insurance Industry Act No. 43 of 2000

Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund with effect from 1 April 2013.

5.22 Earnings per Share

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Weighted average number of ordinary shares has been calculated as per LKAS 33 considering the theoretical ex-rights value per share and the adjustment factor applicable for Rights Issue.

5.23 Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group comprises the following major operating segments - Banking, Treasury and Property/Investments.

5.24 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the LKAS 7 "Statement of Cash Flows".

For the purpose of the Statement of Cash Flows, cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

5.25 Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No 5 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32 A to 32 E of the Monetary Law Act with effect from 1 October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to Central Bank of Sri Lanka
- Vostro accounts of entities in the member institutions
- Deposit liabilities of overseas branches
- Promissory notes

Each Member Institutions shall pay a premium calculated on the total amount of deposits inclusive of any interest accrued, excluding the deposit liabilities stated above, as at the end of the quarter/month as may be determined by the Monetary Board, from time to time, to the Sri Lanka Deposit Insurance and Liquidity Support Fund.

Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year or a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

5.26 Reserves

5.26.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required in terms of the section 20 (1) and (2) of the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer a sum equivalent not less than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital.

5.26.2 Capital Reserve

This reserve has been created in 1991 and the Debenture Redemption Reserve Fund was transferred to Capital Reserve in 2004.

5.26.3 Revaluation Reserve

This reserve has been created on revaluation of Land and Buildings of the Bank.

5.26.4 General Reserve

Consist of LKR 25 Mn. transferred in 1995 to General Reserve, LKR 2.7 Mn. transferred from Bad Debts Reserve and LKR 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

5.26.5 Investment Fund Reserve

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011, Bank transferred 8% on Value Addition attributable to Financial Services and 5% of taxable profits, from retained profits to Investment Fund Reserve with effect from 1 January 2011.

Operations of the investment fund account ceased with effect from 1 October 2014. With effect from 1 July 2014 guidelines on the operations of investment fund account shall not be applicable for the utilisation of capital funds recovered through loan repayments and maturity proceeds of long term Government Securities. Hence the Bank is required to reduce the value of the fund by an amount equivalent to capital funds recovered from loans and proceeds received from Government Securities at maturity with effect from 1 July 2014.

5.26.6 Fair Value Through Other Comprehensive Income Reserve

This represent the fair value changes of Available for Sale Investments prior to 1 January 2018 and fair value changes of Financial assets measured at fair value through other comprehensive income (FVOCI) since 1 January 2018.

5.26.7 Cash Flow Hedge Reserve

This has been created to account fair value changes of designated hedging instruments under cash flow hedges.

5.27 Events after the Reporting Period

Events occurring after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date the Financial Statements are authorised for issue.

All material and important events which occur after the reporting date have been considered and disclosed in Note 50 to

the Financial Statements or adjusted as applicable.

5.28 Accounting Standards Issued but not yet Adopted

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable for financial periods beginning after 1 January 2021. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the Statement of Financial Position. Under the amendments, the Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2021, the deductible tax amount on temporary difference in relation to the right-of-use asset is LKR 35.65 Mn and the tax amount on taxable temporary difference in relation to the lease liability is LKR 322.85 Mn (Note 42.2). The total effect of deferred tax movement for the accounting period ending 31 December 2021 has resulted to a net deferred tax liability of LKR 257.57 Mn. The Group presents a separate deferred tax liability of LKR 1,386.81 Mn. and a deferred tax asset of LKR 804.42 Mn. where the net effect resulting to LKR 582.39 Mn. There will be no impact on retained earnings on adoption of the amendments.

Other Standards

The following new and amended standards are not expected to have a significant impact on the Group's Consolidated Financial Statements.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37).
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to SLFRS 16)
- Annual Improvements to SLFRS Standards 2018–2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).
- Reference to Conceptual Framework (Amendments to SLFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1)
- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to LKAS 8).

6 Financial Risk Management

Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Banks' risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee, the Board Audit Committee and the Board Credit Committee. Board Integrated Risk Management Committee consists of non-executive members who report regularly to the Board of Directors on their activities. There are several executive management sub committees such as the Executive Market and Operational Committee, Asset and Liability Committee (ALCO), Executive Credit Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

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

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on financial assets measured at fair value through profit or loss is managed independently and information thereon is disclosed below. The market risk in respect of changes in fair value in financial assets measured at fair value through profit or loss arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in market risk section.

Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Credit Committee. Bank Credit Risk Monitoring Unit reporting to the Executive Credit Risk Management Committee through the Chief Risk Officer is responsible for management of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

Exposure to Credit Risk

The table below set out information about credit quality of financial assets and allowance for impairment / expected credit losses held by the Bank against those assets. This table does not include off-balance sheet commitments (undrawn balances) and contingent facilities.

Credit Quality Analysis

	2021				2020
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Total LKR '000
Financial Assets at Amortised Cost : Loans and Advances					
Gross Loans and Advances	413,898,954	12,033,896	39,972,643	465,905,493	409,300,953
Expected Credit Loss Allowance	(2,719,224)	(2,056,798)	(19,152,809)	(23,928,831)	(15,534,806)
Total Net Loans and Advances	411,179,730	9,977,098	20,819,834	441,976,662	393,766,147
Financial Assets at Amortised Cost : Debt and Other Instruments					
Government Securities - Treasury Bonds	42,556,755	-	-	42,556,755	31,497,720
Sri Lanka Development Bonds	7,341,503	-	-	7,341,503	7,623,421
Sri Lanka International Sovereign Bonds	7,855,277	-	-	7,855,277	7,977,206
Quoted Debentures	294,732	-	-	294,732	81,438
Unquoted Debentures	602,755	-	-	602,755	637,175
Securities Purchased under Resale Agreements	10,029,031	-	-	10,029,031	6,142,893
Total Financial Investments measured at Amortised Cost	68,680,053	-	-	68,680,053	53,959,853
Expected Credit Loss Allowance	(687,604)	-	-	(687,604)	(267,382)
Net Financial Investments Measured at Amortised Cost	67,992,449	-	-	67,992,449	53,692,471
Cash and Cash Equivalents (Balances with Banks)					
Balances with Local Banks	70,760	-	-	70,760	85,785
Balances with Foreign Banks	6,849,053	-	-	6,849,053	1,672,764
Total Balances with Banks	6,919,813	-	-	6,919,813	1,758,549
Expected Credit Loss Allowance	(34,599)	-	-	(34,599)	(8,793)
Net Balances with Banks	6,885,214	-	-	6,885,214	1,749,756
Placements with Banks and Finance Companies					
Term Deposits with Banks	8,288,351	-	-	8,288,351	10,784,450
Total Placements with Banks and Finance Companies	8,288,351	-	-	8,288,351	10,784,450
Expected Credit Loss Allowance	(41,442)	-	-	(41,442)	(53,922)
Net Placements with Banks and Finance Companies	8,246,909	-	-	8,246,909	10,730,528

The following table provides an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in expected credit loss allowance.

Notes to the Financial Statements

	2021		
	Impact: Increase/ (Decrease)		
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000
Financial Assets at Amortised Cost : Loans and Advances - Expected Credit Loss			
Increase in Lending Portfolio (including Reschedule/Restructure/Stress tested Facilities)	1,060,704	592,645	2,530,523
Loans and Advances Recoveries	(296,482)	(250,896)	(1,246,782)
Bucket Net Movements and changes in Loss Rates	624,888	782,175	4,828,627
Increase in Interest Accrued on Impaired Loans and Advances	-	-	355,983
Financial Assets at Amortised Cost : Debt and Other instruments			
Increase in Expected Credit Allowance for Foreign Currency Denominated Instruments due to Country downgrading	420,222	-	-
Cash and Cash Equivalents (Balances with Banks)			
Increase in Carrying Amount of Balances	25,806	-	-
Placements with Banks and Finance Companies			
Decrease in Investments in Placements with Banks and Finance Companies	(12,480)	-	-
Undrawn Credit Commitments and Financial Guarantees			
Increase in Loan Commitments and Financial Guarantees and Increase in Loss Rates	992,375	-	-

Placements with Banks and Finance Companies

The Bank's placements as at 31 December 2021 are with entities having credit ratings of Country, A+ and AA-.

Measurement of Expected Credit Losses (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under Accounting Policies Note 5.4.5.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information.

The Group uses a backstop of 30 days past due for determining whether there is a significant increase in credit risk.

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

Incorporation of Forward-Looking Information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk GDP growth, unemployment rates, inflation, exchange rates and interest rates.

The Group formulates multiple economic scenarios to reflect base case, best case and worst case.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD

and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Collateral Held and other Credit Enhancement

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed

at the time of borrowing, and are updated regularly. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and advances to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

Collateral Type	2021	2020
	LKR '000	LKR '000
Documentary Bills (Excluding Export Bills Purchased at Current Exchange Rate)	11,506	10,143
Government Securities	1,566,507	2,925,262
Stocks, Bonds, Debentures, Sundries including Life Policies	5,107,783	1,090,697
Fixed, Savings, other Deposits and Pawning	61,904,899	49,250,220
Stock in Trade	114,352	1,932,721
Immovable Property Plant and Machinery	145,365,169	123,799,764
Personal Guarantees and Promissory Notes	11,268,486	7,396,373
Trust Receipts	1,315,000	2,439,890
Leasing Agreements and Motor Vehicles	25,950,202	23,748,389
Other Securities	117,358,585	107,028,928
	369,962,489	319,622,387
On Clean Basis	101,649,548	94,913,085
Total*	471,612,037	414,535,472

*Loans and advances outstanding amount with interest receivable (without LKAS adjustments).

The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets.

Type of Credit Exposure	Principal Type of Collateral Held for Secured Lending	Percentage of Exposure that is Subject to an Arrangement that Requires Collateralisation	
		2021	2020
Derivative Financial Instruments	None	-	-
Loans and Advances to Banks			
Securities Purchased under Resale Agreements	Marketable Securities	100%	100%
Placements with Banks and Finance Companies	None	-	-
Loans and Advances to Retail Customers			
Mortgage Lending	Residential Property	100%	100%
Credit Cards	None/ Limited Cash Deposits	-	-
Personal Loans	None/ Guarantors	-	-
Loans and Advances to Other Customers			
Finance Leases	Motor Vehicles and Equipment	100%	100%
Other Lending to Other Customers	Commercial Property, Floating Charges Over Other Loans and Advances	78%*	77%*
Securities Purchased under Resale Agreements	Marketable Securities	100%	100%

*Based on the exposure covered with collateral.

Notes to the Financial Statements

Details of financial and non-financial assets obtained by the Bank as at 31 December 2021 by taking possession of collateral held as security (foreclosed) against loans and advances as well as calls made on credit enhancements and held as at the year end are shown below.

Foreclosed Properties	2021		2020	
	Loans and Advances	Forced Sale Value of Foreclosed Collateral	Loans and Advances	Forced Sale Value of Foreclosed Collateral
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	3,863,130	8,232,066	3,971,126	8,383,065
Additions During the Year	1,779,278	1,663,240	9,400	7,500
Disposal During the Year	(242,778)	(735,673)	(117,396)	(164,840)
Valuation Changes	-	(764,080)	-	6,341
Balance as at 31 December	5,399,630	8,395,553	3,863,130	8,232,066

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner.

Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by industry and by geographic location.

An analysis of concentrations of credit risk of loans and advances by industry at the reporting date is shown in Note 25.1.3 to the Financial Statements. Credit related off-balance sheet commitments are disclosed in Note 47 to the Financial Statements.

Concentration by location for loans and advances, contingent liabilities and commitments are measured based on the location of the Branch entity holding the asset, which has a high correlation with the location of the borrower. These are given in Geographical Analysis (page 260).

The table below shows the carrying amounts of the Bank's exposures to other financial instruments.

	2021	2020
	LKR '000	LKR '000
Financial Assets recognised through Profit or Loss - measured at Fair Value	4,969,913	4,545,853
Derivative Financial Instruments	290,141	403,984
Investment Securities :		
Financial Assets measured at Fair Value through Other Comprehensive Income	39,104,536	59,024,231
Financial Assets at Amortised Cost - Debt and Other instruments	67,992,449	53,692,471

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses to the Bank.

Bank Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Bank Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-

term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and subsidiary are met through short-term loans from Bank and Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers and banks, and debt securities and subordinated liabilities as its primary sources of funding. While the Bank's debt

securities and subordinated liabilities have maturities of five years, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank's compliance with the liquidity limit established by the, Central Bank of

Sri Lanka. Details of the reported Bank ratio of net liquid assets to liabilities from customers at the reporting date and during the year were as follows:

	2021		2020	
	DBU %	FCBU %	DBU %	FCBU %
At 31 December	22.84	23.30	31.31	22.47
Average for the Year	26.01	23.00	26.07	22.23
Maximum for the Year	29.84	23.51	31.31	22.94
Minimum for the Year	21.75	22.61	21.82	21.03

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka (Banking Act Direction No. 02 of 2020 dated 5 May 2020), due to the COVID- 19 pandemic situation licensed banks were permitted to consider certain extra assets as liquid assets in the computation of the Statutory Liquid Assets Ratio until 30 June 2021.

Maturity analysis for the financial liabilities is shown below with their undiscounted contractual cash flows over the future periods.

Financial Liabilities – 2021

	Less than 3 Month LKR '000	3 Months to 1 Year LKR '000	1 -5 Years LKR '000	More than 5 Years LKR '000	Total LKR '000
Non - Derivative Liabilities					
Due to Banks and Other Borrowers	4,047,619	3,993,645	19,199,219	-	27,240,483
Financial Liabilities at Amortised Cost due to Depositors	204,292,252	267,842,657	21,833,204	11,450,907	505,419,020
Debt Securities Issued	606,570	633,605	24,714,730	2,965,255	28,920,160
Financial Liabilities at Amortised Cost due to Debt Securities Holders	2,613,586	84,867	-	-	2,698,453
Lease Liabilities	74,655	207,534	931,656	3,675,753	4,889,598
Derivative Liabilities					
Derivative Financial Instruments	217,179	-	-	-	217,179

Financial Liabilities - 2020

	Less than 3 Month LKR '000	3 Months to 1 Year LKR '000	1 -5 Years LKR '000	More than 5 Years LKR '000	Total LKR '000
Non - Derivative Liabilities					
Due to Banks and Other Borrowers	8,588,871	994,406	27,537,997	-	37,121,274
Financial Liabilities at Amortised Cost due to Depositors	190,416,600	233,107,184	23,001,424	11,825,491	458,350,699
Debt Securities Issued	710,681	2,098,333	18,041,324	3,183,660	24,033,998
Financial Liabilities at Amortised Cost due to Debt Securities Holders	2,425,718	197,730	-	-	2,623,448
Lease Liabilities	77,901	195,793	907,300	3,265,181	4,446,175
Derivative Liabilities					
Derivative Financial Instruments	39,981	-	-	-	39,981

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and Government Securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Liquidity Reserve

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose.

	2021 Carrying Amount LKR '000	2021 Fair value LKR '000
Cash and Cash Equivalents *	16,079,054	16,079,054
Placements with Banks and Finance Companies	8,246,909	8,246,909
Balances with Central Bank of Sri Lanka *	8,725,834	8,725,834
Treasury Bills/ Bonds net of Repos	106,459,428	104,330,438
Bills Purchased *	3,540,004	3,540,004
Total Liquidity Reserve	143,051,229	140,922,239

* The carrying amounts approximate their fair values as they are short term in nature (less than twelve months).

Notes to the Financial Statements

Liquidity Coverage Ratio

The Bank has a Liquidity Coverage Ratio (LCR) as defined by the regulator. The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 day period. The ratio is defined as the amount of High Quality Liquid Assets (HQLA) that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.

The LCR complements the Bank's stress testing framework. By maintaining a ratio in excess of minimum regulatory requirements, the LCR seeks to ensure that the Bank holds adequate liquidity resources to mitigate a short-term liquidity stress.

Commencing from 1 April 2015, all commercial banks maintained Liquidity Coverage Ratios (LCR) as prescribed by CBSL in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations effective from 1 January 2019 onwards 100%.

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020, due to the COVID- 19 pandemic situation minimum requirement of Liquidity Coverage Ratio was reduced to 90% up to 30 June 2021 with enhanced supervision and frequent reporting.

Minimum Requirement (%) - effective from	
1 July 2021	May 2020 to 30 June 2021
100	90

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:

	2021	2020
Rupee Liquidity Requirement for Local Currency Operations	163.02	176.95
All Currency Liquidity Requirement for the Overall Operations	132.70	142.75

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31.12.2021 and 31.12.2020.

	2021				2020			
	Encumbered		Unencumbered	Total	Encumbered		Unencumbered	Total
	Pledged as		Other		Pledged as		Other	
	Collateral	Other		Collateral	Other			
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	-	-	16,079,054	16,079,054	-	-	10,036,144	10,036,144
Placements with Banks and Finance Companies	-	-	8,246,909	8,246,909	-	-	10,730,528	10,730,528
Financial Assets recognised through Profit or Loss - measured at Fair Value	-	-	4,969,913	4,969,913	-	-	4,545,853	4,545,853
Financial Assets at Amortised Cost - Loans and Advances	-	-	441,976,662	441,976,662	-	-	393,766,147	393,766,147
Financial Assets measured at Fair Value through Other Comprehensive Income / Financial Assets at Amortised Cost - Debt and Other Instruments	8,174,885*	-	98,922,100	107,096,985	5,387,416*	-	107,329,286	112,716,702
Other Assets	-	-	29,207,388	29,207,388	-	-	25,912,046	25,912,046
Total Assets	8,174,885	-	599,402,026	607,576,911	5,387,416	-	552,320,004	557,707,420

* Financial asset values pledged against Repos.

Contingency Funding Plan

The Bank has put in place a comprehensive Contingency Funding Plan (CFP) to be used during a liquidity crisis to endure adverse situations.

The CFP helps to monitor liquidity risk, ensure that an appropriate amount of liquid assets are maintained and ensure funding requirements can be met at various scenarios, and manage access to funding sources.

In a stress situation, management has little time to plan its strategy, and as such the management understands importance to have a well-developed contingency liquidity funding plan prior to a stress occurring.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

	2021			2020		
	Carrying	Trading	Non-Trading	Carrying	Trading	Non-Trading
	Amount	Portfolios	Portfolios	Amount	Portfolios	Portfolios
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets Subject to Market Risk						
Financial Assets recognised through Profit or Loss - Measured at Fair Value	4,969,913	4,969,913	-	4,545,853	4,545,853	-
Derivative Financial Instruments	290,141	290,141	-	403,984	403,984	-
Placements with Banks and Finance Companies	8,246,909	-	8,246,909	10,730,528	-	10,730,528
Financial Assets at Amortised Cost - Loans and Advances	441,976,662	-	441,976,662	393,766,147	-	393,766,147
Financial Assets measured at Fair Value through Other Comprehensive Income	39,104,536	-	39,104,536	59,024,231	-	59,024,231
Securities Purchased under Resale Agreements	10,029,031	-	10,029,031	6,142,893	-	6,142,893
	504,617,192	5,260,054	499,357,138	474,613,636	4,949,837	469,663,799
Liabilities Subject to Market Risk						
Derivative Financial Instruments	217,179	217,179	-	39,981	39,981	-
Due to Depositors	488,653,328	-	488,653,328	440,303,126	-	440,303,126
Debt Securities Issued	21,617,455	-	21,617,455	17,058,558	-	17,058,558
Due to Banks	24,504,387	-	24,504,387	32,679,687	-	32,679,687
Due to Other Borrowers	7,295	-	7,295	14,123	-	14,123
Due to Debt Securities Holders	2,662,377	-	2,662,377	2,575,873	-	2,575,873
	537,662,021	217,179	537,444,842	492,671,348	39,981	492,631,367

Management of Market Risk

Market Risk Management reporting creates transparency on the risk profile and facilitates the understanding of core market risk drivers to all levels of the Bank. The Management and Board Committees receive regular reporting, as well as ad hoc reporting as required, on market risk, the impact on capital and earnings through stress testing. The Risk Committees Executive Market and Operation Risk Management Committee (EMORMC) and Asset and Liability Committee (ALCO) receive risk information at a number of frequencies, including monthly and quarterly.

Additionally, Market Risk Management produces daily and weekly market risk specific reports and daily limit utilisation reports for the risk exposures generated through Treasury and other business units.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly

held by the Bank's Treasury Department, and include positions arising from market making and also held with a view to earn a profit of financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. The Bank's Market Risk Management Unit is responsible for the development of detailed risk management policies which is overseen by the EMORMC or ALCO and is subject to review by BIRMC and approved by the Board.

The Bank employs a range of tools to monitor and limit market risk exposures.

Non-trading Market Risk

Non trading market risk arises primarily from outside activities of trading units, in the banking book and from certain off-balance sheet items. Significant market risk factors the Bank is exposed to and are overseen by risk management committees are:

- Interest rate risk (including risk embedded in behavioural patterns for certain product types)
- Market risks from off-balance sheet items such as foreign exchange risk of the hedging instruments such as SWAPs.

Interest Rate Risk

Interest rate risk is the potential impact on the Bank's earnings and net asset values due to changes in market interest rates. Interest rate risk arises when the Bank's principal and interest cash flows (including final maturities), both on and off balance sheet, have mismatched re-pricing dates. The amount of risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. The Bank's lending, funding, and investment activities give rise to interest rate risk.

Notes to the Financial Statements

Interest rate risk management is conducted within the context of a comprehensive business strategy. The bank has developed and implemented effective and comprehensive procedures and ALM systems to manage and control interest rate risk in accordance with the strategies in managing interest rate risk. These procedures are in accordance to the size and complexity of the Bank's interest rate risk-taking activities.

The Bank manages interest rate risk through the re-pricing maturity mis-match gaps by using Funds Transfer Pricing (FTP) techniques to take advantage in optimal gains. Through the FTP; portfolios are hedged; through this approach the Bank ensures that interest rate risk between lending and funding in each time bucket remains low. The majority of the Bank's interest rate risk, therefore, stems from the unhedged portion of assets and liabilities.

Typically interest rate risk is split into two components: traded interest rate risk and non-traded interest rate risk. While the traded interest rate risk is relevant to trading activities and its affects, the latter is often referred to as interest rate risk on the balance sheet or to the banking book and arises from the Bank's core banking activities.

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book is the risk to both the Bank's capital and earnings, arising from movements in interest rates,

which affect the banking book exposures. This includes maturity mis-matches of the interest bearing assets and liabilities which describes the impact of relative changes in interest rates for financial instruments that are priced using different interest rate curves.

Interest rate risk is also the risk that the Bank will experience in deterioration in its financial positions as interest rates move over time.

The interest rate position of the Bank is that the duration of the liabilities to some extent is lesser than the duration of the assets in the shorter tenors of the reprising profile. Given this mismatch, under normal circumstances increasing interest rates will have a negative impact on the interest income of the Bank. On the other hand, as liabilities re-price more quickly than assets, the average interest rates paid on liabilities would adapt more quickly to lower market interest rates. This would then support the Bank's net interest income.

During the current year as well as the preceding year banking industry faced unprecedented challenges as a result of fiscal and monetary stimulus. Due to the spread of the pandemic it was increasingly becoming evident that the domestic economic activities during the year 2021, was affected due to uncertainty and the various policies and regulations which were put into place from time to time to mitigate the adverseness of the economic conditions. In order to maintain price stability and liquidity flows, stringent Monetary Policy

decisions had to be taken. Thus the Central Bank, during the year, took a number of measures to support the revival of domestic economic activities in the context of inflation expectations.

In this sense the Bank manages the Interest Rate Risk in the Banking Book (IRRBB) exposures using both Earnings at Risk (EAR) and Economic Value of Equity (EVE) measures. The Treasury division is delegated to manage the interest rate risk centrally on an ongoing basis, where Risk Management Unit acts as the second line of defence on an independent oversight function.

Economic value based measures look at the change in economic value of banking book of assets, liabilities and off-balance sheet exposures resulting from interest rate movements, independent of the accounting treatment. Thereby the Bank measures the change in Economic Value of Equity (EVE) of the banking book under standard scenarios for the ICAPP process as defined by Basel Committee on Banking Supervision.

Earnings-based measures look at the expected change in Net Interest Income (NII), compared to some defined benchmark scenarios, over a defined time horizon resulting from interest rate movements. Thereby the Bank measures the sensitivity of the Bank's interest sensitive assets and liabilities to a parallel shift to various interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) and a 200 bp parallel fall or rise in all yield curves over a period of 12 months' horizon.

The Projected Impact Analysis on EAR as at 31 December 2021 is depicted in the table below:

	100 bp Parallel Increase LKR Mn	100 bp Parallel Decrease LKR Mn	200 bp Parallel Increase LKR Mn	200 bp Parallel Decrease LKR Mn
Sensitivity of Projected Net Interest Income 2021 (EAR)				
As at 31 December 2021	(931)	931	(1,861)	1,861
As at 31 December 2020	(605)	605	(1,210)	1,210

Maturity Gaps

The Management and Board defines the liquidity and funding risk strategy for the Bank, as well as the risk appetite, based on recommendations made by the Risk Committee. At least annually the Board Risk Management Committee reviews and approves the limits which are applied to the Bank to measure and control liquidity risk as well as our long-term funding plan.

While such risk monitoring is mainly based on the stock approach through ratios and risk levels approved as per the risk appetite of the Bank, another method of managing and monitoring liquidity risk is using the flow approach tools which is the popular maturity mis-match or Maturity Gap analysis.

A summary of the Bank's total assets and liabilities as at 31 December 2021, based on the remaining period at the reporting date to the respective Cash flow/ Maturity dates together with the maturity gaps are given below.

	Carrying Amount LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	More than 5 Years LKR '000
31 December 2021					
Interest Earning Assets					
Placements with Banks and Finance Companies	8,246,909	8,246,909	-	-	-
Loans and Advances	441,976,662	207,815,418	89,963,347	123,639,517	20,558,380
Financial Assets recognised through Profit or Loss / Financial Assets at Amortised Cost - Debt and Other Instruments / Financial Assets measured at Fair Value through Other Comprehensive Income excluding Equities	99,302,657	9,632,870	20,011,001	58,124,092	11,534,694
Securities Purchased under Resale Agreements	10,029,031	10,029,031	-	-	-
Non-Interest Earning Assets	48,021,652	34,417,293	2,775,237	95	10,829,027
Total Assets	607,576,911	270,141,521	112,749,585	181,763,704	42,922,101
Interest Bearing Liabilities					
Due to Depositors	452,033,336	166,025,005	257,315,640	19,150,293	9,542,398
Due to Banks and Other Borrowers	24,511,682	3,997,968	3,804,643	16,709,071	-
Due to Debt Securities Holders	2,662,377	2,581,526	80,851	-	-
Debt Securities Issued	21,617,455	606,570	633,605	18,768,280	1,609,000
Group Balances Payable	179,134	47,059	3,075	129,000	-
Lease Liabilities	4,889,598	74,655	207,534	931,656	3,675,753
Non-Interest Bearing Liabilities	101,683,329	49,550,829	79,491	-	52,053,009
Total Liabilities	607,576,911	222,883,612	262,124,839	55,688,300	66,880,160
Gaps	-	47,257,909	(149,375,254)	126,075,404	(23,958,059)

	Carrying Amount LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	More than 5 Years LKR '000
31 December 2020					
Interest Earning Assets					
Placements with Banks and Finance Companies	10,730,528	10,730,528	-	-	-
Loans and Advances	393,766,147	159,319,010	77,524,538	118,256,972	38,665,627
Financial Assets recognised through Profit or Loss / Financial Assets at Amortised Cost - Debt and Other Instruments / Financial Assets measured at Fair Value through Other Comprehensive Income excluding Equities	107,886,682	10,555,449	21,664,821	68,524,969	7,141,443
Securities Purchased under Resale Agreements	6,142,893	6,142,893	-	-	-
Non-Interest Earning Assets	39,181,170	25,650,176	3,273,014	83	10,257,897
Total Assets	557,707,420	212,398,056	102,462,373	186,782,024	56,064,967
Interest Bearing Liabilities					
Due to Depositors	408,347,930	156,586,009	222,088,682	19,818,715	9,854,524
Due to Banks and Other Borrowers	32,693,810	8,460,483	937,500	23,295,827	-
Due to Debt Securities Holders	2,575,873	2,389,458	186,415	-	-
Debt Securities Issued	17,058,558	710,681	1,967,127	12,771,750	1,609,000
Group Balances Payable	221,952	89,877	3,075	129,000	-
Lease Liabilities	4,446,175	77,901	195,793	907,300	3,265,181
Non-Interest Bearing Liabilities	92,363,122	43,396,147	-	-	48,966,975
Total Liabilities	557,707,420	211,710,556	225,378,592	56,922,592	63,695,680
Gaps	-	687,500	(122,916,219)	129,859,432	(7,630,713)

Notes to the Financial Statements

Interest Rate Benchmark Reforms

Interest rate benchmarks such as interbank offered rates (IBORs) play an important role in global as well as local financial markets. A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives globally.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Bank through ALCO intends to manage its transition to alternative rates from the use of IBOR's. The contracts which have fallen due since end 2021 is re-priced at alternate rates mostly based on fixed pricing, the five US dollar LIBOR settings which will continue to be calculated using panel bank submissions until mid-2023, is used if required to re-price longer tenor advances which have frequent re-pricing dates. However, using these LIBOR's for new business is restricted from end-2021.

Going forward, RMU as a risk management functionality, will evaluate the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR. These findings will be reported to ALCO and Treasury to support the management of interest rate risk and works closely to identify operational and regulatory risks arising from these IBOR reforms and how to manage communication about IBOR reform with counterparties. These findings will be reported to BIRMC quarterly and will collaborate with other business functions as needed.

Exposure to Other Market Risks

Share Investment and Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of share indices and the value of individual stocks. These losses could arise because of changes in the value of listed shares held directly by the bank under each investment category.

Based on the Bank's policies, Risk Management Unit ensures that monitoring and reporting the risk in respect of share investments and its valuation methodologies are appropriate and consistent, and assesses the potential impact on profits and capital.

Market risk limits for share investments are the framework to guide the share investments and for stop-losses. These limits are binding and monitored on a daily basis. Timely and accurate reporting helps the Treasury Investment Committee (TIC) to exercise exit strategies within the stop-loss limits and the Management Action Trigger limits (MAT limits).

The sensitivity analysis of our share investments helps the TIC to understand and mitigate the risk the Bank is exposed to due to the vulnerability of price risk.

Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

During the year, the banking sector experienced uncertainty in market situations due to the lack of foreign currency liquidity especially the US dollars. This mostly led to the banking industry being unable to meet the expected levels in liability conversion transactions especially trade related transactions. The market also experienced a drop in asset conversion transaction such as the inward remittance and export bills. This situation led to depreciation of USD/LKR rates which was mostly a controlled exchange rate which traded around 200 to 203 levels.

The Bank ensures all market risk measures are adhered as laid down in the latest directions published by the Central Bank as well as according to best market practices followed locally and globally.

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in.

	In Original Foreign Currency '000		Functional Currency of the Bank LKR '000	
	2021	2020	2021	2020
Net Foreign Currency Exposure				
Great Britain Pound	0.28	4.12	76.43	1,052.74
United States Dollar	(11,596.33)	(1,350.75)	(2,330,863.28)	(253,264.80)
Euro	5.22	0.74	1,188.92	170.62
Japanese Yen	44.85	317.97	78.32	577.65
Australian Dollar	2.51	1.52	365.74	219.23

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below.

NOP as on 31 December 2021			NOP as on 31 December 2020		
	USD '000	LKR '000		USD '000	LKR '000
NOP	(11,507)	(2,312,946)	NOP	(1,285)	(240,932)

At Shock Levels of	Revised Rupee Position		Effect on Income Statement		
	LKR '000	LKR '000	LKR '000	LKR '000	
5%	(2,197,298)	(115,648)	5%	(252,979)	(12,047)
10%	(2,081,651)	(231,295)	10%	(265,025)	(24,093)
15%	(1,966,004)	(346,942)	15%	(277,072)	(36,140)

Policy on Repurchase Agreements (Repo) and Reverse Repurchase Agreements (Reverse Repo)

The Bank enters in to Repo and Reverse Repo agreements which are often short term money market instruments. Repurchase agreements are designed to minimise counterparty credit risk during their term. Changes in the market value of these positions can give rise to a "margin deficit" or a "margin excess". Treasury Back Office does a daily Mark to Market of the securities received and the securities allocated under Repo and Reverse Repo facilities. This in turn is crossed checked by the Treasury Middle Office and if a short fall is observed Treasury is alerted on the required Margin Calls.

Outstanding Repurchase and Reverse Repurchase Facilities as at 31 December are given below:

	2021		2020	
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets measured at Fair Value		Outstanding Balance		Outstanding Balance
Securities sold under Repo	8,174,885	7,416,313	5,387,416	4,699,247
Market Value of Securities Received		Outstanding Balance		Outstanding Balance
Securities purchased under Reverse Repo	16,451,072	14,786,985	8,453,761	8,274,869

Haircut Policy

The Bank possess a haircut policy which is used to manage and monitor all Repo and Reverse Repo facilities against these haircut policies. The said policy specifies that all transactions should be covered by Government Securities with specified haircuts to cover price variations.

Reverse Repurchase Facilities

To cover the market risk in accepting Government Securities as collateral for Reverse Repo transactions the undernoted haircut policy is adopted:

Treasury Bonds and Bills	Reverse Repo	
	Up to 1 week	More than 1 week
Maturing within 5 years	10.00 %	12.50 %
Maturing between 5 – 10 years	12.50 %	15.00 %
Maturing between 10 – 15 years	17.50 %	20.00 %
Maturing between 15 – 20 years	22.50 %	25.00 %
Maturing between 20 – 30 years	27.50 %	30.00 %

Repurchase Facilities

Repo Facilities are accepted against collateral of Government Securities. To cover the market risk in allocating Government Securities as collateral for Repo transactions, the undernoted haircut policy is adopted:

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)
Up to 1 year	6%
More than 1 year and up to 3 years	8%
More than 3 years and up to 5 years	10%
More than 5 years and up to 8 years	10%
More than 8 years	12%

In case of interbank Repo and Reverse Repo transactions; Based on the Direction, No. 1 of 2019 issued under Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance on "Reverse Repurchase Transactions of Dealer Direct Participants in Scrippless Treasury Bonds and Scrippless Treasury Bills" the following minimum haircut policy will be adopted:

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)
Up to 1 year	4%
More than 1 year and up to 3 years	6%
More than 3 years and up to 5 years	8%
More than 5 years and up to 8 years	10%
More than 8 years	12%

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions; or
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit Committee.

Capital Management

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II till 30 June 2017 and thereafter Basel-III and takes into account the Credit, Market and Operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel III CAR calculation from 1 July 2017.

Available Capital

Basel III accord recognises three capital elements, namely CET 1 Capital, Additional Tier1 Capital and Tier 2 capital.

CET 1 capital includes equity capital, reserve fund, published retained earnings (accumulated retained losses), general and other reserves, and unpublished current year's profit/ (losses) and gains reflected in OCI. Goodwill (net), other intangible assets, revaluation losses of PPE, deferred tax assets, cash flow hedge reserve, shortfall of the cumulative impairment to specific provisions, defined benefit pension fund assets, investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at CET 1 capital.

Additional Tier 1 capital includes qualifying instruments as per the regulatory directions. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Additional Tier I capital.

Tier 2 capital includes qualifying tier 2 capital instruments, revaluation gains, and general provisions etc. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Tier 2 capital.

As per the Banking Act Direction No 01 of 2016 dated 29 December 2016 on Capital Requirements under BASEL III which was effective from 1 July 2017 and the

amendments thereto under Directions No. 11 of 2019 dated 20 December 2019, the minimum required capital ratios to be maintained by the Bank are as follows.

- Every licensed bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I to the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.

- Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 (CET1), as given in the table below.

Components of Capital	Capital Adequacy Ratio to be maintained by Licensed Banks	Capital Adequacy Ratio to be maintained by Licensed Banks determined as D-SIBs
Common Equity Tier 1 including Capital Conservation Buffer	7.00%	7.00% + HLA
Total Tier 1 including Capital Conservation Buffer	8.50%	8.50% + HLA
Total Capital Ratio including Capital Conservation Buffer	12.50%	12.50% + HLA

HLA requirements as the minimum capital surcharge on D-SIBs are given below.

Bucket	HLA Requirement (CET1 as a % of risk- weighted assets)
3	2.0
2	1.5
1	1.0

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in March 2020, due to the COVID-19 pandemic situation Domestic Systemically Important Banks (D-SIBs) and non D-SIBs are permitted to draw down their Capital Conservation Buffers by 100bps and 50bps out of the total of 250bps, respectively.

The Bank and the Group Capital Adequacy (Basel III) details as at 31 December are given below.

	Basel III 2021		Basel III 2020	
	Bank LKR Mn	Group LKR Mn	Bank LKR Mn	Group LKR Mn
Assets				
Total Risk Weighted Amount (including Off- Balance Sheet Items)	457,466	458,169	399,575	400,132
Risk Weighted amount of Off-Balance Sheet Exposure	56,427	56,427	43,334	43,334
Capital				
Common Equity Tier 1 Capital	49,027	50,052	45,810	46,812
Total Tier 1 Capital	49,027	50,052	45,810	46,812
Total Capital	64,551	65,448	57,123	57,995
Capital Adequacy Ratios				
Common Equity Tier 1 Capital Ratio (%)	10.72	10.92	11.46	11.70
Tier 1 Capital Ratio (%)	10.72	10.92	11.46	11.70
Total Capital Ratio (%)	14.11	14.28	14.30	14.49

Fair Value of Financial Instruments

Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy Note No 5.4.4. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy of financial instruments is given below:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Valuation Models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other risk premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates and equity.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as foreign exchange forward contracts that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for

listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is sensitive to the specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and the counterparty risk.

Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an oversight by the Market Risk function, which is independent of front office management. Market Risk has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models involving both product control and group market risk;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of level 3 instruments compared with the previous period.

When third party information, such as broker quotes or pricing services, is used to measure fair value, market risk assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs. This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of Financial Instrument;
- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same Financial Instrument have been obtained, then how fair value has been determined using those quotes.

Financial Instruments Measured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

	2021			2020		
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000
Financial Assets measured at Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income						
Financial Assets recognised through Profit or Loss - measured at Fair Value	4,969,913	-	-	4,372,563	173,290	-
Derivative Financial Instruments	-	290,141	-	-	403,984	-
Financial Assets measured at Fair Value through Other Comprehensive Income	38,358,107	414,177	332,252	58,164,468	565,588	294,175
Financial Liabilities measured at Fair Value through Profit or Loss						
Derivative Financial Instruments	-	217,179	-	-	39,981	-

i. Level 3 Fair Value Measurements

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2021 LKR '000	2020 LKR '000
Financial Assets measured at Fair Value through Other Comprehensive Income (Level 3)		
Balance as at 1 January	294,175	888,332
Total Fair Value Gain/(Loss) in Other Comprehensive Income	38,077	(594,157)
Balance as at 31 December	332,252	294,175

ii. Unobservable Inputs used in measuring Fair Value

The table below sets out information about significant unobservable inputs used as at 31 December 2021 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair Values as at 31 December 2021 LKR '000	Valuation Technique	Significant Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Investment in Unquoted Equities	332,252	Net Assets Per Share	Price to Book Value Ratio (PBV) – 132.40	10% increase of PBV would increase the fair value by 10%

Financial Instruments not measured at Fair Value

The table below show a comparison of the carrying amounts, as reported on the Statement of Financial Position, and fair values of all financial assets and liabilities carried at amortised cost.

	31 December 2021		31 December 2020	
	Carrying Value LKR '000	Fair Value LKR '000	Carrying Value LKR '000	Fair Value LKR '000
Financial Assets				
Cash and Cash Equivalents	16,079,054	16,079,054	10,036,144	10,036,144
Balances with Central Bank of Sri Lanka	8,725,834	8,725,834	7,371,203	7,371,203
Placements with Banks and Finance Companies	8,246,909	8,246,909	10,730,528	10,730,528
Financial Assets at Amortised Cost - Loans and Advances	441,976,662	440,861,944	393,766,147	393,414,349
Financial Assets at Amortised Cost - Debt and Other Instrument	67,992,449	66,473,181	53,692,471	54,985,730
Other Financial Assets	6,710,409	6,710,409	4,611,596	4,611,596

	31 December 2021		31 December 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Liabilities				
Due to Banks	24,504,387	24,504,387	32,679,687	32,679,687
Due to Depositors	488,653,328	488,653,328	440,303,126	440,303,126
Due to Debt Securities Holders	2,662,377	2,662,377	2,575,873	2,575,873
Due to Other Borrowers	7,295	7,295	14,123	14,123
Debt Securities Issued	21,617,455	20,213,954	17,058,558	18,138,609
Lease Liabilities	4,889,598	4,889,598	4,446,175	4,446,175
Other Financial Liabilities	6,963,825	6,963,825	6,953,704	6,953,704

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Bank's financial instruments can be exchanged in an active trading market. The Bank obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Bank obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2021	Level I	Level II	Level III	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets				
Cash and Cash Equivalents	-	16,079,054	-	16,079,054
Balances with Central Bank of Sri Lanka	-	8,725,834	-	8,725,834
Placements with Banks and Finance Companies	-	8,246,909	-	8,246,909
Financial Assets at Amortised Cost - Loans and Advances	-	-	440,861,944	440,861,944
Financial Assets at Amortised Cost - Debt and Other Instrument	41,436,918	24,473,847	562,416	66,473,181
Other Financial Assets	-	-	6,710,409	6,710,409
Financial Liabilities				
Due to Banks	-	-	24,504,387	24,504,387
Due to Depositors	-	-	488,653,328	488,653,328
Due to Debt Securities Holders	-	2,662,377	-	2,662,377
Due to Other Borrowers	-	-	7,295	7,295
Debt Securities Issued	-	20,213,954	-	20,213,954
Lease Liabilities	-	-	4,889,598	4,889,598
Other Financial Liabilities	-	-	6,963,825	6,963,825

Given below are the methodologies and assumptions used in fair value estimates.

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

Securities Purchased under Resale Agreements

These are short term reverse repurchase contracts which will be matured within twelve months from the reporting date and thus the carrying amounts of such contracts approximate to their fair values.

Loans and Advances

Approximately 67% of the total portfolio of loans and advances to customers has a remaining contractual maturity of less than one year.

The fair value of loans and advances with a maturity of more than one year is the present value of future cash flows expected to be received from such loans and advances calculated based on interest rates at the reporting date for similar types of loans and advances. Such loans include both fixed and floating rate loans. Majority of the floating rate loans can be re priced while for fixed rate loans, the loan contract allows

the Bank to change the contracted rate if there is a material difference between the contracted rate and the market interest rate.

The Bank calculated the fair value of the leasing advances with a fixed interest rate and that will have a maturity of more than 12 months from the reporting date. Fair value of such leases as at 31 December 2021 was LKR 25,017 Mn as against the carrying value which amounted to LKR 26,131 Mn.

Debt Securities at Amortised Cost

For the disclosure purpose the Bank has calculated the fair value of debt securities measured at amortised cost based on price formula applicable to such instruments at the reporting date. For the debentures measured at amortised cost fair value has been calculated using the market rate applicable for each instrument based on the remaining maturity period.

Liabilities**Bank and Other Borrowings**

Approximately 32% of the amounts due to banks and others as at the reporting date have a remaining contractual maturity of less than one year. Majority of the balance amount comprised of floating rate instruments. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

Deposits

More than 94% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

Securities Sold under Repurchase Agreement

Securities sold under repurchase agreements have a remaining contractual maturity of less than twelve months. Accordingly, carrying value of these borrowings would not be materially different to their fair values as at the reporting date.

Debentures

Debentures include fixed and variable rate debentures. In respect of fixed rate debentures, fair value has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments. Accordingly the total debentures had a fair value of LKR 20,214 Mn as at 31 December 2021 as against its carrying value which amounted to LKR 21,617 Mn.

Notes to the Financial Statements

7 Gross Income

For the Year ended 31st December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Interest Income (Note 8.1)	46,770,415	51,104,755	46,781,204	51,112,436
Fee and Commission Income (Note 9.1)	4,784,698	3,931,545	4,784,426	3,931,327
Net Gains/(Losses) from Trading (Note 10)	(219,044)	347,554	(217,844)	348,743
Net Gains from Derecognition of Financial Assets (Note 11)	553,425	782,565	553,425	782,565
Net Other Operating Income (Note 12)	2,877,555	1,057,777	2,849,480	1,052,679
Total Gross Income	54,767,049	57,224,196	54,750,691	57,227,750

8 Net Interest Income

For the Year ended 31st December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
8.1 Interest Income				
Placements with Banks	441,675	513,857	441,675	513,857
Financial Assets recognised through Profit or Loss				
- Measured at Fair Value				
- Government Securities (Note 8.3)	380,284	264,646	380,284	264,646
Financial Assets at Amortised Cost				
- Loans and Advances *	36,782,563	40,837,574	36,782,548	40,837,511
- Interest Accrued on Impaired Loans and Advances **	355,983	937,457	355,983	937,457
- Debt and Other instruments				
- Government Securities (Note 8.3)	5,146,545	3,821,147	5,149,716	3,821,147
- Debt Instruments	57,953	51,074	57,953	51,074
Financial Assets measured at Fair Value through Other Comprehensive Income				
- Government Securities (Note 8.3)	3,605,412	4,672,011	3,605,412	4,672,011
- Debt Instruments	-	6,989	7,373	14,366
Other	-	-	260	367
Total Interest Income	46,770,415	51,104,755	46,781,204	51,112,436
8.2 Interest Expenses				
Due to Banks	586,835	1,859,531	587,119	1,859,762
Financial Liabilities at Amortised Cost				
- Due to Depositors	19,440,612	26,652,787	19,438,467	26,649,067
- Due to Debt Securities Holders (Note 8.3)	153,055	192,280	152,473	192,280
- Due to Other Borrowers	416	759	416	759
Debt Securities Issued	2,548,392	2,468,212	2,531,192	2,451,012
Lease Liabilities	452,003	433,431	167,628	148,773
Total Interest Expenses	23,181,313	31,607,000	22,877,295	31,301,653
Net Interest Income	23,589,102	19,497,755	23,903,909	19,810,783

*Interest Income from Loans and Advances to customers includes modifications made to loans due to moratorium/debt concessionary schemes implemented by the Government as a measure to support the recovery of businesses/ customers affected by COVID 19 pandemic.

Interest Income adjustment of LKR 262,964,374.00 in 2021 (LKR 251,826,819.00 for 2020) on staff loans at preferential interest rates that included in interest income has been recognised as staff benefit under personnel expenses.

**Interest Income on Loans and Advances includes interest accrued on impaired loans of LKR 355,982,890.00 in 2021 (LKR 937,456,574.00 for 2020) and corresponding debit entry has been recorded under impairment charges (Note 25.3).

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31st December				
8.3 Net Interest Income from Sri Lanka Government Securities				
Interest Income	9,132,241	8,757,804	9,135,412	8,757,804
Less : Interest Expenses	153,055	192,280	152,473	192,280
Net Interest Income from Sri Lanka Government Securities	8,979,186	8,565,524	8,982,939	8,565,524

9 Net Fee and Commission Income

	<i>Banking</i>		<i>Treasury</i>		<i>Property/Investment</i>		<i>Unallocated/ Eliminations</i>		<i>Total</i>	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
For the Year ended 31st December										
9.1 Fee & Commission Income										
Comprising;										
Loans	870,833	686,225	-	-	-	-	282	191	871,115	686,416
Cards	1,165,477	1,066,430	-	-	-	-	1	1	1,165,478	1,066,431
Trade and Remittances	1,020,220	767,931	-	-	-	-	-	-	1,020,220	767,931
Deposits	119,663	104,759	-	-	-	-	-	-	119,663	104,759
Guarantees	846,879	629,915	-	-	-	-	-	-	846,879	629,915
Other Financial Services	729,106	633,816	4,864	5,424	-	-	27,373	36,853	761,343	676,093
Total Fee & Commission Income - Bank	4,752,178	3,889,076	4,864	5,424	-	-	27,656	37,045	4,784,698	3,931,545
Subsidiary										
Deposits	-	-	-	-	-	-	(272)	(218)	(272)	(218)
Total Fee & Commission Income - Group	4,752,178	3,889,076	4,864	5,424	-	-	27,384	36,827	4,784,426	3,931,327
9.2 Fee & Commission Expenses										
Comprising;										
Brokerage Fees	38	83	11,102	11,358	-	-	-	-	11,140	11,441
Loans/Cards	66,554	84,057	-	-	-	-	-	-	66,554	84,057
Other Financial Services	52,876	93,744	12,928	12,693	-	-	-	-	65,804	106,437
Total Fee & Commission Expenses - Bank	119,468	177,884	24,030	24,051	-	-	-	-	143,498	201,935
Subsidiary										
Brokerage Fees	-	-	-	-	452	1,088	-	-	452	1,088
Total Fee & Commission Expenses - Group	119,468	177,884	24,030	24,051	452	1,088	-	-	143,950	203,023
Total Net Fee & Commission Income - Bank	4,632,710	3,711,192	(19,166)	(18,627)	-	-	27,656	37,045	4,641,200	3,729,610
Total Net Fee & Commission Income - Group	4,632,710	3,711,192	(19,166)	(18,627)	(452)	(1,088)	27,384	36,827	4,640,476	3,728,304

Notes to the Financial Statements

10 Net Gains/(Losses) from Trading

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Derivative Financial Instruments				
- From Banks	(166,735)	176,890	(166,735)	176,890
- From Other Customers	(25,175)	23,836	(25,175)	23,836
Financial Assets recognised through Profit or Loss - Measured at Fair Value*				
- Equities	-	-	1,200	1,189
- Government Securities	(27,134)	146,828	(27,134)	146,828
Total Net Gains/(Losses) from Trading	(219,044)	347,554	(217,844)	348,743

*Includes Net Capital Gains/(Losses) and Net Mark to Market Gains/(Losses).

11 Net Gains from Derecognition of Financial Assets

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets measured at Fair Value through Other Comprehensive Income				
- Government Securities	553,425	782,565	553,425	782,565
Total Net Gains from Derecognition of Financial Assets	553,425	782,565	553,425	782,565

12 Net Other Operating Income

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend Income				
- Equity Investments measured at Fair Value through Other Comprehensive Income - Quoted	7,340	4,893	7,340	4,893
- Equity Investments measured at Fair Value through Other Comprehensive Income - Unquoted	25,334	14,280	25,334	14,280
- Subsidiary - Seylan Developments PLC	125,199	114,765	-	-
Profit on Sale of Property, Plant and Equipment	10,323	8,884	10,323	8,884
Foreign Exchange Income*	2,112,551	848,976	2,112,888	848,805
Recovery of Loans Written-Off	596,808	65,979	596,808	65,979
Rent and Other Income	-	-	96,787	109,838
Total Other Operating Income - Net	2,877,555	1,057,777	2,849,480	1,052,679

*Foreign Exchange Income represents both revaluation gain/(loss) on the Bank's net open position and realised exchange gain/(loss) on foreign currency transactions.

13 Impairment Charges

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Loans & Advances (Note 13.1)	8,985,084	6,668,894	8,985,084	6,668,894
Financial Assets Measured at Amortised Cost - Debt and Other instruments (Note 26.5)	420,222	255,903	420,222	255,903
Financial Assets Measured at FVOCI (Note 27.7)	5,546	(50,003)	5,546	(50,003)
Cash and Cash Equivalents (Note 20.1)	25,806	(7,973)	25,806	(7,973)
Placements with Banks and Finance Companies (Note 22.1)	(12,480)	48,026	(12,480)	48,026
Undrawn Credit Commitments and Financial Guarantees (Note 43.3)	992,375	78,129	992,375	78,129
Property, Plant & Equipment	5,360	-	5,360	-
Total Impairment Charge	10,421,913	6,992,976	10,421,913	6,992,976
13.1 Loans & Advances				
Impairment Charges - Stage 1 (Note 25.3.1)	1,389,110	628,357	1,389,110	628,357
Impairment Charges - Stage 2 (Note 25.3.1)	1,123,924	359,004	1,123,924	359,004
Impairment Charges - Stage 3 (Note 25.3.1)	6,468,351	5,679,333	6,468,351	5,679,333
Loans written off	3,699	2,200	3,699	2,200
Total Impairment Charges - Loans & Advances	8,985,084	6,668,894	8,985,084	6,668,894

As described in Note 25 the Bank has made adequate adjustment for management overlays during this year.

14 Operating Expenses

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Operating Expenses include the following;				
Directors' Emoluments*	95,691	91,746	98,571	94,421
Auditors' Remunerations				
- Audit Fees & Expenses	10,937	10,568	12,099	11,904
- Audit-Related Fees & Expenses	6,467	6,246	6,467	6,246
- Non-Audit Services	4,656	1,338	4,821	1,338
Depreciation - Freehold Property, Plant & Equipment (Note 30)	796,791	822,304	860,436	879,282
Depreciation - Right-of-use Assets (Note 31)	455,160	461,141	421,441	427,642
Depreciation - Investment Properties (Note 32)	-	-	20,071	15,416
Amortization of Intangible Assets (Note 33)	177,518	163,866	177,518	163,866
Donations	565	10,788	1,365	11,254
Legal Expenses	121,604	145,933	122,234	146,635
Sri Lanka Deposit Insurance Fund Contribution	409,644	371,414	409,644	371,414
Crop Insurance Levy	45,151	29,719	45,151	29,719

*Directors' Emoluments include the salaries, benefits and fees paid to both Executive and Non-Executive Directors of the Bank and the Group.

Notes to the Financial Statements

15 Personnel Expenses

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Personnel Expenses include the Following;				
Salaries and Bonuses	5,246,083	4,748,136	5,267,320	4,768,085
Contribution to Employees' Provident Fund	509,498	486,071	511,711	488,164
Contribution to Employees' Trust Fund	127,392	121,519	127,945	122,042
Provision for Defined Benefit Obligations (Note 43.1.6)	(162,928)	244,423	(163,973)	244,301
Additional Gratuity Expense (Note 43.1.6)	39,101	79,493	39,101	79,493
Amortisation of Prepaid Staff Cost *	280,371	265,654	280,420	265,770
Other Staff Related Expenses	1,212,635	1,295,655	1,225,856	1,307,021
Total Personnel Expenses	7,252,152	7,240,951	7,288,380	7,274,876

* Includes prepaid staff cost on staff loans at preferential rate and staff deposits at special rate.

16 Income Tax Expense

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
16.1 Income Tax Expense Recognised in Income Statement				
16.1.1 Current Tax Expense				
Tax on Current Year's Profits (Note 16.2)	1,918,662	1,355,040	1,945,448	1,366,468
(Over Provision) / Under Provision in Respect of Previous Years (Refer Item (v) below)	77,946	(31,229)	77,946	(31,229)
	1,996,608	1,323,811	2,023,394	1,335,239
16.1.2 Deferred Taxation				
Charge/(Reversal) on Temporary Differences (Note 42)	(549,372)	(223,864)	(574,384)	(137,661)
	(549,372)	(223,864)	(574,384)	(137,661)
Total Income Tax Expense	1,447,236	1,099,947	1,449,010	1,197,578

- i Current tax on profits has been computed at the rate of 24% (Domestic and Foreign Currency Banking Unit including both on-shore and off-shore) on the taxable income arising from Banking and Leasing businesses.
- ii Leasing has been deemed as blended loans by the Inland Revenue Act No.24 of 2017 enabling bank to treat leasing business under business of banking.
- iii The Seylan Developments PLC (subsidiary) has computed taxation based on the standard rate applicable for companies at 24%.
- iv As per the Inland Revenue (Amendment) Act No. 10 of 2021, the rate of Income Tax has been changed from 28% to 24% with effect from 01st January 2020. Accordingly, the tax rate of 24% has been used in calculating the current tax charge and the deferred tax liabilities/assets for the year ending 31st December 2021.
- v The tax on current year's profit has been arrived after netting off the excess income tax provision amounting to LKR 197.56 Mn. accounted for the reduction of rate from 28% to 24% with effect from 01st January 2020.

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
16.2 Reconciliation of the Accounting Profit to Income Tax Expense				
Profit before Income Tax	6,027,776	4,111,247	6,184,680	4,295,636
Add : Disallowable Expenses *	15,860,741	9,211,843	15,865,108	9,717,084
Less : Allowable Expenses	12,213,560	7,624,276	12,054,064	8,073,386
Exempt Income	(1,768,020)	(859,385)	(1,768,020)	(859,385)
Total Income	-	4,839,429	-	5,079,949
Add: Tax Losses Incurred for the Year - Leasing (Note 16.3)	-	1,175,507	-	1,175,507
Less : Tax Losses Set-off (Note 16.3)	-	1,175,507	209,159	1,375,213
Assessable Income from Business	7,906,937	4,839,429	8,018,545	4,880,243
Assessable Income from Investments (Dividend Receipts)	149,979	-	149,979	-
Total Assessable Income	8,056,916	4,839,429	8,168,524	4,880,243
Taxable Income from Business	7,906,937	4,839,429	8,018,545	4,880,243
Taxable Income from Investments (Dividend Receipts)	149,979	-	149,979	-
Total Taxable Income	8,056,916	4,839,429	8,168,524	4,880,243
Tax on Current Year's Business Income	1,897,665	1,355,040	1,924,451	1,366,468
Tax on Current Year's Investment Income (Dividend Receipts)	20,997	-	20,997	-
Tax on Total Taxable Income	1,918,662	1,355,040	1,945,448	1,366,468
(Over)/ Under Provision in Respect of Previous Years	77,946	(31,229)	77,946	(31,229)
Transfer to Deferred Taxation (Note 16.4)	(549,372)	(223,864)	(574,384)	(137,661)
Total Income Tax Expense	1,447,236	1,099,947	1,449,010	1,197,578
Effective Income Tax Rate (Note 16.5) (%)	24	27	23	28
Effective Current Tax Rate (Excluding Deferred Tax) (**)	32	33	31	32

* Disallowable expenses for the year 2020 arrived after netting off Leasing Loss amounting to LKR 248.6Mn. (Tax Loss from Leasing Activities - LKR 1,175.51Mn. - Accounting Loss from Leasing Business - LKR 926.91Mn.)

** The difference of effective income tax rate and effective current tax rate arises due to the temporary differences between the tax base and the accounting base (i.e. impairment charges, depreciable assets, expense provisioning etc.)

For the Year ended 31st December	<i>Bank</i>				<i>Group</i>			
	2021		2020		2021		2020	
	Taxable Income	Tax Expense	Taxable Income	Tax Expense	Taxable Income	Tax Expense	Taxable Income	Tax Expense
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bank's Domestic Banking Unit and On-Shore Profits (Business Profits 24%/ Dividend Profits 14%)	8,050,229	1,917,057	-	-	8,161,837	1,943,843	-	-
Bank's Domestic Banking Unit and On-Shore Profits 28%	-	-	4,833,473	1,353,372	-	-	4,874,287	1,364,800
Off-Shore Profits - 24%	6,687	1,605	-	-	6,687	1,605	-	-
Off-Shore Profits - 28%	-	-	5,956	1,668	-	-	5,956	1,668
	8,056,916	1,918,662	4,839,429	1,355,040	8,168,524	1,945,448	4,880,243	1,366,468

Notes to the Financial Statements

	<i>Bank</i>		<i>Group</i>	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
16.3 Tax Losses Brought Forward				
Tax Losses Brought Forward	-	-	231,372	431,078
Add: Tax Losses Incurred During the Year	-	1,175,507	-	1,175,507
Less: Tax Losses Utilised During the Year	-	1,175,507	209,159	1,375,213
Unutilised Tax Losses Carried Forward	-	-	22,213	231,372
16.4 Deferred Tax Charge/ (Reversal)				
Deferred Tax - Liabilities				
Property, Plant and Equipment	(50,297)	(19,176)	(50,383)	(19,304)
Lease Receivables	(130,709)	45,919	(130,709)	45,919
Right-of-use-Assets	(54,763)	(7,764)	(138,993)	22,649
Expected Credit Loss Allowance	(151,701)	(264,356)	(151,701)	(264,356)
	(387,470)	(245,377)	(471,786)	(215,092)
Deferred Tax - Assets				
Leave Encashment Provision	(1,053)	13,965	(1,053)	13,965
Other Provisions	3,351	(6,509)	3,351	(6,509)
Enhanced Gratuity	98,905	(28,969)	98,905	(28,969)
Reversal of Revaluation Loss on Property, Plant and Equipment	(5,019)	-	-	-
Tax Losses Carried Forward	-	-	(50,198)	(55,918)
	96,184	(21,513)	51,005	(77,431)
Effect from Rate Change (28% to 24%) *	(65,718)		(51,593)	
Transfer to Deferred Taxation	(549,372)	(223,864)	(574,384)	(137,661)

* Current Year Deferred Tax movement includes the change of Income Tax rate change from 28% to 24%. The net impact amounting to LKR 65.72Mn. has been recorded in the Income Statement.

	<i>Bank</i>				<i>Group</i>			
	2021		2020		2021		2020	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
16.5 Reconciliation of Effective Tax Rate								
Profit Before Income Tax	-	6,027,776	-	4,111,247	-	6,184,680	-	4,295,636
Income Tax for the Period	24	1,446,666	28	1,151,149	24	1,484,323	28	1,202,778
Tax Effect of Expenses that are Not Deductible for Tax Purposes	64	3,806,578	63	2,579,316	61	3,807,626	64	2,720,784
Tax Effect of Expenses that are Deductible for Tax Purposes	(48)	(2,931,254)	(51)	(2,134,797)	(45)	(2,892,975)	(52)	(2,260,548)
Exempt Income	(7)	(424,325)	(6)	(240,628)	(7)	(424,325)	(6)	(240,628)
Adjustment / Tax Losses	-	-	-	-	(1)	(50,198)	(1)	(55,918)
(Over)/under Provision in Respect of Previous Years	1	77,946	(1)	(31,229)	1	77,946	(1)	(31,229)
Dividend under 14% tax rate	-	20,997	-	-	-	20,997	-	-
Deferred Taxation	(10)	(549,372)	(6)	(223,864)	(10)	(574,384)	(4)	(137,661)
Total Income Tax Expense (Note 16.2)	24	1,447,236	27	1,099,947	23	1,449,010	28	1,197,578

17 Basic/Diluted Earnings Per Share

Basic Earnings Per Share has been calculated by dividing Profit after tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31st December 2021 and 2020.

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive Ordinary Shares.

	<i>Bank</i>		<i>Group</i>	
	2021	2020 Restated	2021	2020 Restated
Total Profit after Tax Attributable to Equity Holders of the Bank (LKR '000)	4,580,540	3,011,300	4,653,003	3,038,629
Weighted Average Number of Ordinary Shares as at 31st December ('000) (Note 17.1)	534,191	534,191	534,191	534,191
Basic/Diluted Earnings Per Share (LKR)	8.57	5.64	8.71	5.69

17.1 Weighted Average Number of Ordinary Shares for Earnings per Share

	2021		2020	
	Outstanding	Weighted Average	Outstanding	Weighted Average Restated
Number of Shares held as at 1st January	517,022,969	517,022,969	503,623,786	503,623,786
Add: Number of Shares issued - Scrip Dividend - 2020	-	-	13,399,183	13,399,183
Add: Number of Shares issued - Scrip Dividend - 2021	17,167,714	17,167,714	-	-
Number of Shares held as at 31st December	534,190,683	534,190,683	517,022,969	517,022,969
Restatement due to subsequent scrip issue *				17,167,714
Weighted Average Number of Ordinary Shares as at 31st December		534,190,683		534,190,683

*Weighted average number of ordinary shares as at 31st December 2020 has been restated based on the no of shares issued for scrip dividend in 2021 as per Sri Lanka Accounting Standard (LKAS 33) - "Earnings per Share".

18 Dividends

	<i>Bank</i>	
	2021 LKR '000	2020 LKR '000
Ordinary Share Dividends		
- Cash Dividends	-	503,624
- Scrip Dividends	775,535	503,623
Gross Dividend	775,535	1,007,247

Proposed Dividend

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 3.00 per share for both voting and non-voting ordinary shareholders of the Bank to be paid by way of LKR 3.00 scrip dividend per share for the year ended 31 December 2021 (Bank declared a final dividend of LKR 1.50 per share for 2020 by way of scrip dividend per share).

The total dividend recommended by the Board of Directors is to be approved at the forthcoming Annual General Meeting to be held on 30th March 2022. Final dividend proposed for the year 2021 amounts to LKR 1,602,572,049.00 (LKR 775,534,453.50 for 2020).

In accordance with provisions of the Sri Lanka Accounting Standard (LKAS 10) – Events after the Reporting Period, the proposed final dividend has not been recognized as a liability as at year end.

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the section 57, prior to recommending the final dividend.

Notes to the Financial Statements

19 Analysis of Financial Instruments by Measurement Basis

	2021			Total LKR '000
	Financial Assets Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI) LKR '000	Financial Assets Measured at Amortised Cost (AC) LKR '000	
19.1 Bank				
Assets				
Cash and Cash Equivalents	-	-	16,079,054	16,079,054
Balances with Central Bank of Sri Lanka	-	-	8,725,834	8,725,834
Placements with Banks and Finance Companies	-	-	8,246,909	8,246,909
Derivative Financial Instruments	290,141	-	-	290,141
Securities Purchased under Resale Agreements	-	-	10,029,031	10,029,031
Customer Loans and Receivables	-	-	441,976,662	441,976,662
Debt Instruments	-	-	897,371	897,371
Equity Instruments	-	2,735,210	-	2,735,210
Government Securities	4,969,913	36,369,326	57,066,047	98,405,286
Group Balances Receivable	-	-	40,000	40,000
Other Financial Assets	-	-	6,710,409	6,710,409
Total Financial Assets	5,260,054	39,104,536	549,771,317	594,135,907
		Financial Liabilities Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Liabilities Measured at Amortised Cost (AC) LKR '000	Total LKR '000
Liabilities				
Due to Banks	-	24,504,387	-	24,504,387
Derivative Financial Instruments	217,179	-	-	217,179
Due to Depositors	-	488,653,328	-	488,653,328
Securities Sold under Repurchase Agreements	-	2,662,377	-	2,662,377
Due to Other Borrowers	-	7,295	-	7,295
Group Balances Payable	-	191,810	-	191,810
Debt Securities Issued	-	21,617,455	-	21,617,455
Lease Liabilities	-	4,889,598	-	4,889,598
Other Financial Liabilities	-	6,963,825	-	6,963,825
Total Financial Liabilities	217,179	549,490,075	549,707,254	549,707,254

	2020			Total LKR '000
	Financial Assets Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI) LKR '000	Financial Assets Measured at Amortised Cost (AC) LKR '000	
Assets				
Cash and Cash Equivalents	-	-	10,036,144	10,036,144
Balances with Central Bank of Sri Lanka	-	-	7,371,203	7,371,203
Placements with Banks and Finance Companies	-	-	10,730,528	10,730,528
Derivative Financial Instruments	403,984	-	-	403,984
Securities Purchased under Resale Agreements	-	-	6,142,893	6,142,893
Customer Loans and Receivables	-	-	393,766,147	393,766,147
Debt Instruments	-	-	718,397	718,397
Equity Instruments	-	3,232,980	-	3,232,980
Government Securities	4,545,853	55,791,251	46,831,181	107,168,285
Group Balances Receivable	-	-	40,000	40,000
Other Financial Assets	-	-	4,611,596	4,611,596
Total Financial Assets	4,949,837	59,024,231	480,248,089	544,222,157
	Financial Liabilities Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Liabilities Measured at Amortised Cost (AC) LKR '000	Total LKR '000	
Liabilities				
Due to Banks	-	32,679,687	32,679,687	
Derivative Financial Instruments	39,981	-	39,981	
Due to Depositors	-	440,303,126	440,303,126	
Securities Sold under Repurchase Agreements	-	2,575,873	2,575,873	
Due to Other Borrowers	-	14,123	14,123	
Group Balances Payable	-	261,462	261,462	
Debt Securities Issued	-	17,058,558	17,058,558	
Lease Liabilities	-	4,446,175	4,446,175	
Other Financial Liabilities	-	6,953,704	6,953,704	
Total Financial Liabilities	39,981	504,292,708	504,332,689	

Notes to the Financial Statements

	2021			
	Financial Assets Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI) LKR '000	Financial Assets Measured at Amortised Cost (AC) LKR '000	Total LKR '000
19.2 GROUP				
Assets				
Cash and Cash Equivalents	-	-	16,079,094	16,079,094
Balances with Central Bank of Sri Lanka	-	-	8,725,834	8,725,834
Placements with Banks and Finance Companies	-	-	8,246,909	8,246,909
Derivative Financial Instruments	290,141	-	-	290,141
Securities Purchased under Resale Agreements	-	-	10,029,031	10,029,031
Customer Loans and Receivables	-	-	441,976,662	441,976,662
Debt Instruments	-	60,863	897,371	958,234
Equity Instruments	-	2,735,210	-	2,735,210
Government Securities	4,969,913	36,369,326	57,230,015	98,569,254
Other Financial Assets	-	-	6,733,093	6,733,093
Total Financial Assets	5,260,054	39,165,399	549,918,009	594,343,462
		Financial Liabilities Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Liabilities Measured at Amortised Cost (AC) LKR '000	Total LKR '000
Liabilities				
Due to Banks	-	-	24,504,387	24,504,387
Derivative Financial Instruments	217,179	-	-	217,179
Due to Depositors	-	-	488,653,328	488,653,328
Securities Sold under Repurchase Agreements	-	-	2,662,377	2,662,377
Due to Other Borrowers	-	-	7,295	7,295
Debt Securities Issued	-	-	21,617,455	21,617,455
Lease Liabilities	-	-	2,007,245	2,007,245
Other Financial Liabilities	-	-	7,022,516	7,022,516
Total Financial Liabilities		217,179	546,474,603	546,691,782

	2020			
	Financial Assets Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI) LKR '000	Financial Assets Measured at Amortised Cost (AC) LKR '000	Total LKR '000
Assets				
Cash and Cash Equivalents	-	-	10,036,184	10,036,184
Balances with Central Bank of Sri Lanka	-	-	7,371,203	7,371,203
Placements with Banks and Finance Companies	-	-	10,730,528	10,730,528
Derivative Financial Instruments	403,984	-	-	403,984
Securities Purchased under Resale Agreements	-	-	6,142,893	6,142,893
Customer Loans and Receivables	-	-	393,766,147	393,766,147
Debt Instruments	-	57,275	718,397	775,672
Equity Instruments	7,925	3,232,980	-	3,240,905
Government Securities	4,545,853	55,791,251	46,831,181	107,168,285
Other Financial Assets	-	-	4,632,225	4,632,225
Total Financial Assets	4,957,762	59,081,506	480,228,758	544,268,026
		Financial Liabilities Measured at Fair Value through Profit or Loss (FVTPL) LKR '000	Financial Liabilities Measured at Amortised Cost (AC) LKR '000	Total LKR '000
Liabilities				
Due to Banks	-	-	32,679,687	32,679,687
Derivative Financial Instruments	-	39,981	-	39,981
Due to Depositors	-	-	440,303,126	440,303,126
Securities Sold under Repurchase Agreements	-	-	2,575,873	2,575,873
Due to Other Borrowers	-	-	14,123	14,123
Debt Securities Issued	-	-	17,058,558	17,058,558
Lease Liabilities	-	-	1,582,937	1,582,937
Other Financial Liabilities	-	-	6,997,794	6,997,794
Total Financial Liabilities	-	39,981	501,212,098	501,252,079

Notes to the Financial Statements

20 Cash and Cash Equivalents

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents				
Cash in Hand - Local Currency	8,816,265	8,034,662	8,816,305	8,034,702
Cash in Hand - Foreign Currency	377,575	251,726	377,575	251,726
Balances with Local Banks	70,760	85,785	70,760	85,785
Balances with Foreign Banks	6,849,053	1,672,764	6,849,053	1,672,764
Total Cash and Cash Equivalents	16,113,653	10,044,937	16,113,693	10,044,977
Expected Credit Loss Allowance (Note 20.1)	(34,599)	(8,793)	(34,599)	(8,793)
Total Cash and Cash Equivalents - Net	16,079,054	10,036,144	16,079,094	10,036,184
20.1 Movement in Expected Credit Loss Allowance During the year				
Stage 1				
Balance as at 1st January	8,793	16,766	8,793	16,766
Charge / (Write back) to Income Statement (Note 13)	25,806	(7,973)	25,806	(7,973)
Balance as at 31st December	34,599	8,793	34,599	8,793

21 Balances with Central Bank of Sri Lanka

As required by Section 93 of the Monetary Law Act, a cash balance to fulfil the statutory reserve requirement of 4% (4% for the period 16th September 2021 to 31st December 2021, 2% for the period 16th June 2020 to 15th September 2021, 4% for the period from 16th March 2020 to 15th June 2020, 5% for the period from 1st March 2019 to 15th March 2020) of the rupee deposit liabilities to be maintained with Central Bank of Sri Lanka.

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Statutory Balances with the Central Bank of Sri Lanka*	8,725,834	7,371,203
Total Balances with Central Bank of Sri Lanka	8,725,834	7,371,203

* Amount required to maintain the statutory reserve requirement on average over the reserve maintenance period.

22 Placements with Banks and Finance Companies

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Term Deposits with Banks	8,288,351	10,784,450	8,288,351	10,784,450
Term Deposits with Finance Companies	-	-	498	498
Total Placements with Banks and Finance Companies	8,288,351	10,784,450	8,288,849	10,784,948
Expected Credit Loss Allowance (Note 22.1)	(41,442)	(53,922)	(41,940)	(54,420)
Total Placements with Banks and Finance Companies - Net	8,246,909	10,730,528	8,246,909	10,730,528
22.1 Movement in Expected Credit Loss Allowance During the year				
Stage 1				
Balance as at 1st January	53,922	5,896	54,420	6,394
Charge / (Write back) to Income Statement (Note 13)	(12,480)	48,026	(12,480)	48,026
Balance as at 31st December	41,442	53,922	41,940	54,420

23 Derivative Financial Instruments

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
23.1 Derivative Assets		
Foreign Currency Derivatives		
- Forward Foreign Exchange Contracts		
- Designated as Cash Flow Hedges (Note 23.3)	34,913	41,227
- Designated as Fair Value Hedges (Note 23.4)	3,030	62,683
- Not Designated as Hedge	252,198	300,074
	290,141	403,984

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
23.2 Derivative Liabilities		
Foreign Currency Derivatives		
- Forward Foreign Exchange Contracts		
- Designated as Cash Flow Hedges (Note 23.3)	3,790	136
- Designated as Fair Value Hedges (Note 23.4)	51,662	22,153
- Not Designated as Hedge	161,727	17,692
	217,179	39,981

23.3 Cash Flow Hedges of Foreign Currency Borrowings

The Group enter into Forward Foreign Exchange Contracts to hedge the foreign currency risks arising from borrowings denominated in foreign currencies. These are designated as Cash Flow Hedges.

The fair value of derivatives designated as hedge are as follows;

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Instrument Type		
- Forward Foreign Exchange Contracts	31,123	41,091
	31,123	41,091

The time periods in which the hedged cash flows are expected to occur are as follows;

	Within 1 Year	1-5 Years	Over 5 Years
31 December 2021	USD 6Mn.	-	-
31 December 2020	USD 21Mn.	-	-

Notes to the Financial Statements

23.4 Fair Value Hedges of Foreign Currency Borrowings

The Group has applied the Fair Value Hedge Accounting for part of foreign currency liabilities which include foreign borrowing using forward contracts. Accordingly, the gain or loss relating to derivative contracts that have been designated as hedge instrument and the foreign exchange gain or loss from foreign currency liabilities designated as hedge items have been reported on net basis.

The amount relating to items designated as hedging instruments and hedge effectiveness as at 31st December 2021;

	Nominal Value LKR '000	Line item in the Statement of Financial Position	Amount set off in the Income Statement LKR '000
Foreign Currency Risk			
Hedge of foreign exchange risk arising from foreign currency denominated liabilities using forward foreign exchange contracts	1,206,000	Derivative Financial Instruments	(89,162)

The amount relating to items designated as hedged items at 31st December were as follow;

	Carrying amount of liability LKR '000	Amount set off in the Income Statement LKR '000
Due to Banks	1,206,000	(89,162)

Following table summarises the impact on the line items in Income Statement.

	Balance before the hedging adjustment LKR '000	Hedging adjustment LKR '000	Balance after the hedging adjustment LKR '000
For the year ended 31st December 2021			
Net gains /(losses) from Trading - Derivative Financial Instruments from Banks (Note 10)	(255,897)	89,162	(166,735)
Net Other Operating Income - Foreign Exchange Income (Note 12)	2,201,713	(89,162)	2,112,551

24 Financial Assets Measured at Fair Value through Profit or Loss (FVTPL)

	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Quoted Equities (Note 24.1)	-	-	-	7,925
Government Securities - Treasury Bills	3,967,287	4,090,426	3,967,287	4,090,426
Government Securities - Treasury Bonds	1,002,626	282,137	1,002,626	282,137
Sri Lanka International Sovereign Bonds	-	173,290	-	173,290
Total Financial Assets Measured at FVTPL	4,969,913	4,545,853	4,969,913	4,553,778

	<i>Group</i>			<i>Group</i>		
	2021			2020		
	No. of Ordinary Equities	Cost	Fair Value	No. of Ordinary Equities	Cost	Fair Value
	LKR '000	LKR '000		LKR '000	LKR '000	
24.1 Quoted Equities						
Subsidiary						
Banks Finance and Insurance						
Commercial Leasing & Finance Company PLC	-	-	-	1,981,038	9,905	7,925
Total Equity Investments Measured at FVTPL - Subsidiary/ Group		-	-		9,905	7,925
Mark to Market Valuation Loss*		-			(1,980)	

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
24.2 Analysis of Financial Assets Measured at FVTPL				
24.2.1 By Currency				
Sri Lankan Rupee	4,969,913	4,372,563	4,969,913	4,380,488
United States Dollar	-	173,290	-	173,290
Total Financial Assets Measured at FVTPL	4,969,913	4,545,853	4,969,913	4,553,778
24.2.2 By Collateralisation				
Pledged as Collateral	-	-	-	-
Unencumbered	4,969,913	4,545,853	4,969,913	4,553,778
Total Financial Assets Measured at FVTPL	4,969,913	4,545,853	4,969,913	4,553,778
24.3 Financial Assets Measured at FVTPL Consists of				
Total Cost/Amortised Cost	5,012,150	4,532,846	5,012,150	4,542,752
Mark to Market Valuation Gain/(Loss) *	(42,237)	13,007	(42,237)	11,026
Total Fair Value	4,969,913	4,545,853	4,969,913	4,553,778

* Mark to market valuation gain/(loss) of financial Assets measured at fair value through profit or loss is included in Net Gains/(Losses) from Trading (Note 10).

Notes to the Financial Statements

25 Financial Assets at Amortised Cost - Loans and Advances

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Gross Loans & Advances under;		
Stage 1	413,898,954	354,847,194
Stage 2	12,033,896	18,890,298
Stage 3	39,972,643	35,563,461
Gross Loans & Advances	465,905,493	409,300,953
Less: Expected Credit Loss Allowance under; (Note 25.3)		
Stage 1	2,719,224	1,330,114
Stage 2	2,056,798	932,874
Stage 3	19,152,809	13,271,818
Total Expected Credit Loss Allowance for Loans and Advances	23,928,831	15,534,806
Total Loans and Advances - Net	441,976,662	393,766,147

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
25.1 Analysis of Gross Loans & Advances		
25.1.1 By Product		
Local Currency		
Export Bills	6,987	-
Import Bills	50,576	176,262
Local Bills	40,209	498,124
Lease Rentals Receivable (Note 25.2)	26,131,228	23,748,389
Overdrafts	57,350,604	52,770,657
Revolving Import Loans	11,276,188	9,220,579
Packing Credit Loans	9,160,450	3,664,811
Trust Receipt Loans	1,553,920	2,439,890
Staff Loans	6,816,140	6,831,462
Housing Loans	17,770,634	16,555,436
Pawning Receivables	22,343,844	15,404,265
Refinance Loans	13,736,944	17,843,954
Credit Cards	6,164,893	6,090,828
Margin Trading	7,483,525	3,719,949
Factoring	1,751,686	1,394,176
Term Loans	243,215,172	204,822,522
Total Gross Loans and Advances - Local Currency	424,853,000	365,181,304
Foreign Currency		
Export Bills	2,945,544	3,771,605
Import Bills	480,553	351,737
Local Bills	16,135	596
Overdrafts	358,456	433,948
Revolving Import Loans	1,626,689	581,778
Packing Credit Loans	6,467,423	10,114,935
Housing Loans	128,130	176,043
Term Loans	29,029,563	28,689,007
Total Gross Loans and Advances - Foreign Currency	41,052,493	44,119,649
Total Gross Loans and Advances	465,905,493	409,300,953

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
25.1.2 by Currency		
Sri Lankan Rupee	424,853,000	365,181,304
United States Dollar	40,756,043	43,773,942
Great Britain Pound	241,217	282,730
Euro	20,570	9,783
Japanese Yen	15,389	28,570
Australian Dollar	11,898	24,624
Chinese Renminbi	7,376	-
Total Gross Loans and Advances	465,905,493	409,300,953
25.1.3 by Industry		
Agriculture, Forestry and Fishing	59,601,665	52,667,083
Manufacturing	52,587,200	46,857,917
Tourism	19,671,524	19,097,256
Transportation and Storage	8,643,519	10,777,572
Construction	74,172,040	57,966,192
Infrastructure Development	13,976,313	8,799,927
Wholesale and Retail Trade	57,099,942	52,593,103
Information Technology and Communication Services	4,349,464	1,761,682
Financial Services	50,259,859	43,959,383
Professional, Scientific and Technical Activities	8,436,808	6,915,911
Arts, Entertainment and Recreation	818,832	1,011,010
Education	2,312,249	2,566,172
Healthcare, Social Services and Support Services	8,755,816	11,690,762
Consumption	102,880,272	90,238,207
Lending to Overseas Entities	2,339,990	2,398,776
Total Gross Loans and Advances	465,905,493	409,300,953
25.2 Lease Rentals Receivable		
Lease Rentals Receivable within One Year (Note 25.2.1)	8,773,260	8,749,684
Lease Rentals Receivable Later than One Year and Not Later than Five Years (Note 25.2.2)	17,294,476	14,915,756
Lease Rentals Receivable Later than Five Years (Note 25.2.3)	63,492	82,949
	26,131,228	23,748,389
25.2.1 Lease Rentals Receivable within One Year		
Gross Lease rentals Receivables	11,512,788	11,700,855
Unearned Income	(2,739,528)	(2,951,171)
	8,773,260	8,749,684
25.2.2 Lease Rentals Receivable Later than One Year and Not Later than Five Years		
Gross Lease rentals Receivables	20,083,659	17,892,925
Deposits of Rentals	-	(12,436)
Unearned Income	(2,789,183)	(2,964,733)
	17,294,476	14,915,756
25.2.3 Lease Rentals Receivable Later than Five Years		
Gross Lease rentals Receivables	66,988	87,878
Unearned Income	(3,496)	(4,929)
	63,492	82,949

Notes to the Financial Statements

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
25.3 Movements in Expected Credit Loss Allowance on Loans and Advances		
Balance as at 01st January	15,534,806	10,732,411
Charge/(Write back) to Income Statement (Note 13.1)	8,981,385	6,666,694
Reversal for Write-Off during the Year	(279,202)	(1,106,711)
Interest Accrued on Impaired Loans and Advances (Note 8.1)	(355,983)	(937,457)
Other Movements	47,825	179,869
Balance as at 31st December	23,928,831	15,534,806
25.3.1 Stagewise Movements in Expected Credit Loss Allowance during the year		
Stage 1		
Balance as at 01st January	1,330,114	701,757
Charge/(Write back) to Income Statement (Note 13.1)	1,389,110	628,357
Balance as at 31st December	2,719,224	1,330,114
Stage 2		
Balance as at 01st January	932,874	573,870
Charge/(Write back) to Income Statement (Note 13.1)	1,123,924	359,004
Balance as at 31st December	2,056,798	932,874
Stage 3		
Balance as at 01st January	13,271,818	9,456,784
Charge/(Write back) to Income Statement (Note 13.1)	6,468,351	5,679,333
Reversal for Write-Off during the Year	(279,202)	(1,106,711)
Interest Accrued on Impaired Loans and Advances	(355,983)	(937,457)
Other Movements	47,825	179,869
Balance as at 31st December	19,152,809	13,271,818

COVID-19 initiatives

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of Significant Increase in Credit Risk (SICR) has been determined based on various measures of the customer's current financial position, future earnings capacity and the sectors in which the customers operate from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Based on the risk categorisation, facilities have been stress tested and required allowance overlays have been made.

KEY JUDGEMENTS AND ESTIMATES

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Bank ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the economy. Accordingly, the Bank's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/ Assumption	Description	Considerations for the year ended 31st December 2021
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'Stage 1' to 'Stage 2'. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses.	In response to the impacts of COVID-19, various moratorium/ debt concessionary schemes have been offered to eligible customers. The Bank does not consider that when a customer is first provided assistance it automatically results in a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate, and ability to recommence loan repayments at the end of the moratorium/ debt concessionary period to conclude whether there is SICR.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point in time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point in time sensitivity.	The PD, EAD and LGD models are subject to the Bank's policy on impairment model that stipulates periodic model monitoring, periodic revalidation and the approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 31st December 2021. Due to the implications of moratorium/ debt concessionary schemes on PDs and LGDs (due to limited movements to Stage 2 & 3), adjustments have been made as overlays based on stress testing and historic patterns to better reflect the adequacy of ECL.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no material changes to behavioural lifetime estimates during the year ended 31st December 2021.
Base case economic forecast	The Bank derives a forward-looking "base case" economic scenario which reflects the it's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 31st December 2021, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19 by using the economic forecast provided by the Central Bank of Sri Lanka.
Probability weighting of each economic scenario (base case, best and worst scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the worst scenario given the Bank's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management overlay adjustments	Management overlay adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Bank's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management overlay adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays has been addressed by the Bank using various stress testing techniques out side the ECL model which is included in ECL allowance on loans and advances.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Bank.

Notes to the Financial Statements

26 Financial Assets Measured at Amortised Cost - Debt and Other Instruments

	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Government Securities - Treasury Bills	-	-	163,968	-
Government Securities - Treasury Bonds	42,556,755	31,497,720	42,556,755	31,497,720
Sri Lanka Development Bonds	7,341,503	7,623,421	7,341,503	7,623,421
Sri Lanka International Sovereign Bonds	7,855,277	7,977,206	7,855,277	7,977,206
Quoted Debentures (Note 26.1)	294,732	81,438	294,732	81,438
Unquoted Debentures (Note 26.2)	602,755	637,175	602,755	637,175
Securities Purchased under Resale Agreements	10,029,031	6,142,893	10,029,031	6,142,893
Total Financial Assets Measured at Amortised Cost	68,680,053	53,959,853	68,844,021	53,959,853
Expected Credit Loss Allowance (Note 26.5)	(687,604)	(267,382)	(687,604)	(267,382)
Net Financial Assets Measured at Amortised Cost	67,992,449	53,692,471	68,156,417	53,692,471
26.1 Quoted Debentures				
Singer Finance PLC (750,000 Debentures of LKR 100/- each)	81,411	81,438	81,411	81,438
Ceylon Electricity Board (2,000,000 Debentures of LKR 100/- each)	213,321	-	213,321	-
Total Quoted Debentures Measured at Amortised Cost- Bank	294,732	81,438	294,732	81,438
26.2 Unquoted Debentures				
HNB Finance PLC	602,755	637,175	602,755	637,175
Total Unquoted Debentures Measured at Amortised Cost- Bank	602,755	637,175	602,755	637,175
26.3 Analysis of Financial Assets Measured at Amortise Cost - Debt and Other Instruments				
26.3.1 By Currency				
Sri Lankan Rupee	53,483,273	38,359,226	53,647,241	38,359,226
United States Dollar	15,196,780	15,600,627	15,196,780	15,600,627
Total Financial Assets Measured at Amortised Cost	68,680,053	53,959,853	68,844,021	53,959,853
26.3.2 By Collateralisation				
Pledged as Collateral	1,032,455	970,650	1,032,455	970,650
Unencumbered	67,647,598	52,989,203	67,811,566	52,989,203
Total Financial Assets Measured at Amortised Cost	68,680,053	53,959,853	68,844,021	53,959,853
26.4 Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments				
Balance as at 01st January	53,692,471	27,038,743	53,692,471	27,038,743
Reclassification during the Year	-	4,171,733	-	4,171,733
Net Acquisitions and Maturities during the Year	14,720,200	22,737,898	14,884,168	22,737,898
Net Expected Credit Losses during the Year (Note 26.5)	(420,222)	(255,903)	(420,222)	(255,903)
Balance as at 31st December	67,992,449	53,692,471	68,156,417	53,692,471
26.5 Movements in Expected Credit Loss Allowance During the year				
Stage 1				
Balance as at 01st January	267,382	11,479	267,382	11,479
Charge / (Write back) to Income Statement (Note 13)	420,222	255,903	420,222	255,903
Balance as at 31st December	687,604	267,382	687,604	267,382

27 Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Quoted Equities (Note 27.1)	2,402,958	2,938,805	2,402,958	2,938,805
Unquoted Equities (Note 27.2)	332,252	294,175	332,252	294,175
Government Securities - Treasury Bills	2,186,713	6,237,701	2,186,713	6,237,701
Government Securities - Treasury Bonds	33,768,436	48,987,962	33,768,436	48,987,962
Sri Lanka Development Bonds	414,177	565,588	414,177	565,588
Quoted Debentures (Note 27.3)	-	-	60,863	57,275
Total Financial Assets Measured at FVOCI	39,104,536	59,024,231	39,165,399	59,081,506

27.1 Quoted Equities

The Bank measured investments shown in the following table as Equity Investments at FVOCI. The FVOCI categorisation was made because the investments were initially expected to be held for the long term for Strategic purposes.

	2021			2020		
	No. of Ordinary Equities	Cost	Fair Value	No. of Ordinary Equities	Cost	Fair Value
		LKR '000	LKR '000		LKR '000	LKR '000
Banks Finance and Insurance						
The Finance Company PLC	1,003,163	29,393	-	1,003,163	29,393	-
Diversified Holdings						
John Keells Holdings PLC	527,135	95,168	79,070	527,135	95,168	78,859
Financial Services						
Visa Inc	-	-	-	18,000	21,749	738,214
HNB Finance PLC *	233,200,000	2,332,000	2,238,720	233,200,000	2,332,000	2,028,840
Hotels and Travels						
John Keells Hotels PLC	1,442,311	17,740	21,202	3,552,311	43,693	39,075
Jetwing Symphony PLC	3,328,749	49,931	41,942	3,328,749	49,931	31,956
Manufacturing						
Chevron Lubricants Lanka PLC	120,407	19,329	13,606	120,407	19,329	13,004
Power and Energy						
Lanka IOC PLC	115,000	5,246	8,418	395,421	18,037	8,857
Total Quoted Equity Investments Measured at FVOCI - Bank/Group		2,548,807	2,402,958		2,609,300	2,938,805

* The Bank restructured its loan portfolio to HNB Finance Limited (previously known as HNB Grameen Finance Limited and before that Grameen Micro Credit Company Limited) (LKR 2.725 Bn.) by obtaining approval from the Monetary Board and converted LKR 1 Bn. of the outstanding loan to 15% Cumulative / Redeemable / Convertible / Preference Shares. Further, the Bank converted the balance of LKR 1.725 Bn. to Secured Debentures at an interest rate of Treasury bills + 10% per annum, which will mature from 2012 to 2019.

However, with effect from 25th June 2012, the Central Bank of Sri Lanka has directed to convert the investments in Grameen Micro Credit Company Limited (presently known as HNB Finance Limited) to LKR 665 Mn. Debentures which are secured against the mortgaged properties (redeemable from 2020 to 2040) and the balance LKR 2,060 Mn together with interest due amounting to LKR 272 Mn. to 233,200,000 Non-voting Shares of LKR 10/- each amounting to LKR 2.332 Bn.

HNB Finance Limited is listed in Colombo Stock Exchange with effect from 20th May 2020 as HNB Finance PLC.

Notes to the Financial Statements

27.2 Unquoted Equities

	2021			2020		
	No. of Ordinary Equities	Cost	Fair Value	No. of Ordinary Equities	Cost	Fair Value
		LKR '000	LKR '000		LKR '000	LKR '000
Bank						
Credit Information Bureau of Sri Lanka	2,900	290	60,924	2,900	290	60,850
LankaClear (Pvt) Limited	1,006,601	11,163	204,113	1,000,000	10,000	177,173
Lanka Financial Services Bureau Limited	500,000	5,000	-	500,000	5,000	-
Transnational Lanka Records Solutions (Pvt) Limited	1,000,000	10,000	67,215	1,000,000	10,000	56,152
Total Unquoted Equity Investments Measured at FVOCI - Bank		26,453	332,252		25,290	294,175
Subsidiary						
Standard Credit Finance Limited (Formerly Known as Standard Credit Lanka Limited)	8,040,969	44,041	-	8,040,969	44,041	-
Total Unquoted Equity Investments Measured at FVOCI - Subsidiary		44,041	-		44,041	-
Total Unquoted Equity Investments Measured at FVOCI - Group		70,494	332,252		69,331	294,175

Fair value is based on Net Assets per Share Basis as per the Audited Financial Statements of these Companies as at following dates:

Credit Information Bureau of Sri Lanka - 31st December 2020

LankaClear (Pvt) Limited - 31st March 2021

Lanka Financial Services Bureau Limited - 31st March 2021

Transnational Lanka Records Solutions (Pvt) Limited - 30th June 2021

Dividend received from Quoted and Unquoted Equities Investments measured at FVOCI disclosed in Note-12.

	2021		2020	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	LKR'000	LKR'000	LKR'000	LKR'000
27.3 Quoted Debentures				
LOLC Finance PLC (500,000 Debentures of LKR 100/- each)	53,091	60,863	53,083	57,275
Total Quoted Debentures Measured at FVOCI - Subsidiary	53,091	60,863	53,083	57,725
Total Quoted Debentures Measured at FVOCI - Group	53,091	60,863	53,083	57,275

	Bank		Group	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
27.4 Analysis of Financial Assets Measured at FVOCI				
27.4.1 By Currency				
Sri Lankan Rupee	38,690,359	57,720,429	38,751,222	57,777,704
United States Dollar	414,177	1,303,802	414,177	1,303,802
Total Financial Assets Measured at FVOCI	39,104,536	59,024,231	39,165,399	59,081,506

	<i>Bank</i>		<i>Group</i>	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
27.4.2 By Collateralisation				
Pledged as Collateral	7,142,430	4,416,766	7,142,430	4,416,766
Unencumbered	31,962,106	54,607,465	32,022,969	54,664,740
Total Financial Assets Measured at FVOCI	39,104,536	59,024,231	39,165,399	59,081,506
27.5 Financial Assets Measured at FVOCI Consists of				
Total Cost/Amortised Cost	39,381,084	55,978,300	39,478,208	56,076,508
Accumulated Fair Value Change recognised through				
- Other Comprehensive Income	(291,488)	3,036,537	(327,758)	2,995,595
- Income Statement	14,940	9,394	14,949	9,403
Total Accumulated Fair Value Change (Note 27.6)	(276,548)	3,045,931	(312,809)	3,004,998
Total Financial Assets Measured at FVOCI	39,104,536	59,024,231	39,165,399	59,081,506
27.6 Accumulated Fair Value Change				
Fair Value Change as at 01st January	3,045,931	(222,055)	3,004,998	(265,392)
Fair Value Change during the year	(3,322,479)	3,267,986	(3,317,807)	3,270,390
Fair Value Change as at 31st December	(276,548)	3,045,931	(312,809)	3,004,998
27.7 Movements in Expected Credit Loss Allowance During the year				
Stage 1				
Balance as at 01st January	9,394	59,397	9,403	59,406
Charge / (Write back) to Income Statement (Note 13)	5,546	(50,003)	5,546	(50,003)
Balance as at 31st December	14,940	9,394	14,949	9,403
27.8 Derecognition of Equity Investments Measured at FVOCI				
Bank				
Visa Inc	891,021	869,272	-	-
Lanka IOC	15,371	2,580	-	-
John Keells Hotels PLC	29,440	3,487	-	-
Piramal Glass Ceylon PLC	-	-	5,332	1,490
Total Derecognition of Equity Investments Measured at FVOCI-Bank/ Group	935,832	875,339	5,332	1,490

Notes to the Financial Statements

28 Investment in Subsidiary

	Primary Activity	2021				2020			
		No of Ordinary Equities	Holding %	Cost LKR '000	Market Value LKR '000	No of Ordinary Equities	Holding %	Cost LKR '000	Market Value LKR '000
Seylan Developments PLC	Property Development/ Management	104,332,112	70.51	1,153,602	1,877,978	104,332,112	70.51	1,153,602	1,502,382
				1,153,602	1,877,978			1,153,602	1,502,382

Based on the Internal Assessment carried out, the Bank is of the view that there is no impairment.

	2021 LKR '000	2020 LKR '000
28.1 Non-Controlling Interest (NCI) in Subsidiary, Seylan Developments PLC		
NCI (%)	29.49	29.49
Total Assets	6,061,360	5,910,908
Total Liabilities	787,729	809,450
Net Assets	5,273,631	5,101,458
Carrying Amount of NCI (Note 28.2)	1,328,593	1,285,776
Revenue	362,047	375,271
Profit	350,776	259,751
Total Comprehensive Income	349,226	270,525
Profit Allocated to NCI	82,667	59,429
Cash flow from Operating Activities	277,845	246,754
Cash flow from Investing Activities	36,830	(78,683)
Cash flow from Financing Activities - before Dividend to NCI	(125,196)	(114,765)
Cash flow from Financing Activities - Cash Dividend to NCI	(52,362)	(47,996)
Net Increase/ (Decrease) in Cash and Cash Equivalents	137,117	5,310

	2021 LKR '000	2020 LKR '000
28.2 Carrying Amount of Non Controlling Interest (NCI)		
Balance as at 1st January	1,285,776	1,264,588
Profit for the Year	82,667	59,429
Other Comprehensive Income, net of tax	12,363	9,755
Other Transactions with Equity Holders, Recognised Directly in Equity	(52,213)	(47,996)
Balance as at 31st December	1,328,593	1,285,776

29 Group Balances Receivable

	2021 LKR '000	2020 LKR '000
Seylan Developments PLC	40,000	40,000
	40,000	40,000

30 Property, Plant and Equipment

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Office Machines and Equipment LKR '000	Fixtures, Fittings and Furniture LKR '000	Motor Vehicles LKR '000	Leased Assets LKR '000	Total LKR '000
30.1 Bank								
Cost / Valuation								
Balance as at								
1st January 2020	1,272,517	305,674	3,974,936	1,399,096	2,109,051	150,786	48,065	9,260,125
Additions and								
Improvements	-	-	359,874	26,252	98,810	27,900	-	512,836
Disposals / Write-Offs	-	-	(4,158)	(2,447)	(5,773)	(17,600)	-	(29,978)
Balance as at								
31st December 2020	1,272,517	305,674	4,330,652	1,422,901	2,202,088	161,086	48,065	9,742,983
Additions and								
Improvements	-	-	245,593	11,872	54,967	-	-	312,432
Net Surplus on Revaluation	640,288	34,475	-	-	-	-	-	674,763
Disposals / Write-Offs	-	-	(228)	(898)	(3,126)	(4,814)	-	(9,066)
Balance as at								
31st December 2021	1,912,805	340,149	4,576,017	1,433,875	2,253,929	156,272	48,065	10,721,112
Accumulated Depreciation								
Balance as at								
1st January 2020	-	40,836	2,030,206	1,073,807	1,609,297	109,981	48,065	4,912,192
Charge for the Year	-	13,612	519,655	98,267	169,609	21,161	-	822,304
Disposals / Write-Offs	-	-	(3,143)	(2,138)	(5,365)	(12,320)	-	(22,966)
Balance as at								
31st December 2020	-	54,448	2,546,718	1,169,936	1,773,541	118,822	48,065	5,711,530
Charge for the Year	-	13,612	522,654	87,860	156,148	16,517	-	796,791
Revaluation Adjustment on								
Accumulated Depreciation	-	(68,060)	-	-	-	-	-	(68,060)
Disposals / Write-Offs	-	-	(228)	(898)	(3,126)	(4,814)	-	(9,066)
Balance as at								
31st December 2021	-	-	3,069,144	1,256,898	1,926,563	130,525	48,065	6,431,195
As at 31st December 2020								
Cost / Valuation less								
Accumulated Depreciation	1,272,517	251,226	1,783,934	252,965	428,547	42,264	-	4,031,453
Accumulated Impairment	-	-	-	-	-	-	-	-
Net Carrying Amount	1,272,517	251,226	1,783,934	252,965	428,547	42,264	-	4,031,453
Market Value *	1,272,517	251,226						
As at 31st December 2021								
Cost / Valuation less								
Accumulated Depreciation	1,912,805	340,149	1,506,873	176,977	327,366	25,747	-	4,289,917
Accumulated Impairment	-	-	-	-	-	-	-	-
Net Carrying Amount	1,912,805	340,149	1,506,873	176,977	327,366	25,747	-	4,289,917
Market Value *	1,912,805	340,149						

* Market value of freehold land and buildings were estimated as revalued amount less subsequent depreciation, the details of which has been provided in Note 30.4.

There were no capitalised borrowing costs pertaining to the acquisition of property, plant and equipment of the Bank during the year 2021 (2020-Nil).

There are two pending cases against the Bank in the District Court of Badulla related to properties at Badulla and Bandarawela. Also there is a case filed by the Bank in the District Court of Ratnapura related to Ratnapura property.

Other than the above three properties there were no restriction on the title of the property, plant and equipment of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

The Bank holds properties at Balangoda and Deal Place, Colombo 03 worth of LKR 13 Mn. and 209 Mn. respectively. Bank will decide the future course of action on these two properties.

Notes to the Financial Statements

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Office Machines and Equipment LKR '000	Fixtures, Fittings and Furniture LKR '000	Motor Vehicles LKR '000	Leased Assets LKR '000	Total LKR '000
30.2 Group								
Cost / Valuation								
Balance as at								
01st January 2020	1,272,517	2,981,736	3,982,775	1,550,642	2,121,509	150,786	48,065	12,108,030
Additions and								
Improvements	-	-	360,104	40,187	100,735	27,900	-	528,926
Surplus on Revaluation	-	3,948	-	-	-	-	-	3,948
Disposals / Write-Offs	-	-	(4,158)	(2,447)	(5,773)	(17,600)	-	(29,978)
Balance as at								
31st December 2020	1,272,517	2,985,684	4,338,721	1,588,382	2,216,471	161,086	48,065	12,610,926
Additions and								
Improvements	-	-	246,355	54,503	55,996	-	-	356,854
Net Surplus /(Deficit) on								
Revaluation	640,288	44,963	(471)	-	176	-	-	684,956
Disposals / Write-Offs	-	-	(353)	(898)	(3,212)	(4,814)	-	(9,277)
Balance as at								
31st December 2021	1,912,805	3,030,647	4,584,252	1,641,987	2,269,431	156,272	48,065	13,643,459
Accumulated Depreciation								
Balance as at								
01st January 2020	-	40,836	2,035,669	1,167,574	1,617,465	109,981	48,065	5,019,590
Charge for the Year	-	51,303	520,525	115,207	171,086	21,161	-	879,282
Revaluation Adjustment on								
Accumulated Depreciation	-	(37,691)	-	-	-	-	-	(37,691)
Disposals / Write-Offs	-	-	(3,143)	(2,138)	(5,365)	(12,320)	-	(22,966)
Balance as at								
31st December 2020	-	54,448	2,553,051	1,280,643	1,783,186	118,822	48,065	5,838,215
Charge for the Year	-	51,897	523,573	110,644	157,805	16,517	-	860,436
Revaluation Adjustment on								
Accumulated Depreciation	-	(106,345)	(2,707)	-	(662)	-	-	(109,714)
Disposals / Write-Offs	-	-	(346)	(898)	(3,167)	(4,814)	-	(9,225)
Balance as at								
31st December 2021	-	-	3,073,571	1,390,389	1,937,162	130,525	48,065	6,579,712
As at 31st December 2020								
Cost / Valuation less								
Accumulated Depreciation	1,272,517	2,931,236	1,785,670	307,739	433,285	42,264	-	6,772,711
Accumulated Impairment	-	-	-	-	-	-	-	-
Net Carrying Amount	1,272,517	2,931,236	1,785,670	307,739	433,285	42,264	-	6,772,711
Market Value *	1,272,517	2,931,236						
As at 31st December 2021								
Cost / Valuation less								
Accumulated Depreciation	1,912,805	3,030,647	1,510,681	251,598	332,269	25,747	-	7,063,747
Accumulated Impairment	-	-	-	-	-	-	-	-
Net Carrying Amount	1,912,805	3,030,647	1,510,681	251,598	332,269	25,747	-	7,063,747
Market Value *	1,912,805	3,030,647						

* Market value of freehold land and buildings were estimated as revalued amount less subsequent depreciation, the details of which has been provided in Note 30.4.

Investment property rented to Seylan Bank PLC by its subsidiary, Seylan Developments PLC is classified as Property, Plant and Equipment in the Group Financial Statements.

30.3 Fully Depreciated/ Amortised Assets

The initial cost of fully depreciated Property, Plant and Equipment and fully amortised intangible assets (software and software related) as at 31st December which are still in use as follows;

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Computer Equipment	1,614,708	1,146,992	1,615,490	1,147,971
Office Machines and Equipment	977,671	884,352	1,003,832	907,153
Fixtures, Fittings and Furniture	1,473,730	1,288,279	1,479,197	1,293,439
Motor Vehicles	86,297	61,932	86,297	61,932
Leased Assets	47,876	48,065	47,876	48,065
Total Fully Depreciated Property, Plant and Equipment	4,200,282	3,429,620	4,232,692	3,458,560
Total Fully Amortised Intangible Assets	1,645,734	1,613,282	1,645,734	1,613,282
Total Fully Depreciated/ Amortised Assets	5,846,016	5,042,902	5,878,426	5,071,842

30.4 Freehold Land and Buildings

The Bank has revalued its land and buildings and the valuations were made on the basis of market values for existing use. Such valuations were carried out by an independent professionally qualified valuer, Mr. D N D Baranage (GMIV Sri Lanka and MRICS London). The effective date of the revaluation is 31st December 2021.

The book values of the properties were adjusted to the revalued amount and the resultant surplus or deficit was transferred to the revaluation reserve or Income Statements respectively.

	Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Extent	Revalued Amount		
					Land LKR'000	Building LKR'000	Total LKR'000
1	Mt. Lavinia 198, Galle Road, Ratmalana	Market Comparable Method Price per perch for land Price per square foot for building	 LKR 4,000,000 p.p LKR 1,500 p.sq.ft to LKR 3,750 p.sq.ft	36.30 P	154,480	17,091	171,571
2	Badulla 10, Cocowatte Road, Badulla	Market Comparable Method Price per perch for land Price per square foot for building	 LKR 4,500,000 p.p LKR 4,000 p.sq.ft	1 R 5.50 P	208,800	24,800	233,600
3	Kochchikade 66, Chilaw Road, Kochchikade	Market Comparable Method Price per perch for land Price per square foot for building	 LKR 2,500,000 p.p LKR 4,500 p.sq.ft	8.00 P	20,000	20,587	40,587
4	Avissawella 71, Ratnapura Road, Avissawella	Market Comparable Method Price per perch for land Price per square foot for building	 LKR 5,000,000 p.p LKR 4,000 p.sq.ft	18.92 P	94,600	22,140	116,740
5	Grandpass 401, Prince of Wales Avenue, Colombo 14	Market Comparable Method Price per perch for land Quantity allowance Price per square foot for building	 LKR 6,000,000 p.p 5% LKR 2,000 p sq. ft to LKR 4,000 p.sq.ft	1 R 6.00 P	262,200	34,030	296,230
6	Bandarawela Badulla Road, Bandarawela	Market Comparable Method Price per perch for land Price per square foot for building	 LKR 5,000,000 p.p LKR 3,000 p.sq.ft	27.01P	135,500	16,200	151,700
7	Sarikkamulla 97, Old Galle Road, Sarikkamulla	Market Comparable Method Price per perch for land Price per square foot for building	 LKR 1,200,000 p.p LKR 3,000 p.sq.ft	11.56 P	13,872	11,070	24,942
8	Raddolugama 171, National Housing Scheme, Raddolugama	Market Comparable Method Price per perch for land Price per square foot for building	 LKR 1,000,000 p.p LKR 3,500 p.sq.ft	12.08 P	12,080	12,460	24,540

Notes to the Financial Statements

	Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Extent	Revalued Amount		
					Land LKR'000	Building LKR'000	Total LKR'000
9	Nuwara-Eliya 61, Haddon Hill Road, Nuwara-Eliya	Market Comparable Method Price per perch for land Quantity allowance Price per square foot for building	LKR 700,000 p.p 10%	1 R 36.00 P	47,880	12,295	60,175
10	Maradagahamula 150, Divulapitiya Road, Maradagahamula	Market Comparable Method Price per perch for land Price per square foot for building	LKR 1,000,000 p.p LKR 4,000 p.sq.ft	35.00 P	35,000	25,440	60,440
11	Anuradhapura 23-A1, Anuradhapura	Market Comparable Method Price per perch for land	LKR 1,200,000 p.p	1 R 3.65 P	54,562	-	54,562
12	Embilipitiya 73, New Town Road, Embilipitiya	Market Comparable Method Price per perch for land Price per square foot for building	LKR 2,000,000 p.p LKR 3,750 p.sq.ft	22.10 P	44,020	42,075	86,095
13	Nugegoda 211, High Level Road, Nugegoda	Market Comparable Method Price per perch for land Price per square foot for building Depreciation Rate	LKR 1,000,000 p.p to LKR 6,000,000 p.p LKR 4,750 p.sq.ft 10%	14.00 P	86,000	37,295	123,295
14	Ratnapura 6, Goods Shed Road, Ratnapura	Market Comparable Method Price per perch for land Price per square foot for building	LKR 4,000,000 p.p LKR 3,000 p.sq.ft	6.13 P	37,248	11,016	48,264
15	Balangoda Pettigala Road, Balangoda	Market Comparable Method Price per perch for land Quantity allowance	LKR 600,000 p.p 5%	3 R 22.04 P	12,563	-	12,563
16	Deal Place 2, Deal Place, Colombo 3	Market Comparable Method Price per perch for land	LKR 16,000,000 p.p	19.00 P	208,640	-	208,640
17	Gampola 44, Kandy Road, Gampola	Market Comparable Method Price per perch for land Price per square foot for building	LKR 4,000,000 p.p LKR 4,000 p.sq.ft	13.50 P	54,000	23,100	77,100
18	Koggala 9, Export Processing Zone, Koggala	Market Comparable Method Price per square foot for building	LKR 3,000 p.sq.ft	20.00 P	-	5,850	5,850
19	Negombo 115, Rajapaksa Broadway, Negombo	Market Comparable Method Price per perch for land Price per square foot for building	LKR 4,000,000 p.p LKR 5,000 p.sq.ft	29.15 P	116,600	24,700	141,300
20	Kandana 99, Station Road, Kandana	Market Comparable Method Price per perch for land	LKR 1,500,000 p.p	1 A 1 R 9.84 P	314,760	-	314,760
Total Freehold Land and Buildings-Bank					1,912,805	340,149	2,252,954
21	Seylan Towers - East Tower 90, Galle Road, Colombo 3	Investment Method Estimated rent income per month per square foot for building	LKR 215 p.sq.ft		-	2,690,498	2,690,498
Total Freehold Buildings-Subsidiary					-	2,690,498	2,690,498
Total Freehold Land and Buildings-Group					1,912,805	3,030,647	4,943,452

Description of the above valuation techniques together with narrative description on sensitivity of the fair value measurement to changes in significant unobservable inputs are given below:

Valuation technique	Significant unobservable valuation inputs	Sensitivity of the fair value measurement to inputs
Market Comparable Method		
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would get increased/ (decreased) if; Price per perch would get higher/ (lower) Price per square foot would get higher/ (lower) Depreciation rate for building would get lower/ (higher)
Investment Method		
This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market.	Gross annual rentals Years of purchase	Estimated fair value would get increased/ (decreased) if; Gross annual rentals would get higher/ (lower) Years purchase would get higher/ (lower)
Depreciated Replacement Cost Method		
This method involves the capitalisation of the expected cost of construction at an appropriate remaining life of the building.	Cost of construction Full life of building Remaining life of building	Estimated fair value would get increased/ (decreased) if; Cost of construction would get higher/ (lower)

30.5 Revaluation - Freehold Land and Buildings

The fair value measurements for all of the freehold land and buildings have been categorised as Level 3 fair value measurements.

If Freehold Land and Buildings were stated at historical cost, the amounts would have been as follows:

Properties Revalued	Bank					
	2021			2020		
	Land LKR '000	Buildings LKR '000	Total LKR '000	Land LKR '000	Buildings LKR '000	Total LKR '000
Cost	462,558	126,197	588,755	462,558	126,197	588,755
Accumulated Depreciation	-	(55,202)	(55,202)	-	(52,070)	(52,070)
Carrying Value	462,558	70,995	533,553	462,558	74,127	536,685

Notes to the Financial Statements

31 Right-of-use Assets

SLFRS 16 - "Leases", requires lessee to recognise all leases on their Statement of Financial Position as lease liabilities with the corresponding right-of-use assets.

31.1 Lease Payable as Lessee

The Group has obtained certain branches and office premises under Lease. The leases generally run for a period of 10 years, with an option to renew the lease after that date. Bank's subsidiary, Seylan Developments PLC had entered in to a 99 year lease with the Urban Development Authority (UDA) with the view of set up/conduct and operate a business for the construction of an office and apartment complex on the Year of 1992. The Company pays a nominal rent to the UDA for occupying the land.

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1st January	4,450,659	4,494,006	2,220,501	2,230,349
Additions for the Year	837,770	436,225	837,770	436,225
Depreciation Charge for the Year	(455,160)	(461,141)	(421,441)	(427,642)
Reversal on Early Termination	(42,094)	(18,431)	(42,093)	(18,431)
Balance as at 31st December	4,791,175	4,450,659	2,594,737	2,220,501

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
31.1.1 Lease Liabilities				
Balance as at 1st January	4,446,175	4,351,632	1,582,937	1,507,618
Additions for the Year	865,792	440,909	846,265	421,591
Accretion of Interest	452,003	433,431	167,628	148,773
Payments	(822,434)	(750,450)	(537,647)	(465,698)
Reversal on Early Termination	(51,938)	(29,347)	(51,938)	(29,347)
Balance as at 31st December	4,889,598	4,446,175	2,007,245	1,582,937

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
31.1.2 Amounts Recognised in Income Statement				
Interest on Lease Liabilities	452,003	433,431	167,628	148,773
Recognised in Interest Expenses	452,003	433,431	167,628	148,773
Expenses relating to Short-Term and Low- Value Assets	14,752	12,425	14,752	12,425
Depreciation - Right-of-use Assets	455,160	461,141	421,441	427,642
Recognised in Operating Expenses	469,912	473,566	436,193	440,067
Total Amount Recognised in Income Statement	921,915	906,997	603,821	588,840

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
31.1.3 Amounts Recognised in Statement of Cash Flows				
Repayment of Principal Portion of Lease Liability	822,434	750,450	537,647	465,698

31.2 Lease Receivable as Lessor

The Group rents its own properties through its subsidiary. Seylan Developments PLC, leases out its investment property held under operating leases to its tenants.

Maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date as follows;

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Maturity Analysis - Contractual undiscounted cash flows				
Less than one year	-	-	59,871	50,924
Between one and five years	-	-	44,392	17,975
More than five years	-	-	4,243	-
	-	-	108,506	68,899

32 Investment Properties

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Cost				
Balance as at 1st January	-	-	1,179,227	1,160,364
Additions during the Year	-	-	33,725	18,863
Cost as at 31st December (Note 32.1)	-	-	1,212,952	1,179,227
Provision for Impairment	-	-	(71,462)	(71,462)
Cost less Impairment as at 31st December	-	-	1,141,490	1,107,765
Accumulated Depreciation				
Balance as at 1st January	-	-	251,161	235,745
Charge for the Year	-	-	20,071	15,416
Balance as at 31st December	-	-	271,232	251,161
Carrying Value as at 31st December	-	-	870,258	856,604

Address	<i>Group</i>			
	Extent	Date of Valuation	Cost LKR'000	Market Value LKR'000
32.1 Investment Properties (Group) - 2021				
Seylan Towers -West Tower 90, Galle Road, Colombo 3	111,191sq.ft	31/12/2021	1,139,240	1,444,614
Moratuwa Lake Villas, St.Peter's Road, Moratuwa	0A 1R 05P	31/12/2021	3,361	4,300
Ja-Ela Commercial Complex*			70,351	-
			1,212,952	

* Full provision for impairment has been made.

Group recorded LKR 75,266,640.00 (2020 : LKR 60,323,731.00) as rental income for the year ended 31st December 2021.

Group incurred LKR 18,283,488.00 (2020 : LKR 18,313,116.00) as direct operating expenses and LKR 6,418,307.00 (2020 : LKR 7,218,484.00) as repair and maintenance for the year ended 31st December 2021.

There were no direct expenses incurred for the properties which do not generate rental income.

Notes to the Financial Statements

Methods and Assumptions used in the Fair Valuation of Investment Properties Subsidiary - Seylan Developments PLC

Property	Name and Qualifications of the Valuer	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Seylan Towers -West Tower 90, Galle Road, Colombo 3	Sunil Fernando & Associates (Pvt) Ltd. Chartered Valuation Surveyors	Market rental based Income Method of valuation and Depreciated Replacement Value basis of valuation have been adopted. As the subject property is of two mix uses, commercial and residential, a prudent investor is expected to make his bid to purchase on two different yields based on two different risks attached to the commercial and residential uses of the property.	Rentals of two similar residential apartment buildings have been taken as comparable residential market rents (LKR 500,000 and LKR 525,000).	There is a direct relationship between the estimated fair value and market rents.
			All risk rates for residential segment of the subject property has been taken at 4% and 6%.	There is an inverse relationship between the estimated fair value and all risk rates.
			Current replacement cost of construction is estimated as LKR 27,000 per sq. ft.	Estimated fair value of building would increase if replacement cost gets higher.
			Full life of the building is taken as 100 years and the remaining life is taken as 66 years limiting them to the conditions in lease agreement.	Increase in lifetime of the building will result in to increase in the estimated fair value.
			Land value is taken at LKR 15,000,000 per perch	Estimated fair value of land would increase if the market value of the land gets higher.
Moratuwa Lake Villas, St.Peter's Road, Moratuwa.	Sunil Fernando & Associates (Pvt) Ltd. Chartered Valuation Surveyors	The valuation based on: - observable inputs such as ARR, cost of sale, interest rates and cost of construction - the interest rate for capitalisation derived from the market sector and the risk yield a third party market participant accepts for such an investment.	The available evidence of land values in the locality was considered.	Estimated fair value would increase if the market value of the land gets higher.

33 Intangible Assets

	<i>Bank/Group</i>	
	2021 LKR '000	2020 LKR '000
Software and Software Related		
Cost		
Balance as at 1st January	2,628,517	2,451,488
Additions for the Year	149,882	177,129
Write - Offs during the Year	-	(100)
Balance as at 31st December	2,778,399	2,628,517
Accumulated Amortisation		
Balance as at 1st January	2,007,987	1,844,221
Amortisation for the Year	177,518	163,866
Write - Offs during the Year	-	(100)
Balance as at 31st December	2,185,505	2,007,987
Net Carrying Amount	592,894	620,530

There were no restriction on the title of the Intangible Assets of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

34 Other Assets

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Deposits and Prepayments	588,252	771,708	604,872	788,515
Clearing House Balance	2,401,929	2,602,721	2,401,929	2,602,721
Inventories	149,226	164,478	155,490	168,714
Sundry Debtors	953,981	770,017	953,981	770,017
Other Receivables	2,411,162	759,803	2,411,162	759,803
Due from Trust Companies	113,154	113,154	113,154	113,154
Prepaid Staff Cost	1,571,473	1,779,842	1,571,564	1,780,028
Other Debtors	1,134,648	878,892	1,145,976	916,833
Total Other Assets	9,323,825	7,840,615	9,358,128	7,899,785

35 Due to Banks

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Call Money Borrowings	3,161,415	9,154,418
Refinance Borrowings	13,712,877	15,777,675
Borrowings from Local Banks	479	479
Borrowings from Foreign Banks	158,724	176,060
Borrowings from Development Finance Institutions	7,470,892	7,571,055
Total Due to Banks	24,504,387	32,679,687

36 Financial Liabilities at Amortised Cost - Due to Depositors

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Total Due to Depositors	488,653,328	440,303,126
36.1 Analysis of Due to Depositors		
36.1.1 By Product		
Local Currency		
Demand Deposits	32,573,865	27,614,891
Savings Deposits	120,614,752	100,204,483
Time Deposits	266,347,846	255,676,202
Certificates of Deposit	2,261,974	2,738,998
Total Due to Depositors - Local Currency	421,798,437	386,234,574
Foreign Currency		
Demand Deposits	4,046,127	4,340,305
Savings Deposits	15,808,384	13,257,075
Time Deposits	47,000,380	36,471,172
Total Due to Depositors - Foreign Currency	66,854,891	54,068,552
Total Due to Depositors by Product	488,653,328	440,303,126

Notes to the Financial Statements

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
36.1.2 By Currency		
Sri Lankan Rupee	421,798,437	386,234,574
United States Dollar	57,403,254	45,489,143
Great Britain Pound	3,201,733	3,217,685
Euro	2,134,605	2,101,291
Australian Dollar	2,499,806	1,862,662
Japanese Yen	1,128,491	937,737
Canadian Dollar	228,080	232,083
Singapore Dollar	141,105	139,622
Swiss Franc	72,894	64,986
New Zealand Dollar	34,300	12,716
Danish Krone	7,055	7,123
Swedish Krona	1,801	1,849
Norwegian Krone	1,292	1,219
Chinese Renminbi	266	240
Hong-Kong Dollar	209	196
Total Due to Depositors by Currency	488,653,328	440,303,126

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
36.1.3 By Customer Category		
Banks	3,772,329	4,678,809
Finance Companies	2,116,712	6,530,705
Other Customers	482,764,287	429,093,612
Total Due to Depositors by Customer Category	488,653,328	440,303,126
36.1.4 By Maturity		
Due within One Year	459,960,637	410,629,887
Due after One Year	28,692,691	29,673,239
Total Due to Depositors by Maturity	488,653,328	440,303,126

37 Financial Liabilities at Amortised Cost - Due to Debt Securities Holders

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Securities Sold under Repurchase Agreements (Repo)	2,662,377	2,575,873
	2,662,377	2,575,873

38 Financial Liabilities at Amortised Cost - Due to Other Borrowers

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Refinance Borrowings - Other Institutions (Coconut Cultivation Board)	7,295	14,123
	7,295	14,123

39 Group Balances Payable

	<i>Bank</i>	
	2021	2020
	LKR '000	LKR '000
Seylan Developments PLC	191,810	261,462
	191,810	261,462

40 Debt Securities Issued

Issue	Interest Rate	Colombo		Interest Payable	Allotment Date	Maturity Date	Face Value LKR '000	Amortised Cost		
		Stock Exchange Listing	Subordinated / Unsubordinated					2021		2020
								LKR '000	LKR '000	
40.1 Fixed Rate Debentures										
2016 - 2021	13.00% p.a	Listed	Subordinated	Semi - Annually	15.07.2016	14.07.2021	1,710,320	-	1,813,669	
2016 - 2023	13.75% p.a	Listed	Subordinated	Semi - Annually	15.07.2016	14.07.2023	3,272,280	3,481,840	3,482,063	
2018 - 2023	12.85% p.a	Listed	Subordinated	Semi - Annually	29.03.2018	28.03.2023	3,910,000	3,936,085	3,936,085	
2018 - 2025	13.20% p.a	Listed	Subordinated	Semi - Annually	29.03.2018	28.03.2025	715,000	739,306	739,306	
2018 - 2028	13.50% p.a	Listed	Subordinated	Semi - Annually	29.03.2018	28.03.2028	1,609,000	1,664,940	1,664,940	
2019 - 2024	15.00% p.a	Listed	Subordinated	Annually	18.04.2019	17.04.2024	3,773,400	4,141,410	4,141,409	
2019 - 2024	14.50% p.a	Listed	Subordinated	Semi - Annually	18.04.2019	17.04.2024	1,226,600	1,263,146	1,263,146	
2021 - 2026	9.75% p.a	Listed	Subordinated	Annually	12.04.2021	12.04.2026	5,352,020	5,729,447	-	
2021 - 2026	9.25% p.a	Listed	Subordinated	Quarterly	12.04.2021	12.04.2026	647,980	661,281	-	
Total Fixed Rate Debentures								21,617,455	17,040,618	
40.2 Floating Rate Debentures										
2016/2021	Six Months Treasury Bill Rate + 1.5%									
	p.a	Listed	Subordinated	Semi - Annually	15.07.2016	14.07.2021	17,400	-	17,940	
Total Floating Rate Debentures								-	17,940	
Total Debentures								21,617,455	17,058,558	

	Face Value LKR '000	<i>Bank/Group</i>	
		2021	2020
		LKR '000	LKR '000
40.3 Debentures due			
2021			
- Within One Year	-	-	-
- After One Year	20,506,280	21,617,455	-
2020			
- Within One Year	1,727,720	-	1,831,609
- After One Year	14,506,280	-	15,226,949
Total Debentures		21,617,455	17,058,558

40.4 Utilisation of funds raised through debentures issued in April 2021 is as follows:

Objective Number	Objective as per Prospectus	Proposed date of utilization as per prospectus	Amount allocated as per prospectus in LKR	Amount allocated from proceeds in LKR (A)	Percentage of total proceeds	Amount utilized in LKR (B)	Percentage of Utilised against allocation (B/A)	Details if not fully utilized
1	To strengthen the Tier 2 Capital base of the Bank as per BASEL III requirements	With effect from the Date of Allotment	6 Bn	6 Bn	100	6 Bn	100	N/A
2	To meet the current credit demand (loans and advances) of the Bank	Within twelve months from the date of allotment or 31st December 2021 whichever is earlier						

Notes to the Financial Statements

40.5 Proposed Debenture Issue

The Board decided to issue up to a maximum of Two Hundred Million (200,000,000) Listed Rated Basel III Compliant Tier 2 Unsecured Subordinated Redeemable Debentures with a Non-Viability Conversion (to Ordinary Voting Shares of the Bank in the event of 'Trigger Event') of the par value of Rupees Hundred (LKR 100) each ('Debentures'), amounting to Rupees Twenty Billion (LKR 20,000,000,000) and it was also decided that these Debentures shall be issued in one or more issuances during the calendar year, 2022. The approval of the shareholders was obtained at the Extraordinary General Meeting of the Bank held on 11 January 2022 for the said Debenture issue.

At the meeting of the Board of Directors held on 22nd February 2022, the Board approved the issue of 40,000,000 Debentures of LKR 100 each amounting to LKR 4,000,000,000 with an option to issue a further 20,000,000 Debentures amounting to LKR 2,000,000,000 in the event of an oversubscription, and this issue will be the first issuance of the above mentioned maximum issue of 200,000,000 Debentures. The tenure of these Debentures will be not less than five years.

41 Current Tax Liabilities

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Opening Balance as at 01st January	869,896	525,389	846,582	490,699
Charge for the Year	1,918,662	1,355,040	1,945,448	1,366,468
(Over) / Under Provisions	77,946	(31,229)	77,946	(31,229)
Less: Payments	(1,242,538)	(976,468)	(1,242,538)	(976,468)
Less: Deductions	-	(2,836)	(15,606)	(2,888)
Closing Balance as at 31st December	1,623,966	869,896	1,611,832	846,582

42 Deferred Tax Liabilities

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1st January	1,469,778	725,326	1,789,866	947,225
Recognised in the Profit or Loss				
Charge / (Reversal) for the Year (Note 16.1.2)	(483,654)	(223,864)	(522,791)	(137,661)
Charge / (Reversal) for the Year (Note 16.1.2) - Impact on Changes in Tax Rate *	(65,718)	-	(51,593)	-
	(549,372)	(223,864)	(574,384)	(137,661)
Recognised in Other Comprehensive Income				
Effect on Revaluation of Property, Plant and Equipment	179,564	-	249,117	11,659
Effect on Revaluation of Property, Plant and Equipment - Impact on Changes in Tax Rate **	(33,141)	-	(90,340)	-
Effect on Net Fair Value Losses/(Gains) on Financial Investment measured at FVOCI	(683,328)	968,316	(676,460)	968,643
Effect on Net Fair Value Losses/(Gains) on Financial Investment measured at FVOCI - Impact on Changes in Tax Rate **	(108,639)	-	(115,404)	-
	(645,544)	968,316	(633,087)	980,302
Recognised in Equity				
Effect on Revaluation of Property, Plant and Equipment	(17,288)	-	-	-
Balance as at 31st December (Notes 42.1 and 42.2)	257,574	1,469,778	582,395	1,789,866

As per the Inland Revenue (Amendment) Act No 10 of 2021, the Income Tax rate has been reduced from 28% to 24% with effect from 01st January 2020. Therefore, the net Deferred Tax movement for the year 2021 includes the impact on change in tax rate amounting to LKR 207.50 Mn. in the Bank and LKR 257.34 Mn. for the Group.

* Impact on change of Tax Rate from 28% to 24% has been recorded in the Income Statement.

** Impact on change of Tax Rate from 28% to 24% has been recorded in the Other Comprehensive Income.

	<i>Bank</i>			
	2021		2020	
	Temporary Difference LKR '000	Tax LKR '000	Temporary Difference LKR '000	Tax LKR '000
42.1 Analysis of Deferred Tax Assets and Liabilities				
Deferred Tax - Liabilities				
Property, Plant and Equipment	1,045,894	251,015	1,255,471	351,532
Lease Receivables	1,345,235	322,856	1,889,855	529,159
Revaluation Gain Brought Forward	-	-	61,736	17,286
Reserve on Land Revaluation	640,288	153,669	-	-
Reserve on Building Revaluation	107,894	25,895	-	-
Revaluation Surplus on Land	828,531	198,847	828,531	231,989
Right-of-use-Assets	-	-	79,656	22,304
Expected Credit Loss Allowance	-	-	160,100	44,828
Fair Value Changes recognised through OCI	-	-	2,715,992	760,478
	3,967,842	952,282	6,991,341	1,957,576
Deferred Tax - Assets				
Leave Encashment Provision (Note 43.2)	248,862	59,727	253,248	70,909
Other Provisions	140,565	33,736	126,604	35,449
Enhanced Gratuity	1,753,481	420,835	1,341,376	375,585
Right-of-use-Assets	148,525	35,646	-	-
Expected Credit Loss Allowance	471,987	113,277	20,911	5,855
Fair Value Changes recognized through OCI	131,198	31,487	-	-
	2,894,618	694,708	1,742,139	487,798
Balance as at 31st December	1,073,224	257,574	5,249,202	1,469,778

42.1.1 Movement in Temporary Differences

	<i>Bank</i>									
	2021					2020				
	Balance as at 01st January LKR '000	Recognised in profit or loss LKR '000	Recognised in Other Comprehensive Income LKR '000	Recognised in Equity LKR '000	Balance as at 31st December LKR '000	Balance as at 01st January LKR '000	Recognised in profit or loss LKR '000	Recognised in Other Comprehensive Income LKR '000	Recognised in Equity LKR '000	Balance as at 31st December LKR '000
Deferred Tax Liabilities on										
Property, Plant & Equipment	1,255,471	(209,577)	-	-	1,045,894	1,323,958	(68,487)	-	-	1,255,471
Lease Rentals	1,889,855	(544,620)	-	-	1,345,235	1,725,857	163,998	-	-	1,889,855
Revaluation Gain Brought Forward	61,736	-	-	(61,736)	-	61,736	-	-	-	61,736
Reserve on Land Revaluation	-	-	640,288	-	640,288	-	-	-	-	-
Reserve on Building Revaluation	-	-	107,894	-	107,894	-	-	-	-	-
Revaluation Surplus on Land	828,531	-	-	-	828,531	828,531	-	-	-	828,531
Right-of-use-Assets	79,656	(79,656)	-	-	-	107,385	(27,729)	-	-	79,656
Expected Credit Loss Allowance	160,100	(160,100)	-	-	-	1,104,229	(944,129)	-	-	160,100
Fair Value Changes recognised through OCI	2,715,992	-	(2,715,992)	-	-	-	-	2,715,992	-	2,715,992
	6,991,341	(993,953)	(1,967,810)	(61,736)	3,967,842	5,151,696	(876,347)	2,715,992	-	6,991,341
Deferred Tax Assets on										
Leave Encashment Provision	253,248	(4,386)	-	-	248,862	203,373	49,875	-	-	253,248
Other Provisions	126,604	13,961	-	-	140,565	149,850	(23,246)	-	-	126,604
Enhanced Gratuity	1,341,376	412,105	-	-	1,753,481	1,444,838	(103,462)	-	-	1,341,376
Reversal of Revaluation Loss on Property, Plant and Equipment	20,911	(20,911)	-	-	-	20,911	-	-	-	20,911
Right-of-use-Assets	-	148,525	-	-	148,525	-	-	-	-	-
Expected Credit Loss Allowance	-	471,987	-	-	471,987	-	-	-	-	-
Fair Value Changes recognised through OCI	-	-	131,198	-	131,198	742,274	-	(742,274)	-	-
	1,742,139	1,021,281	131,198	-	2,894,618	2,561,246	(76,833)	(742,274)	-	1,742,139
Balance as at 31st December	5,249,202	(2,015,234)	(2,099,008)	(61,736)	1,073,224	2,590,450	(799,514)	3,458,266	-	5,249,202

Notes to the Financial Statements

	<i>Group</i>			
	2021		2020	
	Temporary Difference LKR '000	Tax LKR '000	Temporary Difference LKR '000	Tax LKR '000
42.2 Analysis of Deferred Tax Assets and Liabilities				
Deferred Tax - Liabilities				
Property, Plant and Equipment	1,195,169	286,841	1,405,108	393,430
Lease Receivables	1,345,232	322,856	1,889,853	529,159
Revaluation Gain Brought Forward	1,595,001	382,800	1,313,093	367,666
Reserve on Land Revaluation	640,288	153,669	-	-
Reserve on Building Revaluation	107,894	25,895	-	-
Revaluation Surplus on Land	828,531	198,847	828,531	231,989
Right-of-use-Assets	15,174	3,642	15,174	4,249
Reversal of Revaluation Loss on Property, Plant and Equipment	51,116	12,268	51,116	14,312
Expected Credit Loss / Impairment	-	-	160,100	44,828
Fair Value Changes recognised through OCI	-	-	2,682,003	750,961
	5,778,405	1,386,818	8,344,978	2,336,594
Deferred Tax - Assets				
Leave Encashment Provision	248,860	59,726	253,248	70,909
Other Provisions	140,567	33,736	126,604	35,449
Enhanced Gratuity	1,753,481	420,835	1,341,377	375,586
Right-of-use-Assets	579,137	138,993	-	-
Tax Losses Carried Forward (Note 16.3)	22,213	5,331	231,372	64,784
Expected Credit Loss Allowance	471,988	113,277	-	-
Fair Value Changes recognized through OCI*	142,266	32,525	-	-
	3,358,512	804,423	1,952,601	546,728
Balance as at 31 December	2,419,893	582,395	6,392,377	1,789,866

*The balance as at 31st December 2021 includes Capital Gain Tax at the rate of 10% amounting to LKR 1.16Mn.

42.2.1 Movement in Temporary Differences

	<i>Group</i>									
	2021					2020				
	Balance as at 01st January LKR '000	Recognised in profit or loss LKR '000	Recognised in Other Comprehensive Income LKR '000	Recognised in Equity LKR '000	Balance as at 31st December LKR '000	Balance as at 01st January LKR '000	Recognised in profit or loss LKR '000	Recognised in Other Comprehensive Income LKR '000	Recognised in Equity LKR '000	Balance as at 31st December LKR '000
Deferred Tax Liabilities on										
Property, Plant & Equipment	1,405,108	(209,939)	-	-	1,195,169	1,474,050	(68,942)	-	-	1,405,108
Lease Rentals	1,889,853	(544,621)	-	-	1,345,232	1,725,857	163,996	-	-	1,889,853
Revaluation Gain Brought Forward	1,313,093	-	281,908	-	1,595,001	1,271,454	-	41,639	-	1,313,093
Reserve on Land Revaluation	-	-	640,288	-	640,288	-	-	-	-	-
Reserve on Building Revaluation	-	-	107,894	-	107,894	-	-	-	-	-
Revaluation Surplus on land	828,531	-	-	-	828,531	828,531	-	-	-	828,531
Right-of-use-Assets	15,174	-	-	-	15,174	-	15,174	-	-	15,174
Reversal of Revaluation Loss on Property, Plant & Equipment	51,116	-	-	-	51,116	51,116	-	-	-	51,116
Expected Credit Loss Allowance	160,100	(160,100)	-	-	-	1,104,229	(944,129)	-	-	160,100
Fair Value Changes recognized through OCI	2,682,003	-	(2,682,003)	-	-	-	-	2,682,003	-	2,682,003
	8,344,978	(914,660)	(1,651,913)	-	5,778,405	6,455,237	(833,901)	2,723,642	-	8,344,978

	Group									
	2021					2020				
	Balance as at 01st January	Recognised in profit or loss	Recognised in Other Comprehensive Income	Recognised in Equity	Balance as at 31st December	Balance as at 01st January	Recognised in profit or loss	Recognised in Other Comprehensive Income	Recognised in Equity	Balance as at 31st December
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Deferred Tax Assets on										
Leave Encashment Provision	253,248	(4,388)	-	-	248,860	203,373	49,875	-	-	253,248
Other Provisions	126,604	13,963	-	-	140,567	149,850	(23,246)	-	-	126,604
Enhanced Gratuity	1,341,377	412,104	-	-	1,753,481	1,444,838	(103,461)	-	-	1,341,377
Right-of-use-Assets	-	579,137	-	-	579,137	65,715	(65,715)	-	-	-
Tax Losses Carried Forward	231,372	(209,159)	-	-	22,213	431,078	(199,706)	-	-	231,372
Expected Credit Loss Allowance	-	471,988	-	-	471,988	-	-	-	-	-
Fair Value Changes recognised through OCI	-	-	142,266	-	142,266	777,438	-	(777,438)	-	-
	1,952,601	1,263,645	142,266	-	3,358,512	3,072,292	(342,253)	(777,438)	-	1,952,601
Balance as at 31 December	6,392,377	(2,178,305)	(1,794,179)	-	2,419,893	3,382,945	(491,648)	3,501,080	-	6,392,377

43 Other Liabilities

	Bank		Group	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Accrued Expenses	1,286,746	740,460	1,303,136	754,521
Margin Accounts	1,350,738	1,064,363	1,350,738	1,064,363
Deposit Funding Accounts	2,314,163	2,244,370	2,314,163	2,244,370
Dividend Payable	34,128	43,585	59,768	59,797
Provision for Defined Benefit Obligations (Net) (Note 43.1.1)	1,017,990	1,007,992	1,011,350	1,001,601
Sundry Creditors	1,303,584	1,064,668	1,303,584	1,064,668
Value Added Tax & Other Statutory Payables	205,701	455,709	209,952	459,652
Cheques Payable	661,489	846,549	661,489	846,549
Leave Encashment Provision (Note 43.2)	248,862	253,248	248,862	253,248
Expected Credit Loss Allowance on Undrawn Credit Commitments and Financial Guarantees (Note 43.3)	1,334,591	342,216	1,334,591	342,216
Other Creditors	1,140,941	958,626	1,142,180	968,615
Total Other Liabilities	10,898,933	9,021,786	10,939,813	9,059,600

43.1 Defined Benefit Obligations

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

Refer to the note 5.16.1 to the Financial Statements on "Defined Benefit Plan". The shares acquired by the Gratuity Trust Fund for the settlement of enhanced gratuity liabilities have been recorded under plan assets.

Based on the Sri Lanka Accounting Standard (LKAS) 19 – "Employee Benefits" the Subsidiary have adopted the Actuarial Valuation Method. Accordingly provisions have been made based on the above method.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

Actuarial Valuation as at 31 December 2021 was carried out by Actuarial and Management Consultants (Private)Limited.

Notes to the Financial Statements

	<i>Bank</i>		<i>Group</i>	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
43.1.1 The Amount Recognized in the Statement of Financial Position				
Present Value of Defined Benefit Obligations (Note 43.1.3)	3,927,171	3,919,923	3,936,542	3,929,832
Fair Value of Plan Assets (Note 43.1.4)	(2,909,181)	(2,911,931)	(2,925,192)	(2,928,231)
Provision for Defined Benefit Obligations	1,017,990	1,007,992	1,011,350	1,001,601
43.1.2 Plan Assets				
Balance with Banks	45,587	29,914	45,849	30,004
Investment in Treasury Bills, Bonds & Repo	2,113,787	1,359,028	2,113,787	1,359,134
Investments in Fixed Deposits	145,048	908,617	160,797	924,721
Expected Proceeds from Sale of Shares to be Transferred (Note 43.1.7)	1,568	1,781	1,568	1,781
Investment in Shares	603,191	612,591	603,191	612,591
	2,909,181	2,911,931	2,925,192	2,928,231

Plan Assets are held by an approved external Gratuity Trust Fund.

	<i>Bank</i>		<i>Group</i>	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
43.1.3 Movement in the Present Value of Defined Benefit Obligations (PV DBO)				
Liability for Defined Benefit Obligations as at 1st January	3,919,923	3,238,921	3,929,832	3,247,324
Current Service Cost	183,238	191,664	353,290	192,214
Interest Cost	352,793	356,281	184,130	357,205
Past Service Cost	(437,045)	-	(438,012)	-
Actuarial (Gains)/Loss on PV DBO (Note 43.1.5)	174,774	347,095	174,995	348,188
Benefits Paid by the Plan	(266,512)	(214,038)	(267,693)	(215,099)
Liability for Defined Benefit Obligations as at 31st December	3,927,171	3,919,923	3,936,542	3,929,832
43.1.4 Movement in Plan Assets				
Fair Value of Plan Assets as at 1st January	2,911,931	2,781,163	2,928,231	2,795,678
Expected Return on Plan Assets	261,914	303,522	263,381	305,118
Expected Proceeds from Sale of Trust Company Shares (Note 43.1.7)*	1,568	1,781	1,568	1,781
Less: Reversal of Expected Proceeds from Sale of Shares to be Transferred	(1,781)	(21,874)	(1,781)	(21,874)
Contribution Paid into Plan*	217,408	209,762	217,408	209,762
Benefits Paid by the Plan	(266,512)	(214,038)	(267,693)	(215,099)
Actuarial Gains/(Losses) on Plan Assets (43.1.5)	(215,348)	(148,385)	(215,924)	(147,135)
Fair Value of Plan Assets as at 31st December	2,909,181	2,911,931	2,925,192	2,928,231

*Expected contribution for 2022 - LKR 235.9 Mn.

	<i>Bank</i>		<i>Group</i>	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
43.1.5 Actuarial (Gains) or Losses				
Actuarial (Gains)/Losses for Year - Obligation	174,774	347,095	174,995	348,188
Actuarial (Gains)/Losses for Year - Plan Assets	215,348	148,385	215,924	147,135
	390,122	495,480	390,919	495,323
43.1.6 Amount Recognized in the Income Statement				
Current Service Cost	183,238	191,664	353,290	192,214
Interest Cost	352,793	356,281	184,130	357,205
Expected Return on Plan Assets	(261,914)	(303,522)	(263,381)	(305,118)
Past Service Cost	(437,045)	-	(438,012)	-
Amount recognized in the Income Statement as Personnel Expenses (Note 15)	(162,928)	244,423	(163,973)	244,301
Amount Recognized in the Income Statement for Additional Gratuity (Note 15/ Note 43.1.7)	39,101	79,493	39,101	79,493
	(123,827)	323,916	(124,872)	323,794
43.1.7 Amount Recognized in the Income Statement for Additional Gratuity Expense				
Payments made to Ex. Staff Members	29,488	27,334	29,488	27,334
Expected Proceeds from Sale of Shares to be transferred	(1,568)	(1,781)	(1,568)	(1,781)
Decrease in Value of Expected Proceeds Booked in Previous Years	11,181	53,940	11,181	53,940
	39,101	79,493	39,101	79,493
43.1.8 Amount Recognized in the Other Comprehensive Income				
Actuarial Gains/(Losses) Recognized in the Year	(390,122)	(495,480)	(390,919)	(495,323)
	(390,122)	(495,480)	(390,919)	(495,323)

43.1.9 Actuarial Assumptions

	<i>Bank/ Group</i>	
	2021	2020
Demographic Assumptions		
Mortality in service	A 1967/70 Mortality Table issued by the Institute of Actuaries London	A 1967/70 Mortality Table issued by the Institute of Actuaries London
Retirement Age	60 Years	57 Years (Subsidiary 55 Years)
Financial Assumptions		
Discount Rate	11.00%	9.00%
Salary Increment	8.50% (Subsidiary 8%)	5% (Subsidiary 7%)
	Next increment due on 1st January 2022	Next increment due on 1st January 2021

Notes to the Financial Statements

43.1.10 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Income Statement and employment benefit obligation for the year.

Bank

		2021	
Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment Rate	Sensitivity Effect on Income Statement Increase/ (Decrease) in Charge for the year	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability
%	%	(LKR' 000)	(LKR' 000)
1	**	(306,445)	(306,445)
(1)	**	347,348	347,348
*	1	379,550	379,550
*	(1)	(338,217)	(338,217)

* Discount Rate is Fixed at 11%

**Salary Increment is 8.50%

Subsidiary

		2021	
Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment Rate	Sensitivity Effect on Income Statement Increase/ (Decrease) in Charge for the year	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability
%	%	(LKR' 000)	(LKR' 000)
1	**	(704)	(704)
(1)	**	787	787
*	1	852	852
*	(1)	(772)	(772)

* Discount Rate is Fixed at 11%

**Salary Increment is 8%

43.1.11 Maturity Profile of the Defined Benefit Obligation

Bank

Future Working Life Time	Defined Benefit Obligation
	LKR '000
Within next 12 months	229,886
Between 1-2 years	514,207
Between 2-5 years	490,458
Between 5-10 years	1,281,757
Beyond 10 Years	1,410,863
Total	3,927,171
Weighted Average Duration of Defined Benefit Obligation	9.14 years

Subsidiary

Future Working Life Time	Defined Benefit Obligation LKR 000
Within next 12 months	408
Between 1-2 years	718
Between 2-5 years	1,255
Between 5-10 years	3,614
Beyond 10 Years	3,378
Total	9,373
Weighted Average Duration of Defined Benefit Obligation	8.75 years

43.1.12 Impact of Changing the Retirement Age to 60 Years

During 2021, the gratuity liability was adjusted to reflect new legal requirement regarding the retirement age (i.e. Gazette Notification on Minimum Requirement Age of Workers Act No 28 of 2021 [Certified on 17th of November, 2021]). As a result of the plan amendment, the group defined benefit obligation was reduced by LKR 438 Mn(2020: Nil). The corresponding past service cost was recognized in profit or loss during the year ended 31 December 2021.

43.2 Leave Encashment Provision

	<i>Bank</i>		<i>Group</i>	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Balance as at 1st January	253,248	203,373	253,248	203,373
Leave Encashment during the year	-	(19,461)	-	(19,461)
Amount Charged / (Reversed) to Income Statement during the Year	(4,386)	69,336	(4,386)	69,336
Balance as at 31st December	248,862	253,248	248,862	253,248

43.2.1 Actuarial Assumptions (Refer Note 43.1.9)**43.2.2 Sensitivity of Assumptions Employed in Actuarial Valuation**

		<i>Bank</i>	
		2021	
Increase / (Decrease) in Discount Rate %	Increase / (Decrease) in Salary Increment Rate	Sensitivity Effect on Income Statement Increase/ (Decrease) in Charge for the year (LKR' 000)	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability (LKR' 000)
1	**	(20,839)	(20,839)
(1)	**	23,945	23,945
*	1	26,097	26,097
*	(1)	(22,925)	(22,925)

* Discount Rate is Fixed at 11.00%

** Salary Increment Rate 8.50%

Notes to the Financial Statements

43.3 Expected Credit Loss Allowance on Undrawn credit commitments and financial guarantees

	<i>Bank/Group</i>	
	2021 LKR '000	2020 LKR '000
Balance as at 01st January	342,216	264,087
Charge/(Write back) to Income Statement (Note 13)	992,375	78,129
Balance as at 31st December	1,334,591	342,216

43.3.1 Stagewise Movements in Expected Credit Loss Allowance during the year

Stage 1		
Balance as at 01st January	342,216	264,087
Charge/(Write back) to Income Statement	971,756	78,129
Balance as at 31st December	1,313,972	342,216
Stage 2		
Balance as at 01st January	-	-
Charge/(Write back) to Income Statement	5,440	-
Balance as at 31st December	5,440	-
Stage 3		
Balance as at 01st January	-	-
Charge/(Write back) to Income Statement	15,179	-
Balance as at 31st December	15,179	-

44 Stated Capital

	<i>Bank/Group</i>	
	2021 LKR '000	2020 LKR '000
Ordinary Shares - Voting (Note 44.1)	11,521,263	11,136,187
Ordinary Shares - Non-Voting (Note 44.2)	6,802,619	6,412,160
Total Stated Capital	18,323,882	17,548,347

44.1 Ordinary Shares - Voting

Balance as at 1st January	11,136,187	10,884,710
Issued for Scrip Dividend - 5,239,122 Ordinary Shares of LKR 48/- each	-	251,477
Issued for Scrip Dividend - 7,550,499 Ordinary Shares of LKR 51/- each	385,076	-
264,267,493 Ordinary Shares - Voting		
(33,560,000 shares of LKR 10/- each, 4,000,000 shares of LKR 25/- each, 92,440,000 shares of LKR 35/- each, 5,239,122 Ordinary Shares of LKR 48/- each, 2,644,068 shares of LKR 59/- each, 43,333,333 shares of LKR 75/- each, 3,636,268 shares of LKR 98/- each, 4,490,341 shares of LKR 90/- each, 4,504,394 Shares of LKR 70.30 each, 62,869,468 Shares of LKR 45.25 each, 7,550,499 Shares of LKR 51/- each and net of issue expenses LKR 114,277,751.29)	11,521,263	11,136,187

44.2 Ordinary Shares - Non-Voting

Balance as at 1st January	6,412,160	6,160,014
Issued for Scrip Dividend - 8,160,061 Ordinary Shares of LKR 30.90 each	-	252,146
Issued for Scrip Dividend - 9,617,215 Ordinary Shares of LKR 40.60 each	390,459	-
269,923,190 Ordinary Shares - Non-Voting		
(83,560,000 shares of LKR 12.50 each, 40,000,000 shares of LKR 25/- each, 8,160,061 Ordinary Shares of LKR 30.90 each, 45,423,009 shares of LKR 35/- each, 5,859,428 shares of LKR 58.40 each, 7,152,645 shares of LKR 55/- each, 7,114,354 Shares of LKR 44/- each, 63,036,478 Shares of LKR 24.50 each, 9,617,215 Ordinary Shares of LKR 40.60 each and net of issue expenses LKR 67,302,925.00)	6,802,619	6,412,160

45 Statutory Reserve Fund

	<i>Bank/Group</i>	
	2021	2020
	LKR '000	LKR '000
Balance as at 1st January	2,103,522	1,952,957
Transferred during the Year *	229,027	150,565
Balance as at 31st December	2,332,549	2,103,522

* 5% of Net Profit after Tax.

Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

46 Other Reserves

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Capital Reserve (Note 46.1)	418,021	418,021	673,234	673,234
Revaluation Reserve (Note 46.2)	1,468,822	858,312	2,374,135	1,735,867
General Reserve (Note 46.3)	33,787	33,787	33,787	33,787
Fair Value through Other Comprehensive Income Reserve (Note 46.4)	(245,179)	2,285,332	(271,212)	2,257,027
Cash Flow Hedge Reserve (Note 46.5)	(84,246)	(6,761)	(84,246)	(6,761)
Investment Fund Reserve (Note 46.6)	608,756	1,043,191	608,756	1,043,191
Total Other Reserves	2,199,961	4,631,882	3,334,454	5,736,345

46.1 Movement in Capital Reserve

Balance as at 1st January	418,021	418,021	673,234	673,234
Balance as at 31st December	418,021	418,021	673,234	673,234

Bank - Capital Reserve consists of the Debenture Redemption Reserve Fund of LKR 400 Mn. transferred to Capital Reserve in 2004. Debenture Redemption Reserve Fund was created for the redemption of five year Debentures amounting to LKR 400 Mn. issued in November 1999. Balance consisting of LKR 18 Mn. was transferred to Capital Reserve in 1991.

Subsidiary - Capital Redemption Reserve Fund, which was created at the time of redeeming the Preference Shares of Seylan Developments PLC (Transferred to Capital Reserve in 2011).

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
46.2 Movement in Revaluation Reserve				
Balance as at 1st January	858,312	858,312	1,735,867	1,714,728
Surplus/(Deficit) on Revaluation during the Year	748,182	-	800,032	41,639
Deferred Tax Impact on Revaluation (Surplus)/Deficit during the Year	(146,423)	-	(158,777)	(11,659)
Transferred to Non-Controlling Interest	-	-	(11,610)	(8,841)
Transferred to Retained Earnings	(8,535)	-	(8,704)	-
Transferred from Deferred Tax	17,286	-	17,327	-
Balance as at 31st December	1,468,822	858,312	2,374,135	1,735,867

In addition to the Bank's Revaluation Reserve, Group includes the surplus on revaluation of Property, Plant and Equipment of the Subsidiary.

46.3 Movement in General Reserve

Balance as at 1st January	33,787	33,787	33,787	33,787
Balance as at 31st December	33,787	33,787	33,787	33,787

General Reserve consists of LKR 25 Mn. transferred in 1995 to General Reserve, LKR 2.7 Mn. transferred from Bad Debts Reserve and LKR 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

Notes to the Financial Statements

	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
46.4 Movement in Fair Value through Other Comprehensive Income Reserve				
Balance as at 1st January	2,285,332	(14,219)	2,257,027	(44,601)
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	(2,884,037)	1,720,427	(2,880,457)	1,723,699
Change in fair value on investments in equity instruments Measured at fair value through other comprehensive income	436,898	1,548,622	436,898	1,548,622
Deferred Tax Impact on Net Fair Value (Gain)/Loss (Note 42)	791,967	(968,316)	791,609	(968,643)
Transferred to Non-Controlling Interest	-	-	(950)	(868)
Net Gain on Disposal Equity Investments transferred to Retained Earnings	(875,339)	(1,490)	(875,339)	(1,490)
Net Loss on Reclassification of Debt Investments measured at Fair Value through Other Comprehensive Income transferred to Retained Earnings	-	427	-	427
Deferred Tax impact on Net Loss on Reclassification of Debt Investments measured at Fair Value through Other Comprehensive Income transferred to Retained Earnings	-	(119)	-	(119)
Balance as at 31st December	(245,179)	2,285,332	(271,212)	2,257,027
46.5 Movement in Cash Flow Hedge Reserve				
Balance as at 1st January	(6,761)	(33,533)	(6,761)	(33,533)
Transferred to Income Statement	(77,485)	26,772	(77,485)	26,772
Balance as at 31st December	(84,246)	(6,761)	(84,246)	(6,761)
46.6 Movement in Investment Fund Reserve				
Balance as at 1st January	1,043,191	1,543,986	1,043,191	1,543,986
Transferred to Retained Earnings	(434,435)	(500,795)	(434,435)	(500,795)
Balance as at 31st December	608,756	1,043,191	608,756	1,043,191

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011, Bank transferred 8% on Value Addition attributable to Financial Services and 5% of Taxable Profits, from retained profits to Investment Fund Reserve with effect from 1st January 2011. The requirement of this transfer ceased with effect from 1st October 2014.

Transfers to the Investment Fund Reserve	LKR '000
8% on the Value addition attributable to Financial Services	1,257,105
5% of Taxable Profits	409,598
	1,666,703

Utilisation of Investment Fund Reserve

Qualifying Investments

Long Term Government Securities with maturity period over 7

Years	Maturity Value (LKR)	Date of Maturity	Interest Rate %
Treasury Bond	290,000,000	01.01.2022	8.00
Treasury Bond	80,000,000	01.07.2022	11.20
Treasury Bond	230,000,000	01.07.2028	9.00
Total Investment in Government Securities	600,000,000		

Qualifying Loans

Purpose	No of Loans Granted	Amount Outstanding (LKR)	Tenure of the Loan in Years	Interest Rate %
Construction of Hotels and for Related Purpose	1	51,874,000	10	5 year Treasury Bond rate + 2%
Total Qualifying Loans		51,874,000		
Total Investment in Government Securities and Qualifying Loans		651,874,000		

47 Contingent Liabilities and Commitments

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
47.1 Contingencies				
Acceptances	19,502,969	20,241,510	19,502,969	20,241,510
Standby Letters of Credit	686,274	666,105	686,274	666,105
Guarantees	74,432,958	56,376,382	74,432,958	56,376,382
Documentary Credit	16,682,413	13,089,012	16,682,413	13,089,012
Bills for Collection	4,995,982	4,731,733	4,995,982	4,731,733
Forward Exchange Contracts (Net)	197,248	402,137	197,248	402,137
Total Contingent Liabilities	116,497,844	95,506,879	116,497,844	95,506,879
47.2 Commitments				
Undrawn Credit Commitments	107,427,402	99,116,305	107,427,402	99,116,305
Capital Commitments (Note 49.1)	464,632	530,970	464,717	550,131
Total Commitments	107,892,034	99,647,275	107,892,119	99,666,436
Total Contingent Liabilities and Commitments	224,389,878	195,154,154	224,389,963	195,173,315

47.3 Other Contingent Liabilities

The Bank has not recognized an additional gratuity liability in the financial statement for ex-employees who have not entered into the "Memorandum of settlement (MOS)" with the Bank for the conformant of the additional gratuity and giving the right to settle the said liability by utilizing proceeds expected from disposal of shares held by share trust companies, as the establishment of the liability is contingent upon the date of signing the "Memorandum of Settlement" and the prevailing Share Prices as at that date of signing. If the above uncertainties are resolved, the Bank estimates an additional cash outflow of LKR 107 Mn. (net of tax).

48 Cases against the Bank

In the normal course of business, the Bank is involved in various types of litigation with borrowers or others who have asserted or threatened claims/counter claims against the Bank, including the following;

Civil Cases

1. CHC 157/2001(1) - (SC (CHC) APP 01/10)

Plaintiff filed action against Seylan Bank for dishonouring a Guarantee issued by former BCCI Bank after Seylan Bank took over the local operations of BCCI. Judgement delivered in favour of the plaintiff. Seylan Bank has appealed. (Guarantee value USD 72,730.23 & USD 56,732.25) To be mentioned on 4 May 2022.

2. CHC 14/98(1) - (SC (APP) CHC 26B /2005 & SC (APP) CHC 26A/2005)

Action filed claiming damages of LKR 111 Mn for dishonouring cheques and a Letter of Credit. Judgement delivered against the Bank awarding LKR 2.5 Mn as damages. Both the plaintiff and the Bank filed appeals against the said Judgement. Argument on 13 June 2022.

3. D C RATNAPURA 23391/MR & HC (CIVIL) 159/06 (I)

Two actions filed claiming LKR 23,761,000.00 for wrongful takeover of property under Parate Action by Bank. Case No. 23391/MR was laid by on 6 January 2022 and in respect of HC (Civil) 159/06 (I) judgement delivered in favour of the Bank on 15 December 2021, and customer filed Notice of Appeal.

4. CHC 744/2010/MR

Plaintiff filed action claiming damages of LKR 10 Mn alleging negligence of the Bank due to credit card not being activated and thereby not being able to make payment. Plaintiff's action dismissed and Court allowed to proceed with the claim in reconvention. Plaintiff has appealed. Appeal case judgement delivered allowing the plaintiff to amend the plaint. Amended plaint and answer filed and the matter will be called on 24 March 2022.

5. CHC 559/10/MR

Plaintiff has claimed damages of LKR 5.0 Mn stating that the Bank has wrongfully refused to issue US Dollars for travel purposes. Case dismissed on 10 April 2018 and plaintiff has appealed against the Judgement. Notice of appeal filed on 25 April 2018. Petition of appeal has not been received by us to date.

Notes to the Financial Statements

6. CHC 377 / 12 MR

Plaintiff filed action for negligence against a cheque fraud claiming LKR 5.0 Mn as damages. Trial is fixed for 8 June 2022.

7. DC AMPARA 356/DAMAGES

The plaintiff who is an ex-staff member of the Bank filed action claiming damages of LKR 50.0 Mn for wrongful termination from work, wrongful custody and remand, defamation and pain of mind. Ex-parte Judgement delivered in favour of the plaintiff on 20 June 2016. Further inquiry is fixed for 13 June 2022 in respect of the vacation of Ex- parte Judgement.

8. CHC 157/2007/MR – (SC CHC (APP) 34/12)

Action filed against the Bank for collecting a forged cheque to an account of a client and for unjust enrichment claiming LKR 9.5 Mn Judgement delivered in favour of the Plaintiff. Bank has appealed to the Supreme Court against the judgement. Arguments on 14 July 2022.

9. DC COLOMBO 17/99 /CO - (S C (APP) 85A/2009)

Action filed by Hatton National Bank to nullify the Mortgage Bond executed in favour of the Bank on an immovable property that has now been acquired by the Government under the provisions of "Revival of Underperforming Enterprises or Underutilised Assets Act No.43 of 2011". Argument concluded. Reserved for Judgement. (Mortgage Bond Value LKR 38,774,635.81)

10. DC MOUNT LAVINIA 4246/03/M (WP/HCCA/MT/03/18/F)

Action filed claiming damages for LKR 2.0 Mn alleging wrongful seizure of goods in execution of a writ by the Bank. Judgement delivered against the Bank on 6 November 2017. Bank appealed on the said Judgement. Case is fixed for argument on 6 July 2022.

11. DC KURUNEGALA 7945/L

Action filed by a third party who purchased an acquired property sold by the Bank, claiming damages of LKR 200,000.00 per month from March 2013 until final determination of the action alleging that an erroneous entry has been made in Land Registry records. Judgement on 31 March 2022.

12. CHC 90/2020 MR (DC COLOMBO DMR 1674/15)

The plaintiff company has filed the above case claiming LKR 50.0 Mn as damages stating that the Bank has given wrong information to the Magistrate Court under case No: B 2326/13 where one Director of the company was remanded. At the trial Bank raised a preliminary objection on the jurisdiction and the same was dismissed by the District Court. Customer appealed against the said order Commercial High Court against the order in favour of the Bank. Accordingly, matter transferred to Commercial High Court and the same was dismissed on 11 February 2022.

13. CHC 713/19 MR (DC COLOMBO DMR 1675/15)

The plaintiff has filed the above case claiming LKR 50.0 Mn as damages stating that the Bank has given wrong information to the Magistrate Court under case No: B 2326/13 where he has been remanded. At the trial Bank raised a preliminary objection on the jurisdiction and the same was dismissed by the District Court. Bank appealed against the said order and Appellate Court delivered the order in favour of the Bank. Accordingly, the matter was transferred to Commercial High Court. Further Trial is fixed on 31 March 2022.

14. DC COLOMBO 0093/15/DMR (WP/HCCA/82/2019/F)

This case has been filed claiming LKR 505,510.10 alleging a wrongful reduction of savings account balance. Judgement delivered in favour of the plaintiff. The Bank has appealed against the judgement. Appeal petition was filed and the case will be mentioned on 24 February 2022.

15. DC AMPARA 3547/M & DC AMPARA 3548/M

These actions have been instituted by the plaintiffs claiming LKR 200.0 Mn from each case as damages and to obtain a direction from court to return articles pawned by the plaintiffs. Both cases 3547/M & 3548/M are fixed for further Trial on 14 March 2022.

16. CHC CIVIL 518 /2012/MR

This action has been instituted by the plaintiff stating that, the Bank has recovered more than the amount due from the plaintiff, therefore claiming a sum of LKR 49.025 Mn Bank filed a cross claim for LKR 6,244,872.36. On 17 December 2021, case was dismissed as well as the cross claim. Both parties appealed against the judgement.

17. SC Appeal 157/19 (SC HC LA 63/19)

The case bearing HC Civil 253/17/MR has been instituted by the plaintiff and obtained a stay order preventing the Bank from paying of USD 1,368,750.00 on a Letter of Credit. Summons returnable on the 3rd defendant who are the bankers of the beneficiary of the Letter of Credit and final order of same was delivered to release the Fixed Deposits held under lien with the Bank. Bank appealed against the said order. This case is reserved for Judgement.

18. DC KALMUNAI 6029/2017/M

This action has been instituted by the plaintiff claiming that a sum of LKR 2.0 Mn has been withdrawn from her account while her pass book and the passport was in custody of a Foreign Employment Agency. Examination on Questioned document (EQD) report on 17 May 2022.

19. CHC 144/2018 MR

Plaintiff has filed this action against the Bank inter alia, the Bank has acted in contrary to their Swift instructions on a remittance and therefore suffered loss and damages in a sum of USD 3,880,000.00. Further Trial is on 31 March 2022.

20. DC COLOMBO 4237/18/DMR

A case had been filed under case No. HC (Civil) 311/14/MR to recover outstanding due to the Bank. Subsequently the said case was withdrawn by the Bank. Thereafter customer filed a case under DC Colombo 4237/18/DMR against the Bank claiming LKR 200.0 Mn as damages for instituting the said case No. HC(Civil) 311/14/MR. Case is fixed for Trial on 23 February 2022.

Cross Claims made against the Bank on Cases filed by the Bank**21. CHC 638/09/MR (DC COLOMBO 6033/SPL)**

Case was filed against a former Deputy Chairman preventing him from using confidential information gathered by him, during his tenure as a Director of the Bank. Bank withdrew the reliefs as prayed for in the plaint and the case was proceeding based on the claim in reconvention. Judgement delivered in favour of the Bank on 7 September 2017. Petition of appeal has been filed under Case No. SC/CHC/App/ 60/2018. The application was dismissed by the Supreme Court.

22. DC RATNAPURA 12734/M

Bank has filed this case in DC Ratnapura to recover the dues, there is a cross claim of LKR 2,500,000.00 made by the defendant. Trial/Settlement on 23 May 2022.

23. CHC 331/11/MR

Bank has initiated legal action to recover the dues of a leasing facility. Customer has filed the answer with a cross claim of LKR 100.0 Mn Pre-trial is on 16 March 2022.

24. Tax Matters Filed by the Bank**CA TAX 23/2013 (SC Appeal 46/2016)**

The Commissioner General of Inland Revenue had issued an assessment on the Bank for the year of assessment 2007/2008 disallowing the financial cost relating to an investment by the Bank in Sri Lanka Development Bonds. The Bank appealed against this assessment, and the Tax Appeals Commission upheld assessment. This case was filed by the Bank by way of Case Stated to get an opinion from the Court of Appeal against the determination given by the Tax Appeals Commission. The Court of Appeal gave order in favour of the Commissioner General of Inland Revenue in respect of a preliminary objection raised by the Bank that the assessment was time barred. The Bank appealed to the Supreme Court and leave was granted and the Supreme Court has given a judgement on 14 December 2021 in Case No. SC Appeal 46/2016 in favour of the Bank that the assessment of income tax payable by the Bank for the year of assessment 2007/2008 dated 26 of March, 2010 is time barred.

Cases filed against the Bank (others)

Apart from the above cases, there are appeals filed against the Bank, Land related cases and Partition cases filed over the properties mortgaged to the Bank, Winding up actions filed against the customers who have been enjoying credit facilities with the Bank, Claim cases filed over the properties seized under court action, Testamentary Cases filed over the estate of deceased clients who have been enjoying credit facilities, Fundamental rights case on a property seized by the Government which has been mortgaged to the Bank, writ applications filed in Court of Appeal, appeals filed on eviction orders, appeal filed against the defamation case filed by the Bank and cases filed against the Bank on other matters.

Labour Related Cases**25. Cases Against Share Owning Trust Companies and the Bank and orders made by the Commissioner General of Labour**

Filed DTR 003/2016 to DTR 006/2016 against the share owning trust companies, Seybest (Private) Limited, Seyfest (Private) Limited, Sesot (Private) Limited and Seyshop (Private) Limited and the Bank in District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Plaintiffs filed evidence by affidavit. Cross examination of plaintiffs / hearing is due on 21 March 2022.

Filed DTR 154/2016 to DTR 159/2016 against the share owning trust companies Esots (Private) Limited, Sesot (Private) Limited, Sotse (Private) Limited, Seyfest (Private) Limited, Seybest (Private) Limited and Seyshop (Private) Limited and the Bank in District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Plaintiffs served interrogatories and the Bank was directed by Court to reply those. The Bank appealed to Civil Appeal High Court of Colombo (CA/HC/CMB) against that directive. These Appeals were dismissed on 13 October 2020 and both parties Appealed to Supreme Court. The District Court cases will be called on 28 February 2022. The Appeals, SC(HC)CA/LA 338/2020 to SC(HC)CA/LA 343/2020 are fixed for support / granting leave on 8 March 2022.

Notes to the Financial Statements

DTR 007/2017 and DTR 008/2017 filed by 59 ex-employees against the Bank and Seyfest (Private) Limited and Sesot (Private) Limited. The reliefs sought is to obtain judgement declaring the trusts as valid and their implementation. Plaints were amended reflecting withdrawal and death of parties and substitution in place of dead parties. Plaintiffs made a settlement offer to the Bank and Trust companies. Cases due for pre-trial hearing on 28 February 2022.

Filed DTR 002/2018 to DTR 004/2018 against the share owning trust companies Seyshop (Private) Limited, Sotse (Private) Limited and Seybest (Private) Limited and the Bank in District Court Colombo. The relief sought is to obtain judgement declaring the trust as valid and its implementation. Plaints were amended reflecting withdrawal and death of parties and substitution in place of dead parties. Cases due for pre-trial hearing on 28 February 2022.

Writ application CA 88 / 2019 in Court of Appeal against the Commissioner General of Labour and an ex-employee. The Bank filed this case seeking:

- A Writ of Certiorari invalidating the directive of Commissioner General of Labour to pay additional Gratuity in excess of the statutory Gratuity.
- A Writ of Prohibition prohibiting the Commissioner General of Labour and its officers from initiating action for recovery of such additional Gratuity.

The ex-employee filed objections to this application. Counter affidavit of the Bank in reply to the objections filed. The case has been fixed for Argument on 9 June 2022.

Apart from the above, there are matters filed by ex-employees against the Bank relating to determination of retirement age, termination of employment, seeking reinstatement and appeals thereof including appeals against orders for payment of additional gratuity and surcharge. An ex-employee has filed an action claiming the amount offered as voluntary retirement scheme where he has resigned from the services while a disciplinary inquiry was proceeding against him. The spouse of a deceased employee has sought to substitute legal heirs and compensation for loss of employment.

Based on the available information and current status of the above cases, the Bank is not in a position to quantify the potential financial impact if any, as at the balance sheet date. However, we are of the opinion that the outcome of any action will not have a material effect on the financial position of the Bank.

49 Capital Commitments

Capital expenditure approved by the Board of Directors for which provision, has not been made in these Financial Statements amounted to approximately;

	<i>Bank</i>		<i>Group</i>	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
49.1 Approved and Contracted for	464,632	530,970	464,717	550,131
49.2 Approved but not Contracted for	55,050	18,973	58,917	26,754

50 Events after the Reporting Period

50.1 Proposed Final Dividend

The Board of Directors of the Bank recommended a final dividend of LKR 3.00 per share on both voting and non-voting shares of the Bank, to be paid by way of LKR 3.00 scrip dividend per share for the financial year 2021.

Further, this dividend is to be approved at the Annual General Meeting to be held on 30th March 2022. This proposed final dividend has not been recognized as a liability as at 31st December 2021. Final dividend proposed for the year 2021 amounts to LKR 1,602,572,049.00.

Compliance with Sections 56 and 57 of Companies Act No 7 of 2007- As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the section 57, prior to recommending the final dividend.

50.2 Proposed Debenture Issue

The Board decided to issue upto a maximum of Two Hundred Million (200,000,000) Listed Rated Basel III Compliant Tier 2 Unsecured Subordinated Redeemable Debentures with a Non-Viability Conversion (to Ordinary Voting Shares of the Bank in the event of 'Trigger Event') of the par value of Rupees Hundred (LKR 100) each ('Debentures'), amounting to Rupees Twenty Billion (LKR 20,000,000,000) and it was also decided that these Debentures shall be issued in one or more issuances during the calendar year, 2022. The approval of the shareholders was obtained at the Extraordinary General Meeting of the Bank held on 11 January 2022 for the said Debenture issue.

At the meeting of the Board of Directors held on 22 February 2022, the Board approved the issue of 40,000,000 Debentures of LKR 100 each amounting to LKR 4,000,000,000 with an option to issue a further 20,000,000 Debentures amounting to LKR 2,000,000,000 in the event of an oversubscription, and this issue will be the first issuance of the above mentioned maximum issue of 200,000,000 Debentures. The tenure of these Debentures will be not less than five years.

50.3 Proposed Surcharge Tax

The Bill governing the imposition and administration of the Surcharge Tax was published in the Gazette on 07 February 2022. The Surcharge Tax was proposed in the National Budget 2022, as a one-time tax. Surcharge Tax is payable by any individual, partnership, company or each company of a group of companies (holding and subsidiaries) subject to the taxable income exceeds prescribed threshold from the year of assessment commencing from 01st April 2020.

"There shall be levied a Surcharge Tax any individual, partnership or company, whose taxable income calculated in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017, exceeds rupees two thousand million, for the year of assessment commenced on April 1, 2020, at the rate of twenty five per centum on the taxable income of such individual, partnership or company, for such year of assessment".

The proposed surcharge tax has not been accounted for in these financial statements of the Company and the Group as at 31 December 2021 as the said Bill was not in existence as at the reporting date. Therefore, it is not considered to be substantively enacted as per LKAS – 12 .

51 Related Party Transactions

The Bank/Group carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard -LKAS 24 - "Related Party Disclosure", other than transactions that are the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rate.

51.1 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures', Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director (whether executive or otherwise) of that entity. Accordingly, the Board of Directors, Director/Chief Executive Officer, Key Employees of the Bank holding directorships in Subsidiary company have been classified as Key Management Personnel (KMP) of the Bank. As the Bank is the Ultimate Parent of its Subsidiary mentioned in Note 51.2 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group. Accordingly, the Board of Directors of the Bank is also KMP of the Group.

For the Year ended 31st December	<i>Bank</i>		<i>Group</i>	
	2021	2020	2021	2020
	LKR Mn	LKR Mn	LKR Mn	LKR Mn
51.1.1 Compensation of KMP				
Short -Term Employment Benefits	121.41	111.38	124.29	114.06
Post- Employment Benefits	10.34	8.65	10.34	8.65
Total	131.75	120.03	134.63	122.71
Other Non - Cash Benefits to KMP	1.19	1.92	1.19	1.92

51.1.2 Transactions, Arrangements and Agreements Involving KMP and their CFM

Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependants of the KMP or the KMP's domestic partner. CFM are related parties to the Bank/Group.

Notes to the Financial Statements

As at 31st December	2021 LKR Mn	2020 LKR Mn
51.1.2.1 Statement of Financial Position - Bank /Group		
ASSETS		
Loans and Advances	7.03	11.59
Credit Cards	2.48	0.34
Securities Purchased Under Resale Agreement	7.63	45.23
Total	17.14	57.16
LIABILITIES		
Deposits	100.37	117.60
Other Investments	154.73	123.27
Total	255.10	240.87

As at 31st December	2021 LKR Mn	2020 LKR Mn
51.1.2.2 Contingencies and Commitment - Bank /Group		
Undrawn facilities	48.91	30.52
Total	48.91	30.52

Expected credit loss allowance (Stage 01) as at 31.12.2021 related to the outstanding Loans and advances, credit cards and undrawn balances of KMPs' and CFMs' is an insignificant amount.

At the time of evaluating accommodations, the Board Credit Committee considered the adequacy of securities proposed for the accommodations.

As at 31st December	2021	2020
51.1.2.3 Accommodation as a percentage of Bank's Regulatory capital		
Direct and Indirect Accommodation (%)*	0.10	0.15
* Includes Securities Purchased Under Resale Agreement		

For the Year ended 31st December	2021 LKR Mn	2020 LKR Mn
51.1.2.4 Income Statement - Bank /Group		
Income (Interest and Other)	2.02	2.86
Interest Expenses	23.06	24.29
Compensation to KMP-Bank	132.94	121.95
Compensation to KMP-Group	135.82	124.63

As at 31st December	2021	2020
51.1.2.5 Shareholding of KMP and CFM		
Investment in Bank Shares -Voting (No.of Shares)	66,819	64,911
Investment in Bank Shares -Non Voting (No.of Shares)	222,061	214,150
Dividend Paid (LKR Mn)	0.37	0.56

51.2 Other Related Party Transactions

The Bank / Group had the following financial dealings during the year 2021 with its related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates.

The parties given below are considered related parties mainly due to significant influence arising as a result of common directorships and through shareholdings.

51.2.1 Transactions with Other Related Parties/Common Directorships

As at 31st December	Subsidiary		Share Trust Companies and Post- Employment Benefit Plans*		State Institutions		Shareholders with Significant Influence		Common Directorship Entities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
51.2.1.1 Statement of Financial Position - Bank / Group										
ASSETS										
Loans and Advances	-	-	96.58	96.58	-	-	17,689.52	8,849.72	2,282.12	800.54
Other Receivable-Rent Deposit	40.00	40.00	-	-	-	-	-	-	-	-
Equities (Quoted)	-	-	-	-	-	-	-	9.91	2,332.00	2,332.00
Debentures (Quoted/ Unquoted)	-	-	-	-	-	-	50.00**	50.00**	598.50	631.75
Interest and Other Receivable	-	-	1,055.20	1,091.75	-	-	58.33	23.48	3.70	5.56
Total	40.00	40.00	1,151.78	1,188.33	-	-	17,797.85	8,933.11	5,216.32	3,769.85
LIABILITIES										
Deposit	56.07	125.79	3,982.47	5,085.78	9.98	1,212.52	1,581.69	729.91	772.60	2,270.93
Securities Sold Under Repurchase Agreements	-	-	1,225.00	1,225.00	-	-	-	-	-	-
Other Instruments including Debentures	129.00	129.00	5,032.44	4,142.86	2,057.28	5,169.09	-	10.84	-	-
Interest and Other Payable	6.74	6.67	410.94	425.29	-	62.47	7.89	4.66	23.62	38.48
Total	191.81	261.46	10,650.85	10,878.93	2,067.26	6,444.08	1,589.58	745.41	796.22	2,309.41

** Includes Quoted Debenture investment held by Seylan Developments PLC (500,000 Debentures @ LKR.100/- each).

As at 31st December	Subsidiary		Share Trust Companies and Post- Employment Benefit Plans*		State Institutions		Shareholders with Significant Influence		Common Directorship Entities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
51.2.1.2 Contingencies and Commitment- Bank / Group										
Non - Funded Facilities	-	-	-	-	-	-	2,967.04	2,167.97	51.44	272.85
Undrawn Facilities	175.00	175.00	104.71	104.71	-	-	2,925.56	2,980.38	682.19	2,172.77
Total	175.00	175.00	104.71	104.71	-	-	5,892.60	5,148.35	733.63	2,445.62
51.2.1.3 Accommodation as a Percentage of Bank's Regulatory Capital										
Direct and Indirect Accommodation (%)	0.27	0.31	0.31	0.35	-	-	36.61	24.59	5.60	6.79

Notes to the Financial Statements

For the Year ended 31st December	Subsidiary		Share Trust Companies and Post-Employment Benefit Plans*		State Institutions		Shareholders with Significant Influence		Common Directorship Entities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
51.2.1.4 Income Statement - Bank / Group										
Income	125.49	115.05	69.08	56.52	-	-	636.76	536.65	47.13	76.21
Expenses	285.20	286.35	1,234.57	1,302.07	546.19	759.08	65.75	26.27	49.91	66.25
51.2.1.5 Other Transactions - Bank / Group										
Other Payments (43.1.4)	-	-	217.41	209.76	-	-	-	-	-	-

As at 31st December	Share Trust Companies and Post-Employment Benefit Plans*		State Institutions		Shareholders with Significant Influence		Common Directorship Entities	
	2021	2020	2021	2020	2021	2020	2021	2020
51.2.1.6 Shareholding of Other Related Parties								
Investment in Bank Shares - Voting (No. of Shares)	17,695,830	17,190,239	86,174,841	83,712,706	61,908,605	60,139,790	-	-
Investment in Bank Shares - Non Voting (No. of Shares)	-	-	28,566,427	18,025,946	141,761,375	122,145,879	54,339	52,403
Dividend Paid (LKR Mn)	26.29	33.68	163.78	198.93	283.79	346.38	0.08	0.10

* Includes Seylan Bank Employees' Provident Fund and Gratuity Trust Fund.

51.2.2 Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

Bank has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government Related Entities) as Related Parties according to LKAS 24 'Related Party Disclosures'.

However, limited disclosures have been made in accordance with LKAS 24 'Related Party Disclosures' for transactions that are individually significant because of their size although these transactions were undertaken on normal terms in the ordinary course of business.

51.2.2.1 Voting Share Holding by State Institutions in Seylan Bank PLC

	No of Shares-Voting
Sri Lanka Insurance Corporation Limited (Includes General Fund and Life Fund)	39,640,115
Employees' Provident Fund	26,050,200
Bank of Ceylon	14,865,044
Employees' Trust Fund Board	5,619,482

51.2.2.2 Non-Voting Share Holding by State Institutions in Seylan Bank PLC

	No of Shares-Non Voting
Employees' Provident Fund	14,397,596
Sri Lanka Insurance Corporation Limited (Includes General Fund and Life Fund)	10,946,771
Employees' Trust Fund Board	3,222,060

51.2.2.3 Central Bank of Sri Lanka

Relationship with the Bank	Nature of the Transactions	LKR '000
Government Related Entity	Treasury Bills	6,154,000
	Treasury Bonds including Sri Lanka Development Bonds and Sri Lanka International Sovereign Bonds	92,251,286
	Securities Purchased Under Resale Agreement	10,029,031
	Interest Income (Note 8.3)	9,132,241
	Interest Expenses (Note 8.3)	153,055
	Annual License Fees	27,156
	Sri Lanka Deposit Insurance Fund Contribution (Note 14)	409,644
	Balance with Central Bank of Sri Lanka (Note 21)	8,725,834

Other than above, the Bank has carried out transactions in the ordinary cause of business with the Government of Sri Lanka and other government related entities in the form of accommodation (funded/non-funded), deposits, utility bills, telephone charges, crib charges and statutory payments, etc. There are no other transactions that are collectively significant with government related entities.

52 Maturity Analysis

52.1 Assets - Bank

An analysis of the total assets employed as at 31st December 2021 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2021 LKR '000
Interest Earning Assets						
Loans & Advances	207,815,418	89,963,347	82,770,554	40,868,963	20,558,380	441,976,662
Placements with Banks and Finance Companies	8,246,909	-	-	-	-	8,246,909
Government of Sri Lanka Treasury Bills/ Bonds, Development and International Sovereign Bonds	9,608,882	19,977,751	51,406,366	6,309,739	11,102,548	98,405,286
Investments in Debentures	23,988	33,250	341,487	66,500	432,146	897,371
Securities Purchased under Resale Agreements	10,029,031	-	-	-	-	10,029,031
Total Interest Earning Assets	235,724,228	109,974,348	134,518,407	47,245,202	32,093,074	559,555,259
Non Interest Earning Assets						
Cash In Hand	9,193,840	-	-	-	-	9,193,840
Balances with Central Bank of Sri Lanka	8,725,834	-	-	-	-	8,725,834
Balances with Banks	6,885,214	-	-	-	-	6,885,214
Investments in Equities	-	2,735,210	-	-	1,153,602	3,888,812
Group Balances Receivable	-	40,000	-	-	-	40,000
Property, Plant & Equipment/Intangible Assets/Right of Use Assets	-	-	-	-	9,673,986	9,673,986
Derivative Financial Instruments	290,141	-	-	-	-	290,141
Other Assets	9,322,264	27	1	94	1,439	9,323,825
Total Non Interest Earning Assets	34,417,293	2,775,237	1	94	10,829,027	48,021,652
Total Assets	270,141,521	112,749,585	134,518,408	47,245,296	42,922,101	607,576,911

Notes to the Financial Statements

52.2 Liabilities & Equity - Bank

An analysis of the total Liabilities & Equity as at 31st December 2021 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2021 LKR '000
Interest Bearing Liabilities						
Financial Liabilities at amortised cost due to Depositors	166,025,005	257,315,640	12,425,287	6,725,006	9,542,398	452,033,336
Financial Liabilities at amortised cost due to Debt Securities Holders	2,581,526	80,851	-	-	-	2,662,377
Due to Banks and Other Borrowings	3,997,968	3,804,643	16,709,071	-	-	24,511,682
Debt Securities Issued	606,570	633,605	12,053,280	6,715,000	1,609,000	21,617,455
Group Balances Payable	47,059	3,075	129,000	-	-	179,134
Lease Liabilities	74,655	207,534	537,036	394,620	3,675,753	4,889,598
Total Interest Bearing Liabilities	173,332,783	262,045,348	41,853,674	13,834,626	14,827,151	505,893,582
Non Interest Bearing Liabilities						
Demand Deposits	36,619,992	-	-	-	-	36,619,992
Other Liabilities	10,864,805	-	-	-	-	10,864,805
Derivative Financial Instruments	137,688	79,491	-	-	-	217,179
Current Tax Liabilities	1,623,966	-	-	-	-	1,623,966
Deferred Tax Liabilities	257,574	-	-	-	-	257,574
Dividend Payable	34,128	-	-	-	-	34,128
Group Balances Payable	12,676	-	-	-	-	12,676
Equity	-	-	-	-	52,053,009	52,053,009
Total Non Interest Bearing Liabilities	49,550,829	79,491	-	-	52,053,009	101,683,329
Total Liabilities and Equity	222,883,612	262,124,839	41,853,674	13,834,626	66,880,160	607,576,911

52.3 Assets - Group

An analysis of the total assets employed as at 31st December 2021 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2021 LKR '000
Interest Earning Assets						
Loans & Advances	207,815,418	89,963,347	82,770,554	40,868,963	20,558,380	441,976,662
Placements with Banks and Finance Companies	8,246,909	-	-	-	-	8,246,909
Government of Sri Lanka Treasury Bills/ Bonds, Development and International Sovereign Bonds	9,772,850	19,977,751	51,406,366	6,309,739	11,102,548	98,569,254
Investments in Debentures	23,988	33,250	402,350	66,500	432,146	958,234
Securities Purchased under Resale Agreements	10,029,031	-	-	-	-	10,029,031
Total Interest Earning Assets	235,888,196	109,974,348	134,579,270	47,245,202	32,093,074	559,780,090
Non Interest Earning Assets						
Cash In Hand	9,193,880	-	-	-	-	9,193,880
Balances with Central Bank of Sri Lanka	8,725,834	-	-	-	-	8,725,834
Balances with Banks	6,885,214	-	-	-	-	6,885,214
Investments in Equities	-	2,735,210	-	-	-	2,735,210
Investment Properties	-	-	-	-	870,258	870,258
Property, Plant & Equipment/Intangible Assets/Right of Use Assets	-	-	-	-	10,251,378	10,251,378
Derivative Financial Instruments	290,141	-	-	-	-	290,141
Other Assets	9,356,567	27	1	94	1,439	9,358,128
Total Non Interest Earning Assets	34,451,636	2,735,237	1	94	11,123,075	48,310,043
Total Assets	270,339,832	112,709,585	134,579,271	47,245,296	43,216,149	608,090,133

52.4 Liabilities & Equity - Group

An analysis of the total Liabilities & Equity as at 31st December 2021 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below.

	Up to 3 Months LKR '000	3 to 12 Months LKR '000	1 to 3 Years LKR '000	3 to 5 Years LKR '000	More Than 5 Years LKR '000	Total as at 31.12.2021 LKR '000
Interest Bearing Liabilities						
Financial Liabilities at amortised cost due to Depositors	166,025,005	257,315,640	12,425,287	6,725,006	9,542,398	452,033,336
Financial Liabilities at amortised cost due to Debt Securities Holders	2,581,526	80,851	-	-	-	2,662,377
Due to Banks and Other Borrowings	3,997,968	3,804,643	16,709,071	-	-	24,511,682
Debt Securities Issued	606,570	633,605	12,053,280	6,715,000	1,609,000	21,617,455
Lease Liabilities	74,553	207,212	535,479	393,292	796,709	2,007,245
Total Interest Bearing Liabilities	173,285,622	262,041,951	41,723,117	13,833,298	11,948,107	502,832,095
Non Interest Bearing Liabilities						
Demand Deposits	36,619,992	-	-	-	-	36,619,992
Other Liabilities	10,880,045	-	-	-	-	10,880,045
Derivative Financial Instruments	137,688	79,491	-	-	-	217,179
Current Tax Liabilities	1,611,832	-	-	-	-	1,611,832
Deferred Tax Liabilities	582,395	-	-	-	-	582,395
Dividend Payable	59,768	-	-	-	-	59,768
Equity	-	-	-	-	53,958,234	53,958,234
Non - Controlling Interest	-	-	-	-	1,328,593	1,328,593
Total Non Interest Bearing Liabilities	49,891,720	79,491	-	-	55,286,827	105,258,038
Total Liabilities and Equity	223,177,342	262,121,442	41,723,117	13,833,298	67,234,934	608,090,133

Notes to the Financial Statements

53 Segment Reporting

Segment information is presented in respect of the Group's Operating Segments. Operating Segments are based on the Group's management and internal reporting structure.

The Group comprises the following main Operating Segments:

Banking : Loans and Advances (including Leases and Bills), Margin Trading, Insurance ,Deposits and other transactions and balances with corporate & retail customers.

Treasury : The Treasury is responsible for managing Bank's assets and liabilities, statutory reserve requirement, liquidity, foreign exchange position and investment portfolios.

Property/ Investment : The property investment income, expenses, assets and liabilities.

	Banking		Treasury	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Interest Income	37,407,111	40,962,500	9,821,266	11,161,806
Less : Interest Expenses	21,876,505	27,390,331	1,168,223	4,077,525
Net Interest Income	15,530,606	13,572,169	8,653,043	7,084,281
Fee and Commission Income	4,752,178	3,889,076	4,864	5,424
Less : Fee and Commission Expenses	119,468	177,884	24,030	24,051
Net Fee and Commission Income	4,632,710	3,711,192	(19,166)	(18,627)
Net Interest, Fee and Commission Income	20,163,316	17,283,361	8,633,877	7,065,654
Net Gains/(Losses) from Trading	-	-	(219,044)	347,554
Net Gains from Derecognition of Financial Assets	-	-	553,425	782,565
Net Other Operating Income	649,914	119,976	2,222,453	808,347
Inter Segment Revenue	(73,648)	(73,983)	-	-
Total Operating Income	20,739,582	17,329,354	11,190,711	9,004,120
Less : Depreciation and Amortisation Expenses	707,307	767,132	6,320	5,595
Less : Impairment Charges	10,008,626	6,747,023	413,287	245,953
Less : Operating Expenses & VAT on Financial Services	9,903,963	9,771,956	1,845,267	1,496,635
Reportable Segment Profit Before Income Tax	119,686	43,243	8,925,837	7,255,937
Less : Income Tax Expense				
Profit for the Year				
Profit Attributable to:				
Equity Holders of the Bank				
Non-Controlling Interest				
Profit for the Year				
Other Comprehensive Income for the Year, Net of Tax				
Other Information				
Reportable Segment Assets	433,132,342	393,123,043	156,115,813	143,091,020
Segment Accumulated Amortisation	(2,347,782)	(2,125,478)	(55,774)	(50,924)
Total Assets	430,784,560	390,997,565	156,060,039	143,040,096
Reportable Segment Liabilities & Equity	487,573,516	439,087,233	81,060,891	80,126,983
Total Liabilities & Equity	487,573,516	439,087,233	81,060,891	80,126,983
Cash Flows From Operating Activities	(7,149,239)	33,888,015	9,345,444	7,507,485
Cash Flows From Investing Activities	(147,291)	(323,839)	5,842,438	(18,876,818)
Cash Flows From Financing Activities	(822,434)	(750,450)	2,010,276	(5,783,386)
Capital Expenditure	(153,031)	(330,474)	(51,462)	(1,771)

SLFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters (the "management approach").

Such operating segments are identified on the basis of internal reports that the entity's Board of Directors reviews regularly in allocating resources and in assessing their performance.

Bank reviewed the existing reporting segments and concluded that no material change is required.

Property/ Investments		Unallocated/ Eliminations		Total	
2021	2020	2021	2020	2021	2020
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
30,731	28,664	(477,904)	(1,040,534)	46,781,204	51,112,436
299	294	(167,732)	(166,497)	22,877,295	31,301,653
30,432	28,370	(310,172)	(874,037)	23,903,909	19,810,783
-	-	27,384	36,827	4,784,426	3,931,327
452	1,088	-	-	143,950	203,023
(452)	(1,088)	27,384	36,827	4,640,476	3,728,304
29,980	27,282	(282,788)	(837,210)	28,544,385	23,539,087
1,200	1,189	-	-	(217,844)	348,743
-	-	-	-	553,425	782,565
376,249	390,602	(399,136)	(266,246)	2,849,480	1,052,679
-	-	73,648	73,983	-	-
407,429	419,073	(608,276)	(1,029,473)	31,729,446	25,723,074
1,085	1,028	764,754	712,451	1,479,466	1,486,206
-	-	-	-	10,421,913	6,992,976
80,579	84,746	1,813,578	1,594,919	13,643,387	12,948,256
325,765	333,299	(3,186,608)	(3,336,843)	6,184,680	4,295,636
				1,449,010	1,197,578
				4,735,670	3,098,058
				4,653,003	3,038,629
				82,667	59,429
				4,735,670	3,098,058
				(1,479,099)	1,865,107
6,063,200	5,915,190	21,815,227	23,974,042	617,126,582	566,103,295
(1,840)	(4,282)	(6,631,053)	(5,916,679)	(9,036,449)	(8,097,363)
6,061,360	5,910,908	15,184,174	18,057,363	608,090,133	558,005,932
6,061,360	5,910,908	33,394,366	32,880,808	608,090,133	558,005,932
6,061,360	5,910,908	33,394,366	32,880,808	608,090,133	558,005,932
277,845	246,754	(2,469,445)	(2,851,781)	4,605	38,790,473
36,830	(78,683)	(489,077)	(423,946)	5,242,900	(19,703,286)
(177,558)	(162,761)	430,230	408,609	1,440,514	(6,287,988)
(78,147)	(34,953)	(257,821)	(357,720)	(540,461)	(724,918)

Notes to the Financial Statements

54 Non - Uniform Accounting Policies

The impact of non- uniform accounting policies adopted by subsidiary company has been adjusted in the Consolidated Financial Statements as set out below .

Adjustment due to Different Accounting Policies of the Parent & the Group Entity, Seylan Developments PLC (SD)

Seylan Bank PLC accounts for investment properties at cost, whereas Seylan Developments PLC accounts for investment properties at fair value.

Seylan Towers (East Towers) owned by Seylan Developments PLC is rented out to Seylan Bank PLC and is occupied by the Bank.

Therefore the land and buildings do not qualify as investment property in the Consolidated Financial Statements.

The building is treated as a Property in the Consolidated Financial Statements and has been depreciated accordingly (LKAS 40).

The leased land has also been depreciated accordingly in the Consolidated Financial Statements and categorized under Right-of-use Assets.

	Adjustments LKR '000	Group Impact LKR '000	Non Controlling Interest Impact LKR '000
Adjustments to Revaluation Gains / (Losses) on Investment Properties, Deferred Tax and on SLFRS 16			
Reversal of Revaluation Gain recognized in the Statement of Comprehensive Income by SD in 2021	(13,865)	(9,776)	(4,089)
Reversal of Deferred Tax recognized in the Statement of Comprehensive Income by SD in 2021	1,140	804	336
Gain on Revaluation of East Tower in 2021 adjusted to Revaluation Reserves in Consolidated Financial Statements.	48,775	34,391	14,384
Deferred Tax on Revaluation Gain of East Tower in 2021 recognized in Consolidated Financial Statements.	(11,706)	(8,254)	(3,452)
Adjustment on SLFRS 16 in the Consolidated Financial Statements	60,245	42,478	17,767
Tax adjustment on SLFRS 16 in the Consolidated Financial Statements	(27,925)	(19,690)	(8,235)
	56,664	39,953	16,711
Charging of Depreciation			
Depreciation Charges Adjusted in Consolidated Financial Statements for 2021	(90,042)	(63,488)	(26,554)
	(90,042)	(63,488)	(26,554)

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Ten Years at a Glance

Year Ended 31st December	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
Trading Results										
Gross Income	54,767	57,224	61,370	54,873	49,161	37,873	28,586	28,564	28,091	23,726
Profit before Income Tax	6,028	4,111	5,098	4,666	6,656	5,734	5,777	4,649	3,454	3,199
Income Tax	1,447	1,100	1,418	1,477	2,226	1,724	1,946	1,571	1,138	1,135
Profit after Taxation	4,581	3,011	3,680	3,189	4,430	4,010	3,831	3,078	2,316	2,064
Other Comprehensive Income, net of Tax	(1,521)	1,832	2,234	(617)	2,426	(345)	(1,054)	(55)	913	(139)
Total Comprehensive Income	3,060	4,843	5,914	2,572	6,856	3,665	2,777	3,023	3,229	1,926
Dividends Proposed (Ordinary)										
LKR per Share	LKR 3.00	LKR 1.50	LKR 2.00	LKR 2.50	LKR 3.50	LKR 3.25	LKR 2.75	LKR 2.50	LKR 2.25	LKR 2.00
As At 31st December										
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
Financial Position										
Assets										
Cash and Short Term Funds (Including Securities Purchased under Resale Agreements)	26,108	16,179	16,924	18,036	10,070	15,653	10,113	24,436	10,910	6,728
Balances with Central Bank of Sri Lanka	8,726	7,371	14,459	18,472	19,120	16,212	8,564	7,432	7,505	8,029
Investments (Including Investment Properties)	102,037	111,119	84,583	87,820	82,976	73,336	72,203	48,859	49,351	33,879
Loans and Advances, Placements with Banks and Finance Companies (Including Leases and Bills of Exchange)	450,224	404,496	380,432	326,883	282,317	236,355	193,862	157,297	137,523	124,728
Investment in Subsidiary	1,154	1,154	1,154	1,154	1,154	1,154	1,152	1,106	801	793
Other Assets (Including Taxation)	9,654	8,285	9,293	10,214	8,590	8,669	6,915	6,887	5,994	6,871
Property, Plant and Equipment, Right-of-use Assets and Intangible Assets	9,674	9,103	9,449	4,354	3,899	4,634	3,522	3,294	3,077	2,633
Total Assets	607,577	557,707	516,294	466,933	408,126	356,013	296,331	249,311	215,161	183,661
Liabilities										
Customer Deposits due to Banks	513,158	472,982	429,501	383,939	334,152	291,185	244,310	197,540	178,916	152,865
Borrowings and Debentures	24,287	19,648	28,320	37,456	29,148	28,491	18,605	20,090	7,830	4,896
Other Liabilities	16,163	13,726	12,552	9,674	8,197	7,756	7,486	6,327	5,546	6,353
Taxation (Including Deferred Tax)	1,882	2,340	1,251	1,209	2,381	762	843	1,324	1,091	683
Dividends Payable	34	44	43	45	42	46	31	21	16	13
Total Liabilities	555,524	508,740	471,667	432,323	373,920	328,240	271,275	225,302	193,399	164,810
Equity										
Stated Capital	18,324	17,548	17,045	12,026	11,228	10,530	10,530	10,530	10,530	10,225
Reserve Fund	2,333	2,104	1,953	1,769	1,609	1,388	1,187	996	842	726
Reserves	31,396	29,315	25,629	20,815	21,369	15,855	13,339	12,483	10,390	7,900
Total Equity	52,053	48,967	44,627	34,610	34,206	27,773	25,056	24,009	21,762	18,851
Total Equity and Liabilities	607,577	557,707	516,294	466,933	408,126	356,013	296,331	249,311	215,161	183,661
Contingent Liabilities and Commitments	224,390	195,154	150,147	129,693	99,501	64,111	57,222	45,098	35,473	31,287

Summary of Performance Indicators

	Measure	2021	2020	2019	2018	2017
SIZE						
Assets Growth	%	8.94	8.02	10.57	14.41	14.64
Contingencies and Commitments / (Total Assets+Contingencies and Commitments)	%	26.97	25.92	22.53	21.74	19.60
Interest Earning Assets / Total Assets	%	92.10	92.97	90.74	89.63	89.50
Cash & Balances with CBSL / Total Assets	%	4.08	3.12	5.08	6.65	6.72
Risk Weighted Assets Growth	%	14.49	4.58	16.37	19.36	14.47
PROFITABILITY						
Return on Average Assets	%	0.79	0.56	0.75	0.73	1.16
Return on Average Equity	%	9.07	6.43	9.29	9.27	14.30
Profit for the Year / (Total Assets + Contingencies and Commitments)	%	0.55	0.40	0.55	0.53	0.87
Net Interest Margin on Average Total Assets	%	4.05	3.63	3.79	4.06	4.05
Net Interest Margin on Average Interest Earning Assets	%	4.38	3.95	4.20	4.53	4.55
Net Interest Income / Total Income	%	43.07	34.07	30.62	32.63	31.63
Cost to income ratio	%	47.68	56.31	63.12	64.90	61.02
Cost to income ratio (Excluding VAT , NBT & DRL)	%	41.53	50.30	51.76	55.78	51.97
Average Interest Yield	%	8.68	10.36	12.10	12.20	12.47
Average Interest Cost	%	4.77	6.98	8.65	8.34	8.62
Interest Rate Spread	%	3.91	3.38	3.45	3.86	3.85
Interest Yield on Average Customer Advances	%	8.49	10.45	12.73	13.13	13.17
Interest Cost on Average Customer Deposits	%	4.19	6.34	7.98	7.78	7.89
Spread on Customer Deposits and Advances	%	4.30	4.11	4.75	5.35	5.28
Dividend Payout *	%	34.99	25.75	27.37	28.70	28.00
Growth Rate of Equity	%	6.30	9.72	28.94	1.18	23.17
Earnings per Share**	LKR	8.57	5.64	6.89	5.97	8.29
Ordinary Dividends per Share	LKR	3.00	1.50	2.00	2.50	3.50
Net Assets Value per Share	LKR	97.44	94.71	88.61	94.54	96.50
ASSET QUALITY						
Expected Credit Loss on Loans & Advances	LKR Mn	23,929	15,535	10,732	9,893	5,607
Expected Credit Loss on Loans and Advances / Loans and Advances	%	5.14	3.80	2.75	2.94	1.96
Impaired Loans (Stage 3) Ratio (%)	%	3.64	4.38	3.42	3.41	N/A
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	%	47.84	37.32	37.03	37.77	N/A
CAPITAL ADEQUACY						
Leverage on Share Holders Funds	Times	10.67	10.39	10.57	12.49	10.93
Leverage on Capital Funds (Including Debentures)	Times	7.25	7.45	7.00	8.17	7.74
Percentage Earnings Retained	%	65.01	74.25	72.63	71.30	72.00
Equity / Deposits, Borrowings and Securities Sold Under Re-Purchase Agreements	%	10.09	10.30	10.19	8.54	9.75
Equity / Total Assets	%	8.57	8.78	8.64	7.41	8.38
Equity / Loans & Advances	%	11.17	11.96	11.44	10.28	11.94
LIQUIDITY & FUNDING						
Loans & Advances/ Deposits, Borrowings and Securities Sold Under Re-Purchase Agreements	%	90.32	86.06	89.05	83.14	81.66
Deposits/ Deposits, Borrowings, Debentures and Securities Sold Under Re-Purchase Agreements	%	90.92	89.38	87.53	84.85	84.53
Liquid Assets / Total Assets	%	23.43	25.76	21.38	22.57	24.06
Liquid Assets / Deposits, Borrowings and Securities Sold Under Re-Purchase Agreements	%	27.60	30.21	25.20	26.02	27.99
Net Lending or (Borrowings) in Call Money Market	LKR Mn	5,085	1,576	(14,596)	(10,796)	(11,056)
OTHER DATA						
Number of Banking Centres		171	172	173	170	166
Number of Staff Members		3,148	3,251	3,360	3,344	3,199
Profit per Staff Member	LKR '000	1,455	926	1,095	954	1,385
Number of Ordinary Shares - Voting	000	264,268	256,717	251,478	184,104	179,614
- Non Voting	000	269,923	260,306	252,146	181,995	174,842
Share Prices as at 31st December - Voting	LKR	44.00	46.00	52.50	78.00	87.20
- Non Voting	LKR	33.30	34.00	33.80	44.50	56.00

* Dividends for the year are accounted for as per Sri Lanka Accounting Standards - LKAS 10

** Earnings per Share has been restated as per Sri Lanka Accounting Standards - LKAS 33

Statement of Comprehensive Income in US Dollars

For the Year ended 31st December	<i>Bank</i>			<i>Group</i>		
	2021	2020	Change	2021	2020	Change
	US\$ '000	US\$ '000	%	US\$ '000	US\$ '000	%
Gross Income	272,472	305,196	(10.72)	272,391	305,215	(10.75)
Interest Income	232,689	272,559	(14.63)	232,742	272,600	(14.62)
Less: Interest Expenses	115,330	168,571	(31.58)	113,817	166,942	(31.82)
Net Interest Income	117,359	103,988	12.86	118,925	105,658	12.56
Fee and Commission Income	23,804	20,968	13.53	23,803	20,967	13.53
Less : Fee and Commission Expenses	714	1,077	(33.70)	716	1,083	(33.89)
Net Fee and Commission Income	23,090	19,891	16.08	23,087	19,884	16.11
Net Gains/(Losses) from Trading	(1,090)	1,854	(158.79)	(1,084)	1,860	(158.28)
Net Gains from Derecognition of Financial Assets	2,753	4,174	(34.04)	2,753	4,174	(34.04)
Net Other Operating Income	14,316	5,641	153.78	14,177	5,614	152.53
Total Operating Income	156,428	135,548	15.40	157,858	137,190	15.07
Less: Impairment Charges	51,850	37,296	39.02	51,850	37,296	39.02
Net Operating Income	104,578	98,252	6.44	106,008	99,894	6.12
Less: Operating Expenses						
Personnel Expenses	36,080	38,618	(6.57)	36,261	38,799	(6.54)
Depreciation and Amortization Expenses	7,112	7,719	(7.86)	7,361	7,926	(7.13)
Other Expenses	21,771	21,837	(0.30)	21,991	22,108	(0.53)
Total Operating Expenses	64,963	68,174	(4.71)	65,613	68,833	(4.68)
Operating Profit before Taxes	39,615	30,078	31.71	40,395	31,061	30.05
Less: Value Added Tax on Financial Services	9,626	8,151	18.10	9,626	8,151	18.10
Profit before Income Tax	29,989	21,927	36.77	30,769	22,910	34.30
Less: Income Tax Expense	7,200	5,866	22.74	7,209	6,387	12.87
Profit for the Year	22,789	16,061	41.89	23,560	16,523	42.59
Profit Attributable to:						
- Equity Holders of the Bank	22,789	16,061	41.89	23,149	16,206	42.84
- Non-Controlling Interest	-	-	-	411	317	29.65
Profit for the Year	22,789	16,061	41.89	23,560	16,523	42.59
Basic/Diluted Earnings per Share (US\$)	0.04	0.03	33.33	0.04	0.03	33.33
Other Comprehensive Income, net of Tax						
Items that are or may be reclassified to Income Statement						
Net Movement of Cash Flow Hedge Reserve	(385)	143	(369.23)	(385)	143	(369.23)
Net Gains/(Losses) on investments in debt instruments measured at Fair Value through Other Comprehensive Income	(14,349)	9,176	(256.38)	(14,331)	9,193	(255.89)
Less: Deferred Tax effect relating to items that are or may be reclassified to Income Statement	(3,931)	2,569	(253.02)	(3,929)	2,571	(252.82)
Items that will never be reclassified to Income Statement						
Change in fair value on investments in equity instruments measured at Fair Value through Other Comprehensive Income	2,173	8,259	(73.69)	2,174	8,259	(73.68)
Revaluation of Property, Plant and Equipment	3,722	-	-	3,980	222	1,692.79
Actuarial Gains/(Losses) on Defined Benefit Obligations	(1,941)	(2,643)	(26.56)	(1,944)	(2,642)	(26.42)
Less: Deferred Tax effect relating to items that will never be reclassified to Income Statement	719	2,595	(72.29)	781	2,657	(70.61)
Other Comprehensive Income for the Year, net of Tax	(7,568)	9,771	(177.45)	(7,358)	9,947	(173.97)
Total Comprehensive Income for the Year	15,221	25,832	(41.08)	16,202	26,470	(38.79)
Total Comprehensive Income Attributable to:						
- Equity Holders of the Bank	15,221	25,832	(41.08)	15,729	26,101	(39.74)
- Non-Controlling Interest	-	-	-	473	369	28.18
Total Comprehensive Income for the Year	15,221	25,832	(41.08)	16,202	26,470	(38.79)

Exchange rate of US\$ 1 was LKR 201.00 as at 31st December 2021 (LKR 187.50 as at 31st December 2020).

The Statement of Comprehensive Income given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

Statement of Financial Position in US Dollars

As at 31st December

	<i>Bank</i>			<i>Group</i>		
	2021 US\$ '000	2020 US\$ '000	Change %	2021 US\$ '000	2020 US\$ '000	Change %
Assets						
Cash and Cash Equivalents	79,995	53,526	49.45	79,995	53,526	49.45
Balances with Central Bank of Sri Lanka	43,412	39,313	10.43	43,412	39,313	10.43
Placements with Banks and Finance Companies	41,029	57,229	(28.31)	41,029	57,229	(28.31)
Derivative Financial Instruments	1,443	2,155	(33.04)	1,443	2,155	(33.04)
Financial Assets recognised through Profit or Loss						
- Measured at Fair Value	24,726	24,245	1.98	24,726	24,287	1.81
- Designated at Fair Value	-	-	-	-	-	-
Financial Assets at Amortised Cost						
- Loans and Advances	2,198,889	2,100,086	4.70	2,198,889	2,100,086	4.70
- Debt and Other instruments	338,271	286,360	18.13	339,087	286,360	18.41
Financial Assets measured at Fair Value through Other						
Comprehensive Income	194,550	314,796	(38.20)	194,853	315,101	(38.16)
Investment in Subsidiary	5,739	6,153	(6.73)	-	-	-
Group Balances Receivable	199	213	(6.57)	-	-	-
Property, Plant & Equipment	21,343	21,501	(0.73)	35,143	36,121	(2.71)
Right-of-use Assets	23,837	23,737	0.42	12,909	11,843	9.00
Investment Properties	-	-	-	4,330	4,569	(5.23)
Intangible Assets	2,950	3,309	(10.85)	2,950	3,309	(10.85)
Other Assets	46,387	41,816	10.93	46,558	42,132	10.51
Total Assets	3,022,770	2,974,439	1.62	3,025,324	2,976,031	1.66
Liabilities						
Due to Banks	121,912	174,292	(30.05)	121,912	174,292	(30.05)
Derivative Financial Instruments	1,080	213	407.04	1,080	213	407.04
Financial Liabilities at Amortised Cost						
- Due to Depositors	2,431,111	2,348,283	3.53	2,431,111	2,348,283	3.53
- Due to Debt Securities Holders	13,246	13,738	(3.58)	13,246	13,738	(3.58)
- Due to Other Borrowers	36	75	(52.00)	36	75	(52.00)
Group Balances Payable	954	1,394	(31.56)	-	-	-
Debt Securities Issued	107,550	90,979	18.21	107,550	90,979	18.21
Current Tax Liabilities	8,079	4,639	74.15	8,019	4,515	77.61
Deferred Tax Liabilities	1,281	7,839	(83.66)	2,897	9,546	(69.65)
Lease Liabilities	24,326	23,713	2.59	9,986	8,442	18.29
Other Liabilities	54,224	48,117	12.69	54,427	48,319	12.64
Total Liabilities	2,763,799	2,713,282	1.86	2,750,264	2,698,402	1.92
Equity						
Stated Capital	91,164	93,591	(2.59)	91,164	93,591	(2.59)
Statutory Reserve Fund	11,605	11,219	3.44	11,605	11,219	3.44
Retained Earnings	145,257	131,644	10.34	149,091	135,369	10.14
Other Reserves	10,945	24,703	(55.69)	16,590	30,593	(45.77)
Total Equity Attributable to Equity Holders of the Bank	258,971	261,157	(0.84)	268,450	270,772	(0.86)
Non-Controlling Interest	-	-	-	6,610	6,857	(3.60)
Total Equity	258,971	261,157	(0.84)	275,060	277,629	(0.93)
Total Equity and Liabilities	3,022,770	2,974,439	1.62	3,025,324	2,976,031	1.66
Contingent Liabilities and Commitments	1,116,368	1,040,822	7.26	1,116,368	1,040,924	7.25
Net Assets Value per Share (US\$)	0.48	0.51	(5.88)	0.50	0.52	(3.85)

Exchange rate of US\$ 1 was LKR 201.00 as at 31st December 2021 (LKR 187.50 as at 31st December 2020).

The Statement of Financial Position given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

Investor Information

Twenty Largest Ordinary Voting Shareholders as at 31 December 2021

	2021		Comparative holdings of the top 20 holders in 2020	
	No of Shares	Percentage	No of Shares	Percentage
1 Sri Lanka Insurance Corporation Ltd [includes General Fund and Life Fund]	39,640,115	15.00	38,507,542	15.00
2 Brown & Company PLC A/C NO. 1	27,687,279	10.48	35,619,312	13.87
3 Employees Provident Fund	26,050,200	9.86	25,305,909	9.86
4 Mr K D D Perera	25,086,126	9.49	25,390,669	9.89
5 Sampath Bank PLC/LOLC Investments Ltd	24,726,404	9.36	-	-
6 National Development Bank PLC	23,056,970	8.72	22,398,200	8.72
7 Bank Of Ceylon No. 1 Account	14,865,044	5.62	14,440,329	5.62
8 Seylan Bank PLC A/C No. 04 - Employees Gratuity Trust Fund	13,708,884	5.19	13,317,202	5.19
9 Peoples Leasing & Finance PLC/Don and Don Holdings (Pvt) Ltd	10,098,676	3.82	6,814,650	2.65
10 Sampath Bank PLC/Brown and Company PLC	8,979,659	3.40	-	-
11 Employees Trust Fund Board	5,619,482	2.13	5,458,926	2.13
12 NDB Capital Holdings Limited A/C No.02	2,676,690	1.01	2,600,214	1.01
13 Sisil Investment Holdings (Pvt) Ltd	2,499,201	0.95	2,763,796	1.08
14 Asiri Hospital Holdings PLC	2,000,000	0.76	-	-
15 Mr M J Fernando	1,334,457	0.50	1,296,330	0.50
16 Mr R R Leon	1,250,555	0.47	1,214,825	0.47
17 Mr K R B Fernando	1,143,462	0.43	1,110,792	0.43
18 AIA Insurance Lanka Ltd A/C No.07	866,628	0.33	2,389,114	0.93
19 J. B. Cocoshell (Pvt) Ltd	736,694	0.28	-	-
20 Seyshop (Pvt) Ltd	707,834	0.27	687,611	0.27
Total shares held by the top 20 holders	232,734,360	88.07		
Balance shares held by other 10,124 ordinary voting shareholders as at 31 December 2021	31,533,133	11.93		
Total ordinary voting shares issued by the bank	264,267,493	100.00	256,716,994	
Total ordinary voting shareholders	10,144		10,255	

Notes :

* Brown & Company PLC and LOLC Investments Ltd collectively hold 23.42% of the issued capital of the Bank. This joint shareholding limit has been approved by the Central Bank vide their letter dated 14 September 2011, subject to the joint holding of Brown & Company PLC A/C and LOLC Investments Ltd to be reduced from 23.42% to 15% level within a period of 15 years from 13 October 2009.

** The Board decided at its meeting held on 15 April 2020 to limit the voting rights of Brown & Co PLC's shareholding in Seylan Bank PLC to 9.55% with effect from 31 March 2020 in compliance with the direction issued by the Monetary Board vide Director – Bank Supervision's letter dated 6 April 2020.

Twenty Largest Ordinary Non-Voting Shareholders as at 31 December 2021

	2021		Comparative holdings of the top 20 holders in 2020	
	No of Shares	Percentage	No of Shares	Percentage
1 LOLC Holdings PLC	139,285,716	51.60	119,758,426	46.01
2 Employees Provident Fund	14,397,596	5.33	13,884,618	5.33
3 Sri Lanka Insurance Corporation Ltd - Life Fund	9,040,537	3.35	-	-
4 Akbar Brothers Pvt Ltd A/C No. 1	5,797,003	2.15	5,590,459	2.15
5 Deutsche Bank AG as Trustee For JB Vantage Value Equity Fund	3,850,895	1.43	4,807,733	1.85
6 Pershing LLC S/A Averbach Grauson & Co.	3,812,293	1.41	3,676,464	1.41
7 Peoples Leasing & Finance PLC/ Mrs P Thavarajah	3,671,929	1.36	3,606,977	1.39
8 Peoples Leasing & Finance PLC/Don and Don Holdings (Pvt) Ltd	3,512,132	1.30	8,466,079	3.25
9 Employees Trust Fund Board	3,222,060	1.19	4,141,328	1.59
10 Merrill J Fernando & Sons (Pvt) Limited	2,998,293	1.11	2,891,466	1.11
11 Mr R R Leon	2,476,199	0.92	2,387,974	0.92
12 LOLC Technology Services Limited	2,357,043	0.87	2,273,063	0.87
13 Mr. N. Balasingam	2,111,712	0.78	2,036,473	0.78
14 Don and Don Holdings (Pvt) Ltd	2,111,411	0.78	-	-
15 Sri Lanka Insurance Corporation Ltd - General Fund	1,906,234	0.71	-	-
16 Mr. R. Gautam	1,488,758	0.55	1,397,119	0.54
17 Mr M J Fernando	1,477,783	0.55	1,425,131	0.55
18 Dr S Yaddhige	1,269,598	0.47	1,224,363	0.47
19 Ms S Durga	1,254,485	0.46	1,209,789	0.46
20 Mr D N N Lokuge	1,245,864	0.46	1,387,958	0.53
Total shares held by the top 20 holders	207,287,541	76.78		
Balance shares held by other 7,322 ordinary non-voting shareholders as at 31 December 2021	62,635,649	23.22		
Total ordinary non-voting shares issued by the Bank	269,923,190	100.00	260,305,975	
Total ordinary non-voting shareholders	7,342		7,423	

Shareholdings of Directors as at 31 December 2021

Directors' shareholdings including the Director/Chief Executive Officer's holding as at 31 December 2021 are given on page 107 of the Report of the Board of Directors.

Information on Share Prices and Dividend per Share

	Voting (SEYB-N)		Non-Voting (SEYB-X)		
	2021	2020	2021	2020	
No. of shares issued	264,267,493	256,716,994	269,923,190	260,305,975	
Dividend (per share)	Cash LKR	Proposed: -	Paid: -	Proposed: -	Paid: -
	Scrip LKR	Proposed: 3.00	Paid: 1.50	Proposed: 3.00	Paid: 1.50
Share Prices					
Highest	LKR	68.00	53.50	60.00	35.70
Lowest	LKR	42.80	25.00	32.90	19.30
Last traded	LKR	44.00	46.00	33.30	34.00

Investor Information

Compliance with Minimum Public Holding Requirement

Period	Option under which the Bank is compliant	Float adjusted market capitalization	Public Holding Percentage	No. of Public shareholders
As at 31/12/2020	Option 3*	LKR 6.477 Bn	54.85%	10,235
As at 31/12/2021	Option 3*	LKR 6.378 Bn	54.85%	10,122

* Option 3 as per the Listing Rules of the Colombo Stock Exchange is where the minimum float adjusted market capitalization is LKR 5,000 Million; minimum public holding is 7.5% and minimum number of shareholders is 500.

Analysis of the Distribution of Shareholders as at 31 December 2021

Ordinary (Voting) Shares

Range of Shareholding	No. of Shareholders	No. of Shares	Percentage (%) of Shareholding
1 - 1,000	7,338	1,569,970	0.594
1,001 - 10,000	2,353	6,521,383	2.468
10,001 - 100,000	384	9,201,764	3.482
100,001 - 1,000,000	52	16,551,172	6.263
1,000,001 & Above	17	230,423,204	87.193
Total	10,144	264,267,493	100.000

Resident/Non Resident

Resident	10,007	261,259,193	98.86
Non-Resident	137	3,008,300	1.14

Individuals/Institutions

Individuals	9,807	49,380,172	18.69
Companies/Institutions	337	214,887,321	81.31

Ordinary (Non-Voting) Shares

Range of Shareholding	No. of Shareholders	No. of Shares	Percentage (%) of Shareholding
1 - 1,000	3,704	1,064,865	0.395
1,001 - 10,000	2,715	9,010,686	3.338
10,001 - 100,000	788	22,097,098	8.186
100,001 - 1,000,000	112	27,231,243	10.089
1,000,001 & Above	23	210,519,298	77.992
Total	7,342	269,923,190	100.000

Resident/Non Resident

Resident	7,275	256,630,703	95.08
Non-Resident	67	13,292,487	4.92

Individuals/Institutions

Individuals	7,008	56,039,010	20.76
Companies/Institutions	334	213,884,180	79.24

Debentures

Debentures 2016

(Listed on CSE in July 2016) (SEYB D391, D392, D393)	Type A		Type B		Type C		
	5 Year Debentures 13.0%p.a. Semi-annual (redeemed on 15.07.2021)		6 MONTH T-Bill (gross)+1.5%p.a. Semi-annual (redeemed on 15.07.2021)		7 Year Debentures 13.75% Semi-annual		
	2021	2020	2021	2020	2021	2020	
No of Debentures issued	17,103,200		174,000		32,722,800		
Debenture Prices							
Highest	LKR	Not traded in 2021	102.70	Not traded in 2020 & 2021		102.98	102.98
Lowest	LKR		100.00			100.00	102.98
Last traded	LKR		102.70			100.00	102.98

Debentures 2018

Listed on CSE in April 2018) (SEYB D432, D433, D434)	Type A		Type B		Type C		
	5 Year Debentures 12.85%p.a. Semi-annual		7 Year Debentures 13.20%p.a. Semi-annual		10 Year Debentures 13.50%p.a. Semi-annual		
	2021	2020	2021	2020	2021	2020	
No. of Debenture issued	39,100,000		7,150,000		16,090,000		
Debenture Prices							
Highest	LKR	Not traded in 2021	Not traded in 2020	Not traded in 2021	Not traded in 2020	Not traded in 2021	107.97
Lowest	LKR						98.00
Last traded	LKR						107.97

Debentures 2019

(Listed on CSE in April 2019) (SEYB D458, D459)	Type A		Type B		
	5 Year Debentures 15.00%p.a. Annual		5 Year Debentures 14.50%p.a. Semi-annual		
	2021	2020	2021	2020	
No. of Debentures issued	37,734,000		12,266,000		
Debenture Prices					
Highest	LKR	105.00	116.44	Not traded in 2021	99.99
Lowest	LKR	105.00	99.93		99.99
Last traded	LKR	105.00	116.44		99.99

Debentures 2021

(Listed on CSE in April 2021) (SEYB D508, D509)	Type A		Type B	
	5 Year Debentures 9.75% p.a. Annual		5 Year Debentures 9.25% p.a. Quarterly	
	2021	2020	2021	2020
No. of Debentures issued	53,520,200		6,479,800	
Debenture Prices				
Highest	Not traded in 2021		Not applicable	
Lowest				
Last traded				

Investor Information

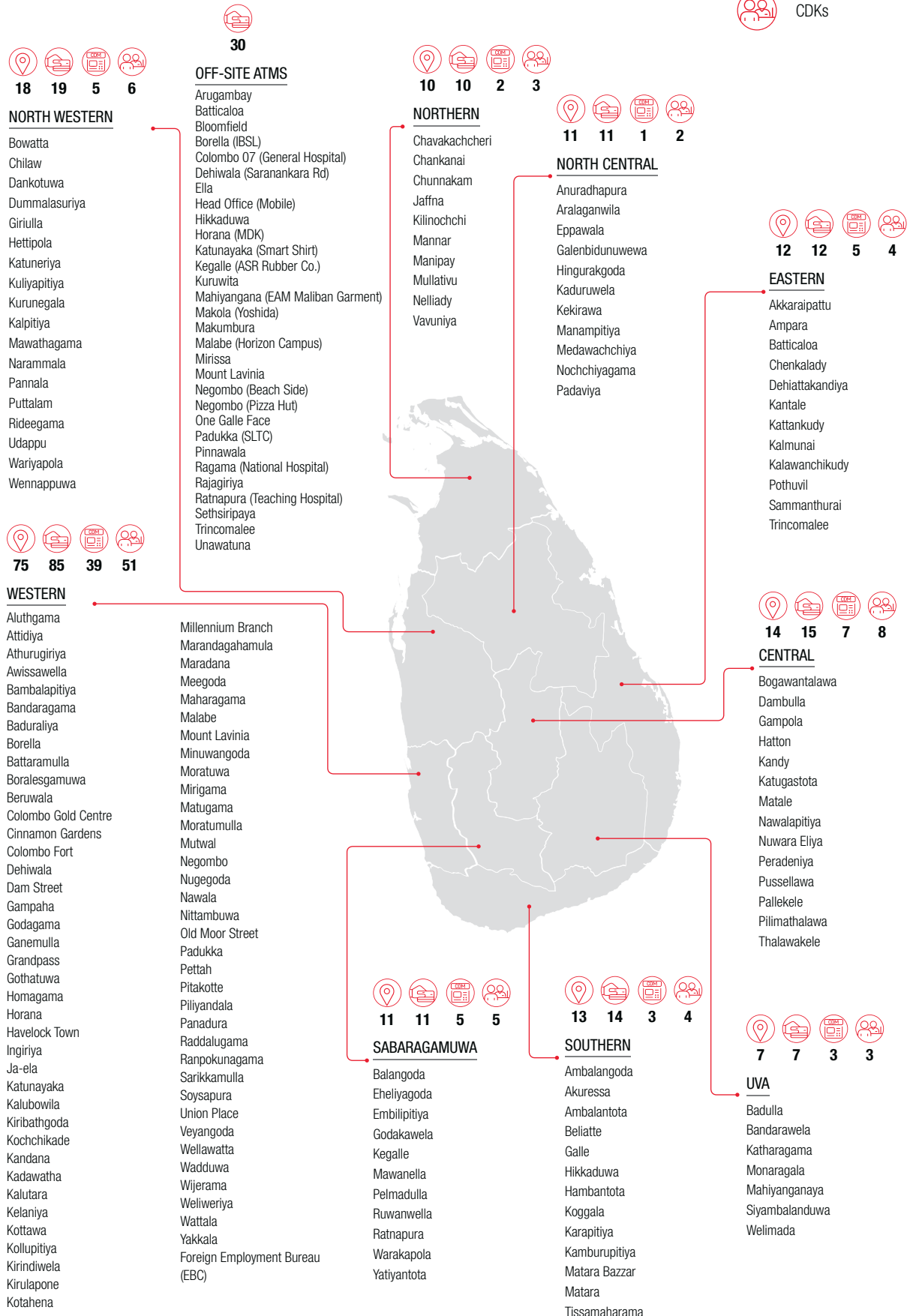
	2021	2020
Debt (Debentures) / Equity Ratio (Times)	0.42	0.35
Debt (Debentures plus Long Term Debt) / Equity Ratio (Times)	0.56	0.50
Interest Cover (Times)	3.37	2.67
Quick Asset Ratio (Times)	0.79	0.72
2014 Issue		
Interest Yield as at Date of Last Trade		
6 Year Fixed Semi Annual - 8.60% p.a. (Debenture matured and redeemed on 23/12/2020)		*
6 Year Fixed Annual - 8.75% p.a. (Debenture matured and redeemed on 23/12/2020)		*
Yield to Maturity of Trade Done on		
6 Year Fixed Semi Annual - 8.60% p.a. (Debenture matured and redeemed on 23/12/2020)		*
6 Year Fixed Annual - 8.75% p.a. (Debenture matured and redeemed on 23/12/2020)		*
Interest Rate of Comparable Government Security		
6 Years (Debenture matured and redeemed on 23/12/2020)		
2016 Issue		
Interest Yield as at Date of Last Trade		
5 Year Fixed Semi Annual - 13.00% p.a. *(13/08/2020) (Debenture matured and redeemed on 15/07/2021)	*	13.07%
5 Year Floating Semi Annual - six months treasury bill rate + 1.5% (Debenture matured and redeemed on 15/07/2021)	*	*
7 Year Fixed Semi Annual - 13.75% p.a. (10/06/2021)/ (13/01/2020)	14.22%	13.81%
Yield to Maturity of Trade Done on		
5 Year Fixed Semi Annual - 13.00% p.a. *(13/08/2020) (Debenture matured and redeemed on 15/07/2021)	*	9.83%
5 Year Floating Semi Annual - six months treasury bill rate + 1.5% (Debenture matured and redeemed on 15/07/2021)	*	*
7 Year Fixed Semi Annual - 13.75% p.a. (10/06/2021)/ (13/01/2020)	13.73%	12.67%
Interest Rate of Comparable Government Security		
5 Years (Debenture matured and redeemed on 15/07/2021)		4.76%
7 Years	8.46%	5.93%
2018 Issue		
Interest Yield as at Date of Last Trade		
5 Year Fixed Semi Annual - 12.85% p.a.	*	*
7 Year Fixed Semi Annual - 13.20% p.a.	*	*
10 Year Fixed Semi Annual - 13.50% p.a. *(28/05/2020)	*	12.93%
Yield to Maturity of Trade Done on		
5 Year Fixed Semi Annual - 12.85% p.a.	*	*
7 Year Fixed Semi Annual - 13.20% p.a.	*	*
10 Year Fixed Semi Annual - 13.50% p.a. *(28/05/2020)	*	11.90%
Interest Rate of Comparable Government Security		
- 5 Years	8.57%	5.96%
- 7 Years	10.18%	6.71%
- 10 Years	11.42%	7.03%
2019 Issue		
Interest Yield as at Date of Last Trade		
5 Year Fixed Annual - 15.00% p.a. (23/04/2021)/(28/07/2020)	14.29%	12.88%
5 Year Fixed Semi Annual - 14.50% p.a. *(26/05/2020)	*	15.03%
Yield to Maturity of Trade Done on		
5 Year Fixed Annual - 15.00% p.a. (23/04/2021)/(28/07/2020)	12.87%	9.50%
5 Year Fixed Semi Annual - 14.50% p.a. *(26/05/2020)	*	14.49%
Interest Rate of Comparable Government Security		
- 5 Years	9.27%	6.29%
2021 Issue (Debenture allotted on 12/04/2021)		
Interest Yield as at Date of Last Trade		
5 Year Fixed Annual - 9.75% p.a.	*	
5 Year Fixed Quarterly -9.25 % p.a.	*	
Yield to Maturity of Trade Done on		
5 Year Fixed Annual - 9.75% p.a.	*	
5 Year Fixed Quarterly -9.25 % p.a.	*	
Interest Rate of Comparable Government Security		
- 5 Years	10.69%	

* No trading during the period.

Branch and ATM Network

Province-wise distribution

-  Banking Centres
-  ATMs
-  CDMs
-  CDKs



Geographical Analysis

Deposits, Loans and Advances

As at 31st December 2021

Province	No. of Banking Centres	Deposits		Loans & Advances	
		LKR Mn.	%	LKR Mn.	%
Western	75	349,337	71.5	358,276	76.9
Southern	13	22,692	4.6	25,375	5.4
Uva	7	6,709	1.4	4,013	0.9
North-Central	11	10,206	2.1	8,656	1.9
North-Western	18	26,928	5.5	17,208	3.7
Eastern	12	13,525	2.8	11,923	2.6
Northern	10	13,722	2.8	7,863	1.7
Sabaragamuwa	11	19,593	4.0	16,937	3.6
Central	14	25,941	5.3	15,655	3.3
	171	488,653	100.0	465,906	100.0
Total Expected Credit Loss Allowance for Loans and Advances		-		(23,929)	
Total	171	488,653		441,977*	

* Loans and Advances net of Expected Credit Loss Allowance.

Contingent Liabilities and Commitments

As at 31st December 2021

Province	No. of Banking Centers	Acceptances LKR Mn.	Standby Letters of Credit LKR Mn.	Guarantees LKR Mn.	Documentary Credit LKR Mn.	Bills for Collection LKR Mn.	Forward Exchange Contracts (Net) LKR Mn.	Total
								LKR Mn.
Contingent Liabilities								
Western	75	17,741	686	64,221	15,593	3,584	197	102,022
Southern	13	67	-	2,549	17	740	-	3,373
Uva	7	5	-	374	4	-	-	383
North-Central	11	37	-	2,189	33	-	-	2,259
North-Western	18	971	-	1,688	594	153	-	3,406
Eastern	12	80	-	770	30	-	-	880
Northern	10	5	-	681	4	-	-	690
Sabaragamuwa	11	224	-	775	173	24	-	1,196
Central	14	373	-	1,186	235	495	-	2,289
	171	19,503	686	74,433	16,683	4,996	197	116,498
Commitments								
Undrawn Credit and Capital Commitments								107,892
Total	171	19,503	686	74,433	16,683	4,996	197	224,390

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Glossary

A

Acceptances

Promise to pay when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Actuarial Gain/Loss

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortised Cost of a Financial Asset or Financial Liability

The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

B

Basel III

The Basel Committee on Banking Supervision (BCBS) issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

Bills Sent for Collection

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Basis Point (BP)

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

Business Model Assessment

Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows.

C

Capital Adequacy Ratio

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

Collectively Assessed Loan Impairment Provisions

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that have been incurred but have not yet been identified at the reporting date.

Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Cost to Income Ratio

Operating expenses as a percentage of total operating income.

Credit Ratings

An evaluation of a corporate ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Risk of financial loss to the Bank, if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the loans and advances to customers and other banks and investment in debt securities.

D

Deferred Tax

Sum set aside in the Financial Statements that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as "Arrears".

Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Letters of Credit

Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

E

Earnings per Share (EPS)

The profit attributable to each ordinary share in the Bank, based on the profit for the period after tax and after deducting minority interest and preference share dividends.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate (ETR)

Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity Instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Expected Credit Loss (ECL)

The weighted average of credit losses with the respective risks of a default occurring as the weights.

Exposure at Default (EAD)

The amount that a bank is exposed to at the time of default of its borrower.

F

Fair Value

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Glossary

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial Assets Measured at Amortised Cost

A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)

A financial asset/liability acquired incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)

Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Finance Lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of whatever is being leased.

Foreign Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Foreign Exchange Income

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

G

Global Reporting Initiatives (GRI)

The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

H

A group is a parent and all its subsidiaries.

Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

High Quality Liquid Assets (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be Central Bank eligible. These include, for example, cash and claims on Central Governments and Central Banks.

I

Impaired Loans

Loans where the group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Allowance

Impairment allowance is a provision held as a result of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified as individual (specific) or collective (portfolio).

Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment Properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

K

Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

L

Lifetime Expected Credit Losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

Liquidity Coverage Ratio (LCR)

Refers to highly liquid assets held by Banks to meet short-term obligations. The ratio represents a generic stress scenario that aims to anticipate market-wide shocks.

Loss Given Default (LGD)

The percentage of an exposure that a lender expects to not recover in the event of default.

Lease Liabilities

Present value of contractual lease payments

Loan-to-Value Ratio (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

Market Capitalisation

The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

N

Net Asset Value per Share

Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amount a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinancing funds and inter-bank borrowings.

Net Interest Margin (NIM)

The margin is expected as net interest income divided by average interest earning assets.

Net Stable Funding Ratio (NSFR)

Measures the amount of longer term, stable sources of funding employed by a Bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Non-Controlling Interest (NCI)

Non-Controlling Interest is the equity in a subsidiary not attributable directly or indirectly to a parent.

O**Off-Balance Sheet Transactions**

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position but which give rise to contingencies and commitments.

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of equity.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P**Parent**

A parent is an entity that has one or more subsidiaries.

Past Due

A financial asset is past due when counterparty has failed to make a payment when that payment was contractually due.

Price-Earnings Ratio (P/E Ratio)

The current market price of the share is divided by the earnings per share of the Bank.

Price to Book Value

Market price of a share divided by the net assets value of a share.

Probability of Default (PD)

The likelihood of a default over a particular time horizon. It provides an estimate of the probability that a borrower will be unable to meet its debt obligations.

Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

R**Related Parties**

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transaction (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserves

Reserves set aside for future distribution and investment.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Risk-Weighted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per Rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to Statement of Financial Position (or credit) equivalents and then by applying appropriate risk weighting factors.

Right-of-use Asset

An asset that represents a lessee's right to use an underlying asset for the lease term.

S**Securities Sold Under Repurchase Agreement (Repo)**

This relates to Treasury Bills and Bonds sold subject to a commitment to repurchase them at a predetermined price on a specified future date. Securities purchased under resale agreement (reverse REPO). These are loans collateralised by the purchase of Treasury Bills and/or guaranteed commercial papers from the counterparty to which the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price on a specific future date.

Segment Reporting

Disclosure of the Bank's assets, income and other information, broken down by activity and geographical area.

Shareholders' Funds/Equity

Total of issued and fully paid share capital and capital and revenue reserves.

Single Borrower Limit

30% of Total Regulatory Capital.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Significant Increase in Credit Risk (SICR)

According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort.

T**Tier 1 Capital (Common Equity Tier 1 - CET 1)**

Common Equity Tier 1 (CET 1) is a component of Tier 1 capital that consists mostly of Stated Capital. It is a capital measure that was introduced as a precautionary measure to protect the economy from a financial crisis.

Tier 1 Capital (Additional Tier 1 Capital - AT I)

Additional Tier 1 Capital (AT I) is a component of Tier 1 Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

Tier 2 Capital

Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital

Capital base is summation of the core capital (Tier 1) and the supplementary capital (Tier 2).

U**Undrawn Credit Lines**

Credit facilities approved but not yet utilised by the clients as at the reporting date.

V**Value Added**

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

Y**Yield to Maturity**

Discount rate at which the present value of future payments would equal the security's current price.

12-Month Expected Credit Loss

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

සහාපතිතුමාගේ පණිවිඩය

හිතවත් පාර්ශවකරුවන්,

2021 මුලය වර්ෂය සෙලායේ බැංකුවට සාපේක්ෂව සාර්ථක වසරක් විය. දිගින් දිගටම පැන නැගුණු අතිරේක මිනිස් නිර්මාණය වූ මෙහෙයුම් පරිසරයක් තුළ අප සාර්ථක මෙහෙයුම් ක්‍රියාවලියක් පවත්වා ගැනීම සඳහා යොදාගත් ප්‍රවේශය එම සාර්ථකත්වයේ ප්‍රධානතම ගාමක බලවේගයයි. COVID-19 වසරක තත්වය, සමාජ ආර්ථික පසුබිම් තුළ දැවැන්ත වෙනසක් සිදු කළ අතර ආර්ථික සංවර්ධනය සහ ප්‍රගතියට ද සුවිසල් බලපෑමක් ඇති කළේය. එවැනි වාතාවරණයක් හමුවේ වුව ද අපගේ ඉලක්කගත ක්‍රියාමාර්ග හරහා අපේක්ෂිත වර්ධනය සහ කාර්යසාධනය සාක්ෂාත් කර ගැනීමට සමාලෝචන වර්ෂය තුළ අපට හැකි වූ බව සතුටින් දන්වා සිටීමට කැමැත්තෙමි. ඒ අනුව, 'In Step with Aspirations' යන තේමාව යටතේ 2021 මුලය වර්ෂය තුළ අපගේ කාර්යසාධනය ඇතුළත් ඒකාබද්ධ වාර්ෂික මූල්‍ය වාර්තාව මෙලෙස ඉදිරිපත් කරන්නෙමි.

වෙනස්වන බැංකුකරණ පසුබිමක්

පසුගිය වසර දෙකක කාලය තුළ ලොව වෙලා ගත් විසංගත තත්වය හේතුවෙන් මිනිස් ක්‍රියාකාරකම් සඳහා තාක්ෂණය යොදාගැනීම වේගවත් විය. සියලු පාර්ශවකරුවන්ගේ වෙනස්වන අවශ්‍යතා සමගින් බැංකුකරණ මෙහෙයුම් කටයුතු සඳහා නවෝත්පාදන තාක්ෂණය ඒකාබද්ධ කිරීමේ උත්සාහය මත සමස්ත බැංකුකරණ ක්ෂේත්‍රය පැනදැලි පරිවර්තනයකට ලක් වූයේය. සම්ප්‍රදායික බැංකුකරණ ක්‍රමවේද වෙනුවට වඩාත් ඩිජිටල්කරණය වූ ක්‍රමවේද කර්මයට පැමිණීමත් සමග අභ්‍යන්තරව මෙන්ම බාහිරව ද කාර්යක්ෂමතාව පුළුල් වී තිබේ. ශක්තිමත් ඩිජිටල් ක්‍රියාමාර්ග අඛණ්ඩව වෙනස්වන පාර්ශවකරුවන්ගේ අවශ්‍යතා සපුරාලීමට හේතු වී ඇති බව සතුටින් දන්වා සිටිමි.

සාර්ථක ආර්ථික වාතාවරණයේ සිදු වූ වෙනස්වීම් බැංකුකරණ ක්‍රියාවලියට ද අනපේක්ෂිත ලෙස බලපෑවේය. සෙලායේ බැංකුවේ අප සතු ශක්තිය සහ නොසැලෙන ගුණය හේතුවෙන් සමාලෝචන මූල්‍ය වර්ෂය තුළ එම සාර්ථක ආර්ථික අතිරේක පිය ගැනීමට අපට හැකි විය. රුපියලේ අගය මත ඵලදායී බලපෑම සහ විදේශ විනිමය ගලනය සීමා වීම පිළිබඳ මනා අවබෝධයකින් යුතුව කටයුතු කළ සෙලායේ බැංකුව එවැනි තත්වවලට සාර්ථකව මුහුණ දිය හැකි ලෙස සිය ක්‍රමෝපායක සැලසුම් දියත් කිරීමට සමත් වූයේය. 2021 වසරේදී ශ්‍රී ලාංකේය බැංකුකරණ ක්ෂේත්‍රයේ අතිරේකවලට මුහුණ දීමට ඇති හැකියාව මනා ලෙස පරීක්ෂාවට ලක්වූ අතර සෙලායේ බැංකුව අඛණ්ඩ කාර්යසාධනය හරහා සිය ශක්තිය සහ ස්ථාවරත්වය පෙන්වූ කිරීමට සමත් විය.

අපගේ කාර්යසාධනය සමස්තයක් ලෙස

මෙහෙයුම් පරිසරය තුළ පැවති අනපේක්ෂිත බව සහ අවදානම් හමුවේ වුව ද සෙලායේ බැංකුව බහු පාර්ශව අගය ගොඩනැගීමට කටයුතු කළේය. අපගේ මෙහෙයුම් ආකෘතියේ ශක්තිය සහ වෙනස්වන මෙහෙයුම් විභජ්‍යවලට අනුගත වීමට කළමනාකාරත්වයට ඇති හැකියාව බැංකුවේ මූල්‍ය කාර්යසාධනය මගින් මනාව පිළිබිඹු වේ.

හැවුම් ආයතනික ක්‍රමෝපායට අනුකූල ප්‍රායෝගික ක්‍රමෝපාය යොදාගනිමින් සෙලායේ බැංකුව ලෙස අපි සාර්ථකව එම අතිරේකවලට මුහුණ දුන්නේය. ඒ හරහා අපට සේවා පෙළෙහි කැපීපෙනෙන වර්ධනයක් සහ ජයග්‍රහණ රැසක් අත්කර ගැනීමට හැකි විය. මෙම ක්‍රමෝපායක ක්‍රියාමාර්ග බැංකුවේ මෙහෙයුම් කටයුතුවලට

සහයෝගය ලබාදුන්, පවත්නා සාර්ථක ආර්ථික අතිරේක මධ්‍යයේ බැංකුවේ මෙහෙයුම් කටයුතු තවදුරටත් ශක්තිමත් කළේය. එමගින්, නවෝත්පාදන තාක්ෂණය, ඩිජිටල් ක්‍රමෝපාය සහ කැපවුණු කාර්යමණ්ඩලයේ සහයෝගයෙන් යුතුව පාරිභෝගික කේන්ද්‍රීය අත්දැකීම් පිරිනැමීමට සහ ලාභ අත්කර ගන්නා අතරම සෙලායේ බැංකුවේ සමස්ත මෙහෙයුම් පිරිවැය කාර්යක්ෂමතාව සහ ව්‍යාපාරික තිරසාරත්වය තහවුරු කිරීමට ද හැකි විය.

තැඟිවන අවස්ථාවලින් උපරිම ඵල නෙලා ගැනීම

ගතවූ මූල්‍ය වර්ෂය තුළ පැන නැගුණු අනපේක්ෂිත අතිරේක හමුවේ අපගේ ව්‍යාපාරික ක්‍රියාවලි පිළිබඳ යළි සිතා බැලීමට සහ එම ක්‍රියාවලි ප්‍රතිනිර්මාණය කිරීමට අපට අවස්ථා රැසක් ද උද්ගත වූ බව කිව යුතුය. දුරස්ථව රැකියාවල නිරතවීම සහ ඩිජිටල් බැංකුකරණ විභජ්‍යවල නවෝත්පාදනය කෙරෙහි සිසු අවධානයක් යොමු වීමත් සමග සිසු වෙනස්වීම් රැසක් සිදුකිරීමට අපට සිදුවිය. එසේ නොවන්නට, එම වෙනස්කම් සිදු වීමට වසර ගණනක් ගත වන්නට තිබිණ. එහි ප්‍රතිඵලයක් ලෙස, අපගේ ප්‍රධාන බැංකුකරණ විභජ්‍යවලින් ඒකල්ප වෙත යොමු වීම දක්වා සිසු හැඹුරුවත් අපට දැකගත හැකි විය.

දිනෙන් දින වෙනස්වන පාරිභෝගික අපේක්ෂා සපුරාලීම සඳහා සෙලායේ බැංකුව විවිධ පාරිභෝගික හිඳිවන අවශ්‍යතාවලට ප්‍රතිචාර දැක්වීමට විය සතු පුළුල් අත්දැකීම් සම්භාරය යොදා ගත්තේය. එය, බැංකුකරණ ක්ෂේත්‍රය තුළ පාරිභෝගික කේන්ද්‍රීය ප්‍රවේශයකට වළඹීමේ ප්‍රතිඵලයක් ලෙස, නිවැරදි ප්‍රවේශයක් සමගින් ඉලක්කගත වෙළෙඳපොළ වෙතට පිවිසීමටත්, එම පාරිභෝගික ජනතාව තබන සෑම පියවරකදී ම ඔවුන්ට සහයෝගය ලබා දීමටත් අපට හැකි වූ බව සතුටින් දන්වා සිටිමි.

යහපාලන ක්‍රමවේද පවත්වාගැනීම

ආයතනික පරිපාලන සැකැස්ම සහ ක්‍රියාවලි සවිබලගැන්වීමට අඛණ්ඩව කැපවන අතර ම සෙලායේ බැංකුව විභජ්‍ය බැංකුකරණ ක්‍රමවේද අනුගමනය කිරීමට සහ ඒවා ක්‍රියාත්මක කිරීමට නිබඳව කැපවූයේය. අනපේක්ෂිත සාර්ථක ආර්ථික වෙනස්වීම් හේතුවෙන් වෙනස්වන නියාමන සහ ප්‍රතිපත්තිවලට අනුගත වීම සඳහා කාලයත්, ශ්‍රමයත් වැය කිරීම අපට අභ්‍යවශ්‍ය විය. යහපාලන ක්‍රමවේද සහ සෙලායේ බැංකුවේ ස්ථාවර මූල්‍ය මූලධර්ම හේතුවෙන් අපට සමාලෝචන කාලය තුළ නියාමන වෙනස්කම් කළමනාකරණය කරගැනීමට හැකි වූයේය. තිරසර බැංකුකරණය සහ සමස්ත බැංකුකරණ ක්ෂේත්‍රයේ වර්ධනය වෙනුවෙන් ගන්නා නියාමන ක්‍රියාමාර්ගවලට අපගේ පුරුණ සහයෝගය හිමිවන බවට සතුටින් සඳහන් කිරීමට කැමැත්තෙමි.

අපගේ තිරසර ගමන්මග

සුඵල සහ මධ්‍ය පරිමාණ ව්‍යවසාය සඳහා පුළුල් පාරාසයක විහිදුණු ණය සේවා පිරිනැමීමත් ඔවුන්ගේ ව්‍යාපාර යළි නගාසිටුවීමටත්, ඔවුන්ගේ ගමන නොනැවැති පවත්වා ගැනීමටත් දායකත්වය ලබාදුන් අපි ඒ හරහා ජාතික ආර්ථිකය වෙනුවෙන් ද දායකත්වය ලබාදුන් බව සතුටින් දැනුම් දෙමි. දීර්ඝ කළ සහන සහ අපගේ මගපෙන්වීම සමගින් අප හට විසංගත කාලය තුළ විශේෂයෙන් සංචාරක, කෘෂිකාර්මික, ඉදිකිරීම් සහ වෙළෙඳ යන කාර්මාන්ත සඳහා අවැසි සහයෝගය ලබා දීමට හැකි විය. අපගේ භාරකාරත්වය, මහ පොළොවේ යනාර්ථයක් බවට පත් වූයේ එහිදීය යන්න අපගේ විශ්වාසයයි.

තවද, මෙරට ජනතාව පිළිබඳ හිබඳ අවධානයෙන් යුතුව කටයුතු කරමින් සෙලායේ බැංකුව COVID-19 සෞඛ්‍ය නිර්දේශවලට දැඩි ලෙස අනුගත වෙමින් අපගේ කාර්යමණ්ඩලයේ, පාරිභෝගිකයින්ගේ සෞඛ්‍යය සහ සුරක්ෂිතතාව තහවුරු කිරීමට ද අඛණ්ඩව කටයුතු කළේය. එම ක්‍රියාත්මකයේ තවත් ඉදිරි පියවරක් තබමින් සෙලායේ බැංකුව නැගෙනහිර කොළඹ මුලු ක්‍රීඩා ජනගහනට දැඩි සත්කාර ඒකකයක් පිරිනැමීමට කැඩවීම පිළිබඳ අපි හිතනමානිව අඛණ්ඩව වෙමු.

2022 සහ ඉන් ඔබ්බට අපගේ අභිලාශ

2022 වසර තුළ ද අපි සිසුයෙන් වෙනස්වන පාරිභෝගික අවශ්‍යතා සපුරාලිය හැකි බැංකුකරණ ක්‍රියාකාරකම් දියත් කිරීමට අපට මගපෙන්වන ආයතනික ක්‍රමෝපාය කෙරෙහි විශ්වාසය තබන්නෙමු. වෙනස්වන බැංකුකරණ පරිසරයට සහයෝගය ලබාදෙන අතර ම අනාගත වර්ධනය අත්කර ගැනීමටත්, සෙලායේ බැංකුව පාරිභෝගික කේන්ද්‍රීය බැංකුවක් ලෙස ස්ථාපිත කිරීමටත් ඩිජිටල්කරණය ප්‍රමුඛත ම කාර්යභාරය ඉටුකරනු ඇත. පසුගිය වසර කිහිපය තුළ අප ඔපොවා නැඹු ක්‍රමෝපායක පදනම්වලින් උපරිම ඵල නෙලාගැනීම මගින් අගය නිර්මාණය කිරීම කෙරෙහි අපි අඛණ්ඩව අවධානය යොමු කරන්නෙමු. එහිදී පාර්ශවකරුවන්ගේ අභිලාශ සහ අවශ්‍යතා සඳහා ප්‍රමුඛතව ලබා දීමට ද අපි කටයුතු කරන්නෙමු.

අභිලාශ සහ තුඩ

මෙම අනපේක්ෂිත විකඩාවට තුළ ඉදිරියට ගමන් කිරීම සඳහා නොසැලෙන දීර්ගයේ සහ කැපවීමෙන් යුතුව කටයුතු කළ සෙලායේ බැංකුවේ සමස්ත කාර්යමණ්ඩලයට මාගේ හදපිරි ස්තූතිය පිරිනැමීමට මෙය අවස්ථාවක් කර ගැනීමට කැමැත්තෙමි. අතිරේකාත්මක ව්‍යාපාරික වාතාවරණය හමුවේ සෙලායේ බැංකුවේ ක්‍රමෝපායක සැලසුම් ක්‍රියාත්මක කිරීම සඳහා කැපවූ සෙලායේ බැංකුවේ අධ්‍යක්ෂ/ප්‍රධාන විධායක නිලධාරී කපිල ආරයරත්න මහතා ඇතුළු කළමනාකාරත්වයට ද මාගේ විශේෂ ස්තූතිය හිමිවිය යුතුය.

දුරදක්නා උපදේශනය සහ ක්‍රමෝපායක අදහස් සමගින් මා වෙත අඛණ්ඩව සහයෝගය ලබා දුන් අධ්‍යක්ෂ මණ්ඩලයට ද මාගේ හෘදයාගම කෘතචේදීත්වය පළකර සිටිමි. තවද, සෙලායේ බැංකුව කෙරෙහි නොසැලෙන විශ්වාසය සහ සහයෝගය ලබාදුන් අපගේ වටිනා පාරිභෝගිකයින්ට ද, කොටස්හිමියන්ට ද, අනෙකුත් සියලු පාර්ශවකරුවන්ට ද ස්තූතියක් හිමිවීම. එමෙන්ම, ගතවූ වසර තුළ බැංකුවට අවශ්‍ය උපදෙස් සහ සහයෝගය ලබාදුන් ශ්‍රී ලංකා මහ බැංකුවේ නිලධාරීන් ද කෘතචේදීව සිහිපත් කරන්නෙමි.

සියලු පාර්ශවකරුවන්ගේ අභිලාශ සාක්ෂාත් කරමින් ධනාත්මකව අනාගතයට මුහුණදීමට සෙලායේ බැංකුව සූදානමය.



බබ්ලවී එම් ආර් එස් බසය
සහාපති

2022 පෙබරවාර 22

Corporate Information

Name Of Company

Seylan Bank PLC

Company Registration Number

PQ 9

Registered Office and Head Office

“Seylan Towers”

No.90, Galle Road, Colombo 03,
Sri Lanka

Tel : (94)-(11)-2456000

Fax : (94)-(11)-2456456

Swift : SEYBLKLX

E-mail : info@seylan.lk

Website : www.seylan.lk

Legal Form

A public limited liability company incorporated in Sri Lanka on 28 August 1987 under the Companies Act No.17 of 1982 and re-registered under the Companies Act No. 7 of 2007 on 30 May 2007. Commenced business operations as a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 (as amended) on 24 March 1988. Company was listed in the Colombo Stock Exchange on 5 January 1989.

Colombo Stock Exchange Listing

The Bank's Ordinary Voting Shares, Ordinary Non-voting Shares and the Rated, Unsecured, Subordinated, Redeemable Debentures issued in the years, 2016, 2018, 2019 and 2021 were listed on the Colombo Stock Exchange.

Accounting Year End

31 December

Credit Rating

The Bank has been assigned “A (lka)” National long term rating by Fitch Ratings Lanka Limited.

Board of Directors

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

Mr W D Kapila Jayawardena
Deputy Chairman/ Non-Executive Director

Ms M Coralie Pietersz
Independent Director/ Senior Director

Mr Kapila P Ariyaratne
Director/ Chief Executive Officer

Mr S Viran Corea
Non-Executive Director

Mr Anushka S Wijesinha
Independent Director

Ms Sandya K Salgado
Independent Director

Mr D M D Krishan Thilakaratne
Non-Executive Director

Mr D R Abeysuriya
Independent Director

Mr D M Rupasinghe
Independent Director

Ms V G S S Kotakadeniya
Alternate Director to Mr W D K Jayawardena,
Non-Executive Director

Company Secretary

Ms N N Najumudeen
ACIS (UK), ACCS (SL)

Auditors

M/s KPMG,
Chartered Accountants

Subsidiary

Seylan Developments PLC
(Company Registration No. PQ 151)
Level 15, Seylan Towers
90, Galle Road, Colombo 03,
Sri Lanka

For any clarifications on this Report,
please contact :

The Chief Financial Officer

Seylan Bank PLC

“Seylan Towers”

90, Galle Road

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Sri Lanka

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The bank with a heart

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