

RESPONSIVE BANKING

National Development Bank PLC

Annual Report 2022



The future is banking on us

The supreme goodness is like water.
It benefits all things without contention.
In dwelling, it stays grounded.
In being, it flows to depths.
In expression, it is honest.
In confrontation, it stays gentle.
In governance, it does not control.
In action, it aligns to timing.
It is content with its nature and therefore cannot be faulted.

- Lao Tzu





RESPONSIVE BANKING

Many philosophies study the nature of water, and the vitality, harmony and flexibility it exemplifies. Even amid the presence of chaos and turbulence, it aligns itself to change, serving as an enduring life force that sustains people and planet, while adapting and readily responding to changing circumstances with ease.

Spurred on by this transformative nature, NDB has always been the epitome of agility and dexterity — an entity that has been able to both inspire and respond to change. Over the years, the Bank has continued to channel prosperity and growth across the far corners of the island, while insulating the people against external shocks and disruptions, and fulfilling its mandate to serve as a source of support and development to the nation.

Today, as the environment around us shifts and evolves, here at NDB, we are transitioning into a new era, and realigning ourselves to meet the needs of both the present and the future. We're responding to change.

BEING RESPONSIVE

Here at NDB, we have always chosen to embody the multifaceted nature of water in all we do - serving as a dependable force that represents adaptability, pure energy and a transformative power that far transcends that of our peers. Throughout our journey, we have sought to respond to change in keeping with needs of our surroundings, and purposefully serve our stakeholders in more ways than one.



AGILE

Even in the face of obstacles, we continue to move steadily onwards, relying on our innate agility to shape and fashion our own path, in order to reach our goal.



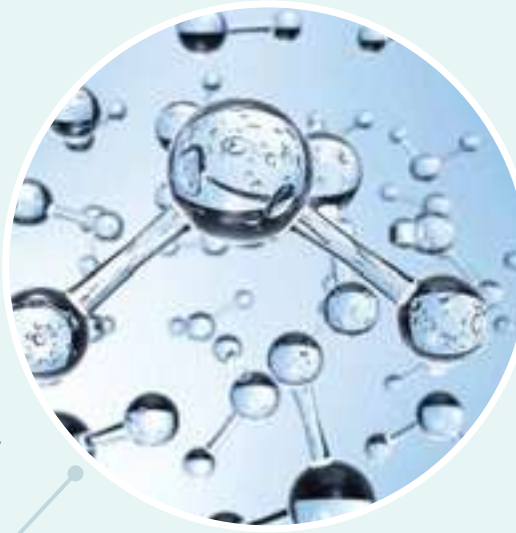
ADAPT

We are present in many shapes and forms, and consistently fulfill myriad roles and responsibilities to safeguard, preserve and transform lives and livelihoods.



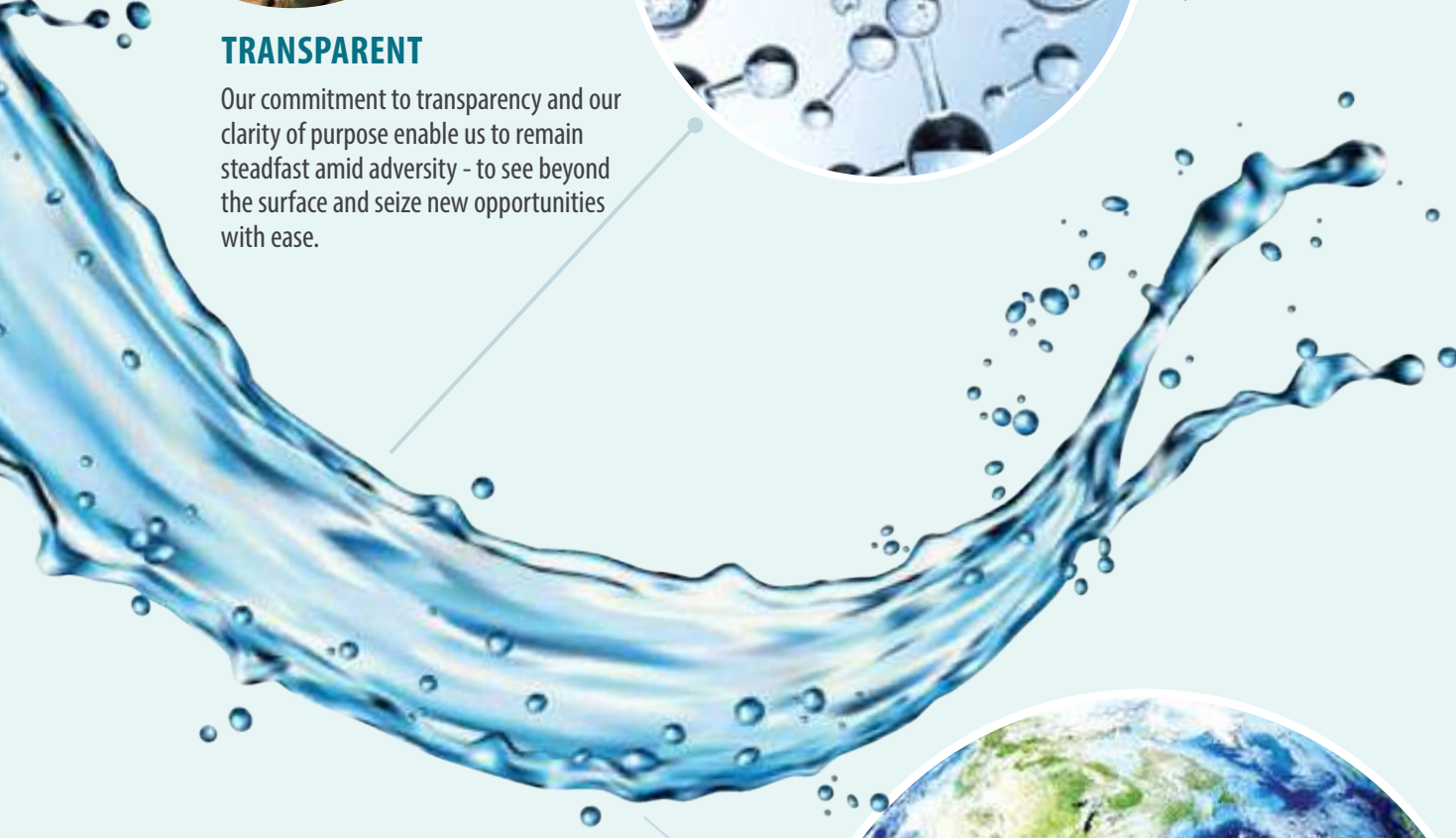
TRANSPARENT

Our commitment to transparency and our clarity of purpose enable us to remain steadfast amid adversity - to see beyond the surface and seize new opportunities with ease.



STRUCTURED

Our bonds and connections enable us to adapt and respond in the face of adversity and disruptive dynamics.



UNIVERSAL

Our presence is wide-ranging, encompassing countless communities and serving individuals from every walk of life.



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OUR APPROACH TO REPORTING

OUR APPROACH TO REPORTING

This Report presents a balanced and comprehensive view of the progress made towards achieving our strategic priorities during the period from 01 January to 31 December 2022. In addition to an assessment of our operating landscape, governance practices and stakeholder value creation, the Report highlights our response to the unique challenges stemming from Sri Lanka's economic hardships in 2022. The Report covers the operations of National Development Bank PLC ("NDB" or "the Bank") and its group companies (collectively referred to as "the Group") and includes material information up to the date of Board approval on 21 February 2023. We adopt an annual reporting cycle for both financial and sustainability reporting. There are no major restatements of non-financial information reported in 2021.

REPORTING FRAMEWORKS

Our reporting process and disclosures were guided by the requirements of the Sri Lanka Financial Reporting Standards (SLFRS), Banking Act Direction No. 11 of 2007, the International Integrated Reporting <IR> Framework, the Global Reporting Initiative's Reporting Standards and Standards issued by the Sustainability Accounting Standards Board (SASB). Please refer page 7 for a full list of Standards and Frameworks adopted.

COMBINED ASSURANCE

We adopt a combined assurance model in ensuring the integrity and accuracy of our reporting, which includes assurance from our management, internal audit and external auditors. Messrs. Ernst & Young provided external assurance on our consolidated financial statements and provided a limited assurance on our Integrated Reporting practices and GRI Reporting. The symbol # indicates external assurance. Please refer page 7 for further details on our assurance model.

Feedback

We welcome your suggestions and comments on further improving the readability and relevance of our Report. Kindly direct your feedback to Vice President - Company Secretary and/or Vice President/ Chief Financial Officer. (page 374)

Reporting Boundaries

The financial information presented in this Report represents consolidated information unless otherwise stated. The non-financial information relates only to the Bank as it accounts for 99% of the Group's assets and revenue.



Financial Reporting Boundary

Non-Financial Reporting Boundary

NDB (Banking operations)

NDB Capital Holdings Limited
(Capital markets cluster)

Development Holdings (Pvt) Limited
(Property management entity)

Integrated Reporting Boundary

Operating context



45

Strategic aspirations



50

Development priorities



50

Impacts on our resources



58 to 99

Stakeholder Considerations



42

Shareholders

Employees

Customers

Business partners

Government

Communities

FORWARD LOOKING STATEMENTS

The Group's future orientation including strategic aspirations, opportunities, risks and potential impacts on the business model, performance and financial stability are presented in 'Outlook' sections throughout the Report, particularly in the sections set out below.

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Forward-looking statements and forecasts pertaining to the Group's financial performance, position and operations involve an element of uncertainty given exposure to external conditions; this could lead to actual results differing from the stated projections. These forward-looking statements have not been reviewed by the Group's auditor.

Alignment with global best practices in corporate reporting

The global corporate reporting landscape is evolving rapidly, with stakeholders increasingly calling for consistency in non-financial reporting which in turn has driven convergence of several key reporting frameworks. As an advanced corporate reporter, NDB has sought to align with these global developments through the adoption of the following reporting frameworks.

GRI Standards	SASB Standards	TCFD
Adoption of new GRI Standards (2021) which includes, Universal Standards and Topic Specific Standards.	Industry Standard for Commercial Banks Reported on 366 metrics	Initial steps towards aligning with the TCFD recommendations, which will aid in understanding the implications, opportunities and risks of climate change.

BOARD RESPONSIBILITY STATEMENT

NDB's Board of Directors is ultimately responsible for ensuring the integrity of this Report. We hereby confirm that the 2022 Report addresses all relevant material matters and fairly represents the Group's integrated performance. The Board also confirms that the Report has been prepared in accordance with the requirements of the <IR> Framework. The Report is approved and authorised for publication.

Signed on behalf of the Board,

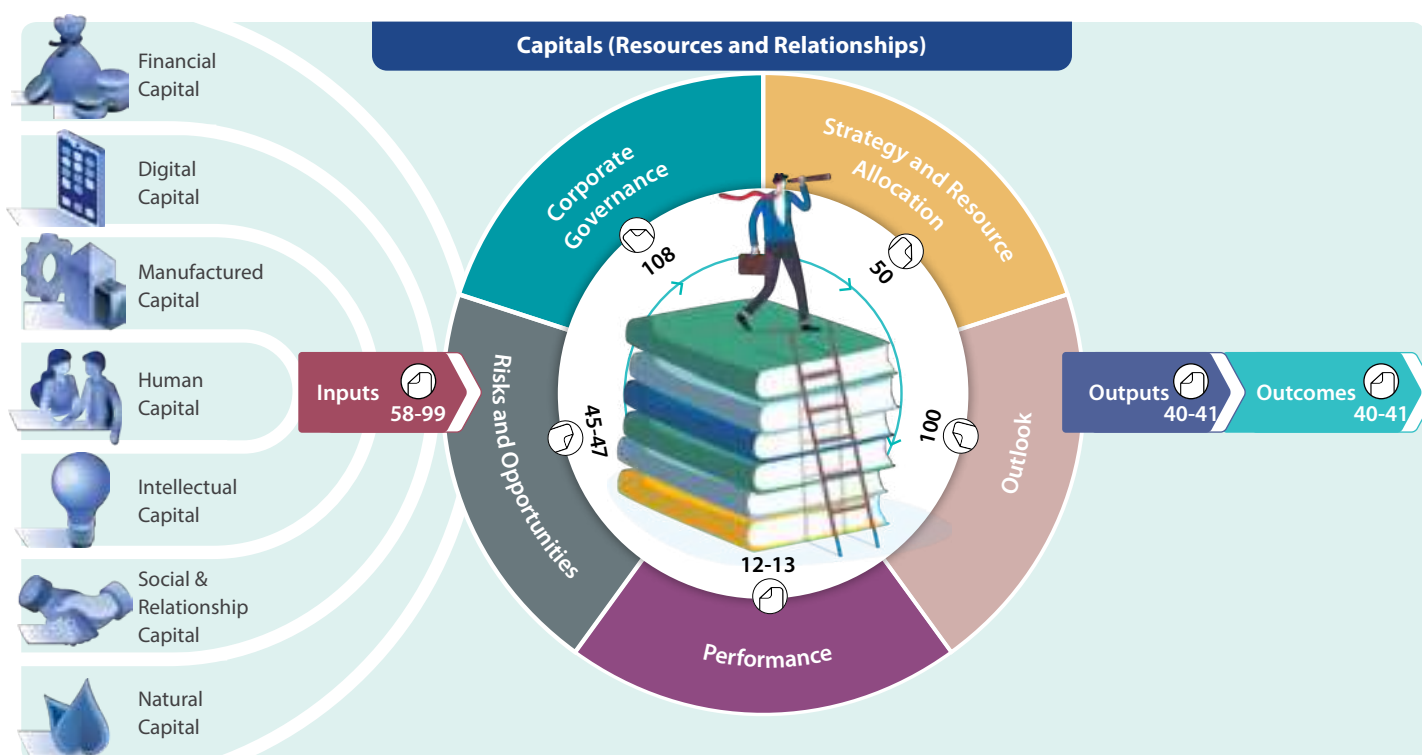


Ms. Shehani Ranasinghe
Company Secretary

21 February 2023

NAVIGATING OUR REPORT

As an Integrated Report, this Report focuses on the Group's value creation, the narrative of which is built around NDB's Value Creation Model. The illustration below provides guidance on where relevant information is presented within particular sections of the Report.



NAVIGATION ICONS

The following navigation icons are used across this Report to demonstrate inter-connectivity and inter-relatedness in our operations.

Stakeholders



Shareholders



Employees



Customers



Business partners



Community



Government

Strategic priorities



Customer solutions



Business focus



Digital and data as transformers



Organisational realignment



Empowered staff

Further references



Externally assured



Page reference

KEY REPORTING FRAMEWORKS AND GUIDELINES

The key frameworks and guidelines adopted in preparing our Report and the combined assurance model was used to ensure the integrity of the information are as follows:

Financial Statements and disclosures

(From page 154 and 279 and in the narrative throughout the Report)

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- Directions issued by the Central Bank of Sri Lanka on SLFRS 9
- Relevant directions/circulars issued on reporting formats by the Central Bank of Sri Lanka
- Companies Act No. 7 of 2007 (as amended)
- Listing Rules of Colombo Stock Exchange

Internal Assurance

- Internal Audit
- Robust framework of internal controls
- Reporting to Audit Committee and Board of Directors

External Assurance

- Independent Auditors' Report by Messrs. Ernst and Young

Integrated Report

- Integrated Reporting Framework of the International Integrated Reporting Council
- "Guidelines for Presentation of Annual Reports" issued by the Institute of Chartered Accountants of Sri Lanka
- Non-Financial Reporting Guideline issued by the Institute of Chartered Accountants of Sri Lanka
- GRI Standards: This Report has been prepared in accordance with the GRI Standards - Core Option
- Sustainability Accounting Standards Board (SASB) Standards
- Gender Parity Reporting Framework of the Institute of Chartered Accountants of Sri Lanka
- Sustainable Development Goals (SDGs)
- Guide on communicating sustainability issued by the Colombo Stock Exchange

Internal Assurance

- Board Review
- Assessment of non-financial information by the Corporate Sustainability function
- Environmental and Social Management System (ESMS) criteria on responsible lending

External Assurance

- Independent Assurance on Integrated Reporting by Messrs. Ernst and Young
- Independent Assurance on GRI Reporting by Messrs. Ernst and Young

Corporate Governance

(From page 108 to 124)

- Banking Act Direction No. 11 of 2007
- Listing Requirements of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (2017)

Internal Assurance

- Robust governance frameworks and full alignment with regulatory requirements

External Assurance

- Factual Finding Report submitted by Messrs. Ernst and Young in relation to compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended)

TEN YEARS OF INTEGRATED REPORTING



As one of the first Sri Lankan corporates to embrace Integrated Reporting in as early as 2013, this year marks a decade of integrated reporting for NDB. Applying the principles of integrated thinking to our decision-making and strategy has led to better resource allocation, enabling the Group to better manage the often-competing interests of its stakeholders. During this decade, we have also strived to align with emerging global developments in corporate reporting, improving relevance, meaningfulness to stakeholders and credibility of our information

NON-FINANCIAL REPORTING

- Reported in accordance with the core criteria of the GRI Standards
- Adoption of the new GRI Standards (2021) in the 2022 Annual Report
- Adoption of SASB Standards in 2021
- Reporting on climate related risks and opportunities in line with the guidelines of the TCFD recommendations

CREDIBILITY

In line with increased focus on sustainability reporting, the Group placed parallel importance on ensuring the credibility of its non-financial disclosures. In addition to internal mechanisms to ensure integrity of information disclosed, NDB also obtained external assurance from Messrs. Ernst & Young for,

- Reporting in accordance with GRI Standards
- Integrated Reporting practices

COMPLETENESS

As the information needs of our stakeholders escalate and risk landscapes shift, the Group has strived to increase disclosures which enable stakeholders to make more informed decisions. This includes disclosures on,

- Risks and opportunities stemming from operating environment
- Triple bottom line performance indicators
- Trade-offs in capital management
- Way forward

STRATEGIC ORIENTATION

Since the launch of the Group's previous strategic agenda Transformation 2020, NDB has sought to increase disclosures pertaining to its strategy including priorities, resource allocation, KPIs and trade-offs among others. This practice has been improved further over the last few years, with strategic interventions being linked to the Group's value creation, preservation and erosion.

RECOGNITION

Our excellence in corporate reporting has often been recognised with multiple prestigious awards.

2021 Annual Report - Inside Insight

- CA Sri Lanka - TAGS Awards 2022 - Gold award winner - Private Banks sector, Silver Award winner - Corporate Governance Disclosure
- Ranked fifth in Transparency in Corporate Reporting Assessment 2022 by Transparency International Sri Lanka

(Please refer page 282 for full list of awards)

NDB crowned as the **MOST AWARDED** Corporate in Sri Lanka

In our quest to channel value across every aspect of our operations and the communities we serve, here at NDB we have always sought to elevate our performance year on year. Our agility and responsive strategies have empowered us to garner awards both in Sri Lanka and beyond, in recognition of our holistic contribution towards digital technologies, innovative solutions, brand strength, employee welfare, and our unwavering focus on sustainability, transparency and accountability.

As a testament to our commitment, the Bank was adjudged the Most Awarded Corporate of Sri Lanka in 2021, in addition to securing the twin titles of the Best Bank of Sri Lanka 2022 by Global Finance USA and Euromoney, thereby gaining international recognition by two of the world's most prestigious publications in a single year - a rare feat in the industry. We remain indebted to our valued stakeholders, who remain the driving force behind our success both now and in the years to come.

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NAVIGATING MACRO-ECONOMIC COMPLEXITIES IN 2022

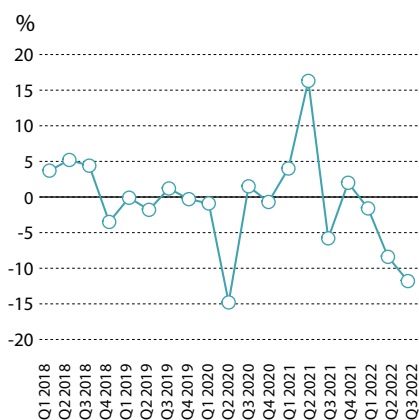
Sri Lanka's economy plunged into crisis in 2022 and presents the most significant risk to the Group's performance and stability in the short-to-medium term. Long-standing structural imbalances coupled with consecutive economic shocks have pushed the country into its worst economic crisis since independence, with severe implications on livelihoods and living standards, leading to social unrest and political instability. Painful yet inevitable policy interventions have been implemented to restore macro-economic stability including long-overdue reforms to rectify structural impediments. While the short-to-medium term outlook remains uncertain at this juncture, political will and commitment to corrective policy and regulatory measures coupled with co-ordinated efforts of the Government and private sectors could set the country on a path to economic recovery and long-term prosperity.



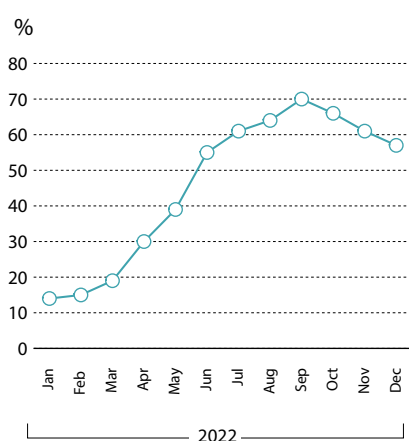
The unfolding of the economic crisis



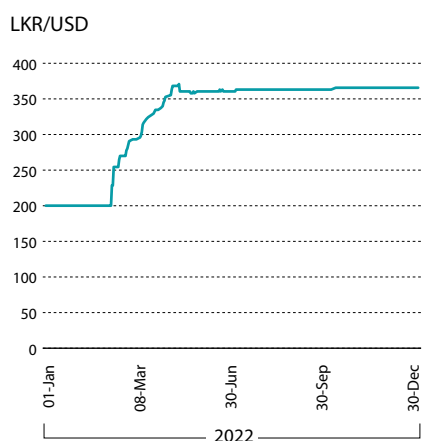
GDP Growth Rate



Inflation (CCPI)



Exchange Rate Movement



Implications on the Financial Sector

- The financial sector faced considerable pressure following the economic downturn, with sector stability being severely tested by liquidity constraints, high interest rates and slowdown in economic activity
- In 2022, acute foreign exchange shortages affected banks' ability to serve import customers as available liquidity was channelled towards essential imports. However, forex liquidity in the banking sector has improved somewhat in recent months, reflecting extraordinary policy measures by the CBSL
- Commercial banks' exposure to International Sovereign Bonds issued by the Government and distressed state owned enterprises remained high, necessitating higher provisions
- Banks experienced inevitable asset quality pressures. In mitigating potential stresses, the CBSL reintroduced moratoria on debt repayment for all sectors in July 2022
- Commercial banks adopted proactive measures, prioritising stability over profitability, which, together with appropriate policy measures, supported the resilience of the sector

Strategic measures adopted by NDB

- Organisation-wide efforts to preserve portfolio quality through strategic interventions of the Remedial Management Unit
- Leveraged investments in automation and process streamlining to drive efficiencies and cost savings
- Repurposing lending strategy with focus on risk and capital efficient lending, which in turn enabled the Bank to manage capital more effectively and build a leaner balance sheet structure
- Mobilisation of deposits across all segments, harnessing the strength of NDB's user-friendly digital platforms and dynamic savings products to preserve and strengthen liquidity
- Support to customers during the foreign exchange crisis, by prioritising on essential transactions
- Close advisory support and guidance to customers in navigating the challenged conditions
- Measures to ensure financial, emotional, and physical well-being of all employees

PERFORMANCE HIGHLIGHTS

For the year ended 31 December	BANK			GROUP		
	2022 LKR Mn	2021 LKR Mn	Change %	2022 LKR Mn	2021 LKR Mn	Change %
Results for the Year						
Gross income	109,902	62,111	77	111,552	64,083	74
Operating profit before tax on financial services	2,036	10,308	(80)	2,672	11,229	(76)
Taxation	(873)	3,946	(122)	(404)	4,166	(110)
Profit for the year	2,909	6,362	(54)	3,076	7,063	(56)
Profit attributable to equity holders of the parent	2,909	6,362	(54)	3,009	6,904	(56)
Gross dividends for the year *	-	1,964	-	-	1,964	-
Assets and Liabilities						
Deposits for customers	672,314	552,040	22	671,713	551,257	22
Gross loans and receivables	579,561	526,141	10	579,608	525,976	10
Total assets	832,772	704,933	18	839,198	710,832	18
Total equity (stated capital and reserves)	63,536	58,932	8	67,505	62,727	8
Profitability (%)						
Net interest margin	4.00	3.25	23	4.02	3.24	24
Return on assets (before taxes)	0.26	1.55	(83)	0.34	1.67	(79)
Return on equity	4.75	12.27	(61)	4.62	12.47	(63)
Cost to income ratio	26.65	33.65	(21)	28.12	34.90	(19)
Asset Quality (%)						
Gross non-performing advances ratio	N/A	4.65	-	N/A	4.65	-
Net non-performing advances ratio	N/A	2.29	-	N/A	2.29	-
Impaired loans (stage 3) ratio	6.24	4.55	37	6.24	4.55	37
Impairment (stage 3) to stage 3 loans ratio	37.44	32.81	14	37.44	32.81	14
Impairment allowance as a % of gross loans and receivables	5.81	4.11	41	5.81	4.11	41
Investor Information (LKR)						
Net asset value per share	167.16	165.02	1	177.60	175.65	1
Market value per share - as at 31 December	32.00	68.90	(54)	N/A	N/A	-
Earnings per share - basic/diluted	7.65	19.24	(60)	7.92	20.88	(62)
Price earnings (times)	4.18	3.58	17	N/A	N/A	-
Dividend per share *	-	5.50	-	N/A	N/A	-
Dividend cover (times) *	-	3.50	-	N/A	N/A	-
Dividend yield (%) *	-	7.98	-	N/A	N/A	-
Market capitalisation (LKR Mn)	12,163	24,606	(51)	N/A	N/A	-
Total leverage (times)	13.11	11.96	10	12.18	11.06	10
Regulatory ratios (%)						
Statutory Liquid Assets Ratios :						
Statutory Liquid Assets Ratio - Bank (Minimum Requirement - 20%)	27.24	N/A	-	N/A	N/A	-
Domestic Banking Unit (DBU) (Minimum Requirement - 20%)	N/A	23.14	-	N/A	N/A	-
Offshore Banking Unit (FCBU) (Minimum Requirement - 20%)	N/A	25.31	-	N/A	N/A	-
Capital Adequacy Ratios (under Basel III Standards) :						
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7% (2021 - 6.5%))	9.34	10.01	(7)	9.87	10.53	(6)
Tier 1 Capital Ratio (Minimum Requirement - 8.5% (2021 - 8%))	9.34	10.01	(7)	9.87	10.53	(6)
Total Capital Ratio (Minimum Requirement - 12.5% (2021 - 12%))	13.35	15.42	(13)	13.81	15.82	(13)
Leverage ratio (Minimum requirement - 3%)	5.56	6.36	(13)	5.94	6.77	(12)
Liquidity Ratios (under Basel III Liquidity Standards) :						
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 90% (2021 - 100%))	297.08	193.03	54	N/A	N/A	-
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 90% (2021 - 100%))	232.68	171.33	36	N/A	N/A	-
Net Stable Funding Ratio (%) (Minimum Requirement - 90% (2021 - 100%))	130.87	118.27	11	N/A	N/A	-

* The Board of Directors will consider a declaration of dividends for the year 2022 in due course. Therefore the Dividend Cover and Dividend Yield for the year 2022 are not disclosed.

FINANCIAL GOALS AND ACHIEVEMENTS

FINANCIAL GOALS AND ACHIEVEMENTS		GOALS	ACHIEVEMENTS				
			2022	2021	2020	2019	2018
Financial Indicators - Bank							
Return on assets (before taxes) (%)	Over 1.5%	0.26	1.55	1.59	2.01	2.22	
Return on equity (%)	Over 12%	4.75	12.27	13.13	13.73	17.41	
Growth in total operating income (%)	Over 20%	37.75	22.06	7.43	9.71	33.44	
Cost to income ratio (%)	Below 40%	26.65	33.65	37.00	39.90	39.34	
Growth in profit after tax (%)	Over 20%	(54.28)	15.04	8.19	(7.87)	27.50	
Growth in total assets (%)	Over 15%	18.14	12.13	18.36	11.99	23.45	
Capital Adequacy Ratios - Bank							
Common Equity Tier 1 Capital Ratio - (Minimum requirement - 7.0% in 2022)	Over 9%	9.34	10.01	9.17	9.18	9.17	
Total Tier 1 Capital Ratio - (Minimum requirement - 8.5% in 2022)	Over 9%	9.34	10.01	9.17	9.18	9.17	
Total Capital Ratio - (Minimum requirement - 12.5% in 2022)	Over 13%	13.35	15.42	14.32	13.43	12.63	

VALUE CREATION HIGHLIGHTS

DELIVERING SHAREHOLDER VALUE

Gross Income

LKR **110** Bn

(+77%)



Pre-tax Profit

LKR **2** Bn

(-80%)



Return on Equity

4.75 %



Earnings
per Share

LKR
7.65



Market
Capitalisation

LKR
12.2 Bn

GREENING THE PLANET



Investments in
Renewable Energy
Generation Projects

LKR **24.2** Bn

Carbon
Footprint

5,279

tCO₂e

(-5%)



Paper
Consumption

33,888
Kg

(-2%)



Facilities Assessed for
Environmental Risks

100 %

VALUE TO COUNTRY AND COMMUNITY

Branches in Economically
Disadvantaged Areas

13



Investment
in CSR

LKR
8.0 Mn

PARTNER IN PROGRESS

Interest Expenses to Depositors

LKR **59** Bn

(+138%)



Customer Satisfaction Rate

99 %

Customer Education
Forums

03 Programmes
with **>225**
Beneficiaries



Increase in
Digitally Enabled
Customers

56 %



A RESPONSIBLE EMPLOYER TO STRONG NDB TEAM

Certified as a
**Great Place
To Work**



Average Training Hours
Per employee

55.4 Hours

(+127%)

Expenses to Employees

LKR **5.7** Bn

(+1%)



Female
Representation Rate

41 %

Promotions

337



NDB's agile and fit-for-purpose governance frameworks fostered strong alignment between the Board and The Leadership Team, which was critical in an environment of rapidly evolving complexities.

Sriyan Cooray
Chairman



**While maintaining focus on the overarching pillars of Voyage 2025,
the Group was compelled to drive tactical changes to its strategy
to ensure stability and resilience amidst the extraordinary
challenges that prevailed.**

Dimantha Seneviratne
Director/Chief Executive Officer

A man in a dark suit, white shirt, and red tie stands in the center of the frame. He is smiling and looking towards the camera. Behind him is a large, stylized word in a light brown, metallic-looking font. The word is partially obscured by the man. The background is dark with a complex, swirling, organic pattern.

gistic

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

INTRODUCTION

2022 was an unprecedented year in Sri Lankan history, one that put to test the resilience, agility and persistence of individuals and corporates alike. The Board of Directors of National Development Bank PLC (the Bank/NDB) is pleased to note, that NDB surmounted these challenges gracefully and conducted itself in the highest form of integrity in discharging its responsibilities as the fourth largest listed bank in the country, whilst safeguarding the interest of its connected stakeholders. The Board of Directors takes pleasure in presenting to its shareholders the Annual Report 2022, comprising the Audited Financial Statements and Integrated Report for the financial year ended 31 December 2022. The former conforms to the requirements of the Companies Act No. 07 of 2007 and amendments thereto, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder, the Listing Rules of the Colombo Stock Exchange, other applicable laws and regulations and recommended good governance disclosures as ascertained by the Bank. The same also discharges the obligation of the Board of Directors, as specified in the Companies Act regarding preparing the Financial Statements of the Group and the Bank, which reflect a true and fair view of the financial position and performance of the Group and the Bank.

BEST PRACTICES IN INTEGRATED REPORTING

In 2013, NDB aligned with the global best practice for non-financial reporting as per the International <IR>Framework issued by the International Integrated Reporting Council (IIRC), now known as the Value Reporting Foundation. As such this marks the 10th Integrated Annual Report of the Bank. In enhancing the credibility of its Report, the Bank obtained Independent Assurance on its 2022 Integrated Annual Report and the assurance report by Messrs. Ernst & Young is available on page 101. The Board of Directors' acknowledgement of their ultimate responsibility towards ensuring the integrity of the Integrated Report and their affirmation that the said Report is a fair presentation of the NDB Group's integrated performance is set out on page 6. The Bank continued its efforts to make its reporting clear, concise, relevant and simple, in line with the reporting principles and guidance of the International <IR>Framework. Content presented in the Report has been selected and prioritised based on 'Material Topics', which have been determined through a systematic process disclosed on page 48 and 49 of this Report. The value the Bank has created to its stakeholders over the years, how it has engaged key stakeholders, the Bank's delivery of strategy and how capital inputs have been transformed to outcomes for stakeholders are detailed in pages 40 to 41.

APPROVAL AND SUBMISSION OF THE REPORT TO RELEVANT STAKEHOLDERS

The Report was approved by the Board of Directors on 21 February 2023. The requisite number of copies of the Annual Report will be submitted to the Colombo Stock Exchange (CSE) and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines, together with a soft copy uploaded to the Bank's

corporate website <https://www.ndbbank.com> consequent to the release of same to the CSE. In complying with good governance practices, the Annual Report is released as soon as possible after the end of the financial year and completion of the audit. In compliance with the Colombo Stock Exchange Listing Rules, the Annual Report will be distributed by way of a link shared with all shareholders and debenture holders - directing them to the soft copy of the Annual Report hosted on the aforementioned link, as well as in the form of a printed report as and when required.

A YEAR OF CONSOLIDATED PERFORMANCE

Notwithstanding the multiple challenges, the Bank continued its operations with tactical changes to its strategy in response to the shifting macro-economic landscape. Understandably, financial performance was adversely affected, as was the case across the industry. The Bank continued to maintain sound equilibrium in its performance across multiple fronts such as support to customers including SMEs, empowerment of female entrepreneurs, support to the community and action on fighting climate change. A full account of the Bank's performance on these are available in the Management Discussion and Analysis on page 57.

THE BANK'S RESPONSE TO THE PREVALENT MACRO-ECONOMIC CHALLENGES

The Board proactively monitored emerging economic developments paying close attention to potential implications on financial performance, stability and stakeholder value creation. Immediate measures were taken to mitigate exposure to potential repayment pressures and liquidity stresses through recalibrating growth targets and preserving capital. Strategic interventions were directed towards ensuring the commercial sustainability of our customers while financial security of employees were also ensured through additional relief. A detailed discussion of these initiatives is available on page 50.

WAY FORWARD

Short-to-medium term challenges remain inevitable given the country's still weak yet recovering external position, fiscal imbalances and relatively high inflationary environment. Against this backdrop, we will leverage the Group's strong financial position to further preserve capitalisation levels and pursue profitable and capital efficient growth. We will continue to work closely with our customers affected by the economic crisis, offering flexible repayment schemes and reschedulements to ensure their long-term commercial sustainability. Digitalisation, employee retention and customer centricity will remain key priorities in line with our Voyage 2025 strategic agenda as we seek to strengthen our market position and capture emerging opportunities. Please refer page 50 for further details.

EXTENT OF COMPLIANCE WITH APPLICABLE STATUTES AND GOOD GOVERNANCE DISCLOSURES

For a full account on the extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and amendments thereto, other relevant statutes, and good

governance disclosures, please refer pages 108 to 124, which shall all be considered as part and parcel of this Annual Report.

EIGHTEENTH (18TH) ANNUAL GENERAL MEETING

Accordingly the eighteenth (18th) Annual General Meeting of the Bank will be held at the DHPL Training Room, 3rd Floor, NDB - EDB Tower, No 42, Nawam Mawatha, Colombo 2 on a date and time to be decided by the Board of Directors and convened, which will be reflected in the Notice of Meeting sent to the shareholders. The Notice of Meeting is reflected on page 373 signed in accordance with a resolution adopted by the Directors. As required in terms of Section 168 (k) of the Companies Act No. 7 of 2007, the Board of Directors does hereby acknowledge the contents of the Annual Report.

Signed in accordance with a resolution adopted by the Directors.

Mr. Sriyan Cooray
Chairman

Mr. Dimantha Seneviratne
Director/Chief Executive Officer

Mr. Bernard Sinniah
Director

Mr. Sujeewa Mudalige
Director

Mr. Kushan D'Alwis, PC
Director

Ms. (Fay) Piyachatr Chetnakarnkul
Director

Ms. Chandima Dilrukshi
Director

Ms. Kasturi Wilson
Director

Ms. Shehani Ranasinghe
Company Secretary

Colombo
21 February 2023

REFLECTIONS FROM THE CHAIRMAN

Dear Stakeholders,

While I have been part of the NDB Board since 2018, this has been a unique year to assume the role of Chairman. Over the past few years, Sri Lankan businesses have experienced disruption and uncertainty at a scale never seen before; initially, the COVID-19 pandemic, and subsequently the country's economic woes have completely distorted our concept of 'normal.' Despite these challenges, the NDB team remained resilient, relying on their characteristic agility to adapt to unprecedented uncertainty and turbulence. Against this backdrop, it is my pleasure to present our Integrated Annual Report and Financial Statements for the year ended 31 December 2022.

OPERATING LANDSCAPE

Although the economic burdens imposed directly by COVID-19 were lighter compared to the previous year, the pandemic exposed and exacerbated the vulnerabilities of Sri Lanka's economic and political structures. Years of fiscal indiscipline, ill-timed policy choices, weak governance and a restrictive trade regime led to unsustainable debt levels and in turn resulted in the successive downgrade of the country's sovereign rating. As the country lost access to international markets and authorities failed to respond to these emerging challenges, the country was plunged into an unprecedented economic crisis with broad ranging implications across all sectors of the economy. Official reserves and net foreign assets in the banking system fell to record lows ultimately translating into severe shortages in fuel, medicine and cooking gas. Rippling effects spread across all sectors, crippling economic activity and resulting in the country's GDP contracting by almost 9% (estimated) during the year 2022.

The country announced an external debt service suspension in April 2022, approaching the International Monetary Fund for relief funding and appointing financial and legal advisors to support debt restructuring. Inflation skyrocketed, thereby impacting real incomes, food security and living standards. Monetary policy was tightened through multiple rate adjustments, which led to market interest rates escalating rapidly; for instance, the Average Weighted Deposit Rate (AWDR) offered by commercial banks increased from 5.01% in January 2022 to 12.60% by October 2022.

As an important market intermediary and a responsible and responsive corporate citizen, we remain acutely aware of the role NDB can play in supporting the country's economic revival.

Sriyan Cooray
Chairman

We are firm in our belief that unless long-standing root causes of the crisis are addressed, the country will remain vulnerable, and crises of this nature will keep re-occurring. Strengthening fiscal and debt sustainability along with much-needed structural reforms are critical to emerge from the current crisis and enhancing long-term growth prospects. While the Government has implemented painful, yet unavoidable policy measures to restore macro-economic balance, firm will and resolve of the leadership together with collective sacrifices by the government, private sector and public are required to achieve stability and long-term resilience.

ETHICAL AND EFFECTIVE LEADERSHIP

Against a multitude of converging challenges, the need for inclusive, ethical and effective leadership has never been stronger. NDB's agile and fit-for-purpose governance frameworks fostered strong alignment between the Board and The Leadership Team, which was critical in an environment of rapidly evolving complexities. The Board proactively monitored emerging macro-economic, regulatory, political and social issues and rapidly activated a holistic response aimed to protect the Group and its stakeholders. Key areas of focus also included, managing credit quality amidst rising impairments, closely monitoring foreign exchange and rupee liquidity positions as well as pursuing opportunities for augmenting capital and strengthening the Group's balance sheet. The Board diversity and skill composition was further enhanced during the year with the appointment of Ms. Kasturi Angela Wilson as an independent, non-executive director in October 2022. Ms. Wilson brings with her a wealth of corporate leadership experience across diverse industries and I am certain that her insights and capabilities will be invaluable in steering the Group forward in these volatile times. Despite the inevitable short-to-medium term challenges, I draw comfort from the unique combination of skills, insights and capabilities of the Board of Directors which ensures that the Group is well-governed and that the interests of our diverse stakeholders will be fulfilled.

SUPPORTING THE ECONOMIC REVIVAL

As an important market intermediary and a responsible and responsive corporate citizen, we remain acutely aware of the role NDB can play in supporting the country's economic revival. With customers experiencing inevitable repayment pressure, the Group remained committed to supporting their long-term survival through proactive and ongoing

engagement, debt restructuring and advisory among others. Through NDB Jayagamu Sri Lanka, we have continued to support the country's exporters and entrepreneurs through a holistic value proposition which includes advisory, market access, eco-system partnerships as well as financial and non-financial assistance. Throughout the year, the Bank also channelled a portion of its dollar income to the Central Bank of Sri Lanka (CBSL), to facilitate importation of essential items including fuel, medicines and food. We are cognisant of the role we can play in the economic revival through the considered delivery of solutions that address the inevitably increasing poverty levels within the country, as we aim to play our part in enabling a thriving and prosperous society.

STAKEHOLDER VALUE

Identifying and responding to the needs of its diverse stakeholders is embedded to the Group's processes and decision-making. This enabled the Group to balance the competing interests of our stakeholders during extraordinarily challenging conditions. As described in further details on the Chief Executive Officer's Review on page 19, having understood the critical challenges faced by our team, the Group placed strategic emphasis on supporting the financial, emotional and mental well being of all employees through additional relief allowances, provision of transport facilities and access to counselling services among others. NDB was also once again certified as a Great Place To Work during the year, retaining its position as one of the country's top 40 employers. For customers, organisation-wide efforts were driven towards supporting them through the dip in the economic cycle, with emphasis placed on preserving relationships. Despite the challenging conditions that prevailed, the Group continued to invest in its corporate responsibility commitments through directing funds towards supporting education, environmental literacy, community empowerment and biodiversity preservation. The world is increasingly seeing escalating implications of climate change, biodiversity loss and socio-economic disparities and I firmly believe that it is incumbent on organisations to be a part of the change we want to see in the world. Accordingly, as described on page 54 of this report, the Group is proactively embedding ESG considerations to its strategy and decision-making, aligning to the CBSL's Roadmap for Sustainable Finance in Sri Lanka. In parallel, we have continued to enhance our corporate reporting through embracing international best practices; in a momentous achievement during the year, the NDB Annual Report for

2021 clinched the Gold Award in the Banking Sector at the CA Sri Lanka's TAGS Awards 2022. Understandably, the Group's financial performance was adversely affected by the prevailing conditions, resulting in Return on Equity clocking in at 4.62%, compared to 12.47% the year before.

WAY FORWARD

In the short-term, we anticipate macro-economic challenges to insert inevitable pressures on performance, mainly due to impairments arising from the deterioration of credit quality and investments in government securities. Further delays in obtaining access to IMF relief funding also presents a significant risk as it could signal a delay in the country's return to normalcy. That said, we remain confident of the Government and regulator efforts to ensure stability of the financial system while increasing pressure by masses for improved governance and transparency is expected to augur well for the country in the medium-to-long term.

As discussed in further detail in the Chief Executive Officer's Review, the Group has recalibrated its growth targets and will prioritise the preservation of capital and portfolio quality over the short-term. Exports will continue to be a key area of focus as we contribute to the national agenda of strengthening the country's export competitiveness and dollar income generation.

ACKNOWLEDGEMENTS

I take this opportunity to thank the former Chairman, Mr. Eshana de Silva, who resigned during the year for his valuable counsel and contribution to the Group over the years. I join the Board in appreciating the dedication and unrelenting commitment of the CEO Mr. Dimantha Seneviratne and The Leadership Team for their efforts in navigating the Group through extraordinary challenges. I also wish to thank my fellow Directors for their counsel during the year and look forward to working with them in the coming year. I would also like to take this opportunity to extend my gratitude and appreciation to the officials of the CBSL, our valuable customers, business partners and all other stakeholders who have been an integral part of the Bank's success story.



Sriyan Cooray
Chairman

21 February 2023
Colombo

CHIEF EXECUTIVE OFFICER'S REVIEW

Dear Stakeholders,

It was a year in which the complexity, range and unpredictability of external shocks compelled Sri Lankan businesses to question the very fundamentals on which they relied. As financial intermediaries, the banking sector was amongst the first to feel the impacts of emerging economic pressures, which in turn necessitated strategic agility and recalibration of growth targets with the aim of preserving long-term financial stability. As we rallied together to safeguard the Group and its stakeholders, I have been awed by the NDB Team's commitment and ability to prevail under highly volatile and stressful conditions.

IMPLICATIONS ON THE BANKING SECTOR

The complexities which shaped Sri Lanka's economic crisis in 2022 are discussed in detail in the Reflections from the Chairman on page 17 of this Report. Inevitably, the banking sector was deeply impacted by the country's economic and political tailspin, with banks increasingly facing challenges in the access and pricing of foreign currency funding following the sovereign rating downgrade. The acute shortage of foreign currency liquidity continued to exert pressure on the exchange rate; the widening disparity between the official exchange rate and rates offered by the informal channels led to a significant growth in the 'grey market' and a decline in remittance inflows to the banking sector. As the dearth of foreign exchange reserves deepened and with the Central Bank of Sri Lanka (CBSL) mandating banks to sell 25% of all export proceeds and worker remittances, banks faced increasing difficulties in funding the requirements of import customers, leading to inevitable strains in customer relationships in the initial period up to around September 2022.

Meanwhile, subdued economic activity coupled with the escalation in interest rates led to a sharp slowdown in credit demand and increasing pressure on portfolio quality. Banks curtailed lending and focused attention on preserving quality, as the industry's Stage 3 Loans to total advances increased to 11.3% by the end of the year. On the other hand, impairments from sovereign debt default and the possible impact of debt restructuring continues to have a sharp impact on profitability, whilst the sharp appreciation of foreign currency denominated assets has led to escalating pressure on capital buffers.



As the complexity of our operating landscape increased, the Group focused on the variables under our control to ensure continued value creation to stakeholders through the economic cycle.

Dimantha Seneviratne
Director/Chief Executive Officer

These converging challenges have had a profound impact on the country's banking sector, with an industry-wide decline in growth, profitability and erosion of capital buffers in 2022. As the industry prioritises financial stability and capital preservation, we however, draw comfort from the regulator's proactive efforts to enhance the resilience of the sector and minimise contagion risk through ensuring liquidity support and strengthening consolidated supervision of the sector.

ADAPTING OUR STRATEGY

As the complexity of our operating landscape increased, the Group focused on the variables under our control to ensure continued value creation to stakeholders through the economic cycle. We were acutely aware that without a recalibration of our growth aspirations and organisation wide efforts to preserve portfolio quality, a significant portion of our portfolio would risk volatility and muted growth. While maintaining focus on the overarching pillars of Voyage 2025, the Group was compelled to drive tactical changes to its strategy to ensure stability and resilience amidst the extraordinary challenges that prevailed. Key areas of strategic focus are summarised below and explained further on page 50 of this Report.

- **Preserving portfolio quality:** The Group's timely efforts to establish a Remedial Management Unit and establish the relevant processes served well during the crisis as we leveraged our sharply honed capabilities and unique insights to support the critical needs of our customers. Specialised resources were deployed to the Remedial Management Unit with focus on early identification of issues, offering flexible repayment schemes and advisory services in sustaining and reviving businesses. As a result of these initiatives, the Bank was able to stem further deterioration in credit quality.
- **Cost management:** We continued to make inroads in productivity and efficiency improvements including digital channels, which have enabled sustained cost savings in the past few years. Despite the unprecedented increase in inflation, the Group managed to curtail the increase in overhead costs to 9.1%, reflecting optimisation of human capital, flexible working models, process streamlining and automation. Organisation wide efforts to build a nimble and lean operating model resulted in the cost to income ratio at the Bank level improving further to 26.7% during the year, one of the lowest in the banking industry.

- **Digitalisation:** The ubiquity of technology and digital connectivity has transformed banking, enabling us to offer a seamless and efficient user experience. Despite operational disruptions, the Bank successfully upgraded its Core Banking platform and transitioned to the new system in January 2023; the significant upgrade is anticipated to generate considerable efficiencies across the organisation and drive marked improvements in decision making capabilities. The Group continued to innovate its digital offerings; for instance, the digitalisation of the entire process from client onboarding to loan disbursement through Digi loans marked an industry first. I am pleased to note, that with this strong digital drive, over 85% of the Bank's transactions are now conducted via digital channels.
- **Lending strategy:** As the operating conditions compelled the Group to recalibrate its growth targets, we placed strategic emphasis on repurposing our portfolio to more risk and capital efficient lending through applying the Return on Risk Adjusted Capital (RORAC) model. Focus was also directed towards enhancing fee based income and prioritising the needs of the export sector, which has been earmarked to drive the country's economic revival.
- **Liquidity management:** Proactive and timely measures were adopted to manage the Bank's foreign currency and Rupee liquidity levels given the volatile market conditions that prevailed. This included daily monitoring, inflow and outflow projections and optimising available liquidity levels, which resulted in a consolidated Statutory Liquid Asset Ratio of 27.24%, well above the regulatory minimum of 20%. Furthermore, the Bank maintained liquidity coverage across Rupee and all currencies throughout the year, above the regulator stipulated minimum levels.

FINANCIAL PERFORMANCE AND STABILITY

Conscious efforts to curtail lending, particularly from the second quarter of the year resulted in the Bank's loan growth slowing to 10%. Net Interest Income (NII), however grew at a commendable 42% reflecting the sharp increase in interest rates. The Bank also widened its Net Interest Margin (NIM) to 4.00% from 3.25% in 2021, reflecting timely re-pricing of

assets and liabilities. Net fee and commission income at the Bank level increased by 12%, upheld by fee income generated from trade-related activities. Overall, the Bank's Total Operating Income increased by 38% to LKR 42.7 Bn during the year.

We saw an inevitable weakening of credit quality, an industry wide phenomenon given the unique challenges that prevailed during the year. Impairment charges increased by 185%, reflecting provisions on foreign currency denominated sovereign debt investments as well as deterioration of the quality of the loans and receivables portfolio. Impaired Loans (Stage 3) Ratio and Impairment (Stage 3) to Stage 3 Loans Ratio were 6.24% (2021: 4.55%) and 37.44% (2021: 32.81%) respectively as at 31 December 2022. The escalation in impairments had a sharp impact on the Bank's profitability and represents the key risk to the Bank's earnings outlook over the short to medium term. As discussed in an earlier section, the Bank continued to generate sustained benefits in an organisation wide cost management drive, which enabled it to mitigate a sharp escalation in costs amidst rising inflationary pressures.

Operating profit before taxes declined by 76% to LKR 2.67 Bn during the year while a reversal of deferred tax charge due to the revision of income tax rates, enabled the Group to stem the decline in profit for the year to 56%, which clocked in at LKR 3.08 Bn. Profitability was supported by the performance of the group companies, which also saw profits moderating amidst extremely challenging operating landscape. Resultantly, Group profit attributable to shareholders was LKR 3.01 Bn for the year.

The Group's total assets increased by 18% to LKR 839.2 Bn in 2022, supported mainly by growth in loans and receivables and investments during the year. Meanwhile deposits grew by 22% to LKR 671.7 Bn reflecting concerted deposit mobilisation efforts, as well as flight to quality and inflationary effects of the Rupee depreciation. Shareholders' equity increased by 8% while capitalisation levels remained relatively healthy with Tier 1 and Total Capital Adequacy ratios clocking in at 9.87% and 13.81% respectively by 31 December 2022.

MANAGING RISKS

As interdependent risks exerted considerable pressure on our operating model and financial performance, we proactively sought to strengthen our defences through enhancing

our risk and control environments. Accordingly, risk exposures were recalibrated in line with the seismic shifts in the risk landscape and our risk appetite frameworks were made more stringent. Strategic focus was also placed on nurturing a culture of risk ownership and accountability through ongoing awareness building and training programmes across the Bank. Credit, market and liquidity risks emerged as key exposures during the year and The Leadership Team worked closely with the Business, Treasury and ALCO teams in proactively monitoring daily exposures and net open positions. Continued emphasis was also placed on strengthening our cyber security defences through penetration testing, vulnerability assessments and increased monitoring of human errors.

THE STRENGTH OF TEAM NDB

Throughout 2022, I remained acutely aware of how extremely challenging the year was for our employees as operational disruptions, slowing business activity and general anxiety regarding the country's future impacted their financial and mental well being. In ensuring their financial security amidst the rising cost of living, the Group engaged in market adjustments pending annual salary review and provided relief through special allowances, provision of transportation facilities and increase of selected allowances. We also prioritised the well being of our employees through the launch of NDBPAL, a holistic counselling programme focusing on emotional well being, financial well being and healthy relationships. As testament to these efforts, the Group's employee engagement scores remained elevated during the year, with NDB successfully obtaining the Great Place To Work certification for the second consecutive year. The efforts of our team have been duly recognised and rewarded through numerous local and international bodies; I am extremely proud to report that NDB was awarded as the Best Bank in Sri Lanka for 2022 by Euromoney for the first instance, alongside winning the same title from Global Finance USA, a rare feat for any bank to win these twin awards in one year. We were also recognised as the most awarded corporate in Sri Lanka by the annual rankings of LMD for 2021 and won over 70 awards across multiple areas of our operations including digital innovation, customer-centricity, employee relations and corporate social responsibility among others.

EMBEDDING SUSTAINABILITY

The pandemic, followed by the economic crisis has accentuated socio-economic disparities and fault lines within communities in the country, with poverty levels increasing consistently in 2022. These dynamics highlight the need for co-ordinated and collective efforts towards supporting the country's most vulnerable communities and as an important market intermediary NDB will continue to support this agenda through driving financial inclusion across the country. Environmental and climate impacts represent the most significant threat to humanity over the next decade and is fuelling the transition to a low-carbon economy with the banking industry under increasing pressure to contribute to this transformation. Against this backdrop, we obtained verification from Sri Lanka Climate Fund on the Bank's GHG emission inventory during the year, providing assurance to stakeholders on our climate disclosures. Notably our emission for 2022 of 5,279 tCO₂e was a 5% reduction compared to that of 2021, a step towards our desire to achieve net zero emission level. We also continued to drive towards a more inclusive and equitable society through unique initiatives such as Sri Lanka Vanithabhimana and NDB Jayagamu Sri Lanka, which has contributed towards promoting entrepreneurship, addressing income disparities and building resilient communities. We firmly believe that our most significant sustainability impacts can be delivered through our lending portfolio and during the year we sought to nurture a culture of social and environmental consciousness through embedding our Environmental and Social Risk Management (ESRM) policy in lending decisions.

WAY FORWARD

Although short-term pressures remain inevitable, we are challenging ourselves to look beyond the current crisis, to rethink, refine and re-strategise our business to thrive in the long-term. We understand that our plans will be vulnerable to the risks posed by the external environment, which are particularly fragile at the moment. That said, we firmly believe there are reasons for optimism; the increasing push for better governance and accountability of the state, political will and commitment to implement painful yet long-overdue reforms and a collective understanding of and willingness to make sacrifices to address the country's harsh economic realities can lift Sri Lanka out of the present crisis and signal the path forward for long-term economic prosperity and resilience.

From the Group's point of view, we are deeply committed to supporting the country's socio-economic revival through directing lending towards critical sectors of the economy such as exports and agriculture and driving concerted efforts to shore-up foreign currency generation while continuing to support the Government in financing essential needs. Over the short-term, preservation of capital and portfolio quality will be a key priority as we consolidate our portfolio and work closely with existing customers to support them through the crisis.

ACKNOWLEDGEMENTS

As we look forward to a year of recovery, revival and hope, I take this opportunity to place on record my appreciation to the Chairman and the Board of Directors for their valuable counsel in an extremely volatile year. I extend my thanks and appreciation to our former Chairman Mr. Eshana de Silva for his confidence in me and valuable contributions over the years. I consider myself extremely privileged to lead such a dynamic, resilient and passionate team and I am deeply grateful to The Leadership Team and all our employees for their remarkable efforts during the year. I mark a special note of appreciation to Ms. Shanti Gnanapragasam and Ms. Manique Kiriella Bandara who were long-standing members of The Leadership Team for their years of invaluable service to the Bank and wish them all the very best in their future endeavours. I extend my thanks to the Governor and officials of the Central Bank of Sri Lanka as well as the Sri Lanka Banks' Association for their continued support. Finally, I take this opportunity to thank our valued customers, shareholders, business partners and other stakeholders for their continued loyalty and look forward to their support and partnership in the coming year.

Thank you.



Dimantha Seneviratne
Director/Chief Executive Officer

21 February 2023
Colombo

BOARD OF DIRECTORS



Seated

Mr. Sriyan Cooray - Chairman - Non-Executive Independent Director

Left to Right (Standing)

Ms. Chandima Dilrukshi - Non-Executive Non-Independent Director,

Mr. Hiran Perera - Non-Executive Non-Independent Director (Resigned w.e.f. 14 February 2023),

Mr. Kushan D'Alwis, PC - Non-Executive Independent Director, **Ms. Shehani Ranasinghe** - Company Secretary



Seated

Mr. Dimantha Seneviratne - Chief Executive Officer - Executive Non-Independent Director

Left to Right (Standing)

Ms. Kasturi Wilson - Non-Executive Independent Director, **Mr. Sujeewa Mudalige** - Non-Executive Independent Director,

Mr. Bernard Sinniah - Non-Executive Non-Independent Director, **Ms. (Fay) Piyachat Chetnakarnkul** - Non-Executive Non-Independent Director

Mr. Sriyan Cooray

Chairman

Non-Executive Independent Director

Date of appointment: 10 August 2018

Date of Last Re-election / Re-appointment as a Director: 09 April 2021

Length of Service as a Director: 4 years 4 months

Skills and experience

Mr. Sriyan Cooray was appointed as the Chairman of the Bank on 01 July 2022.

An accomplished banker with 28 years of experience at HSBC, Mr. Cooray has served in a wide range of areas ranging from Finance, Operations, Compliance, Administration and Retail Banking at HSBC and retired

from HSBC - Sri Lanka and Maldives as the Chief Operating Officer in May 2018. He also functioned in the position of Acting CEO over the last 10 years at HSBC.

Prior to joining HSBC, Mr. Cooray was Financial Controller of Speville M & W Ltd (1987 -1990) and prior to that engaged with KPMG Ford Rhodes Thornton & Company, Chartered Accountants.

Mr. Cooray is a fellow of the Chartered Institute of Management Accountants, UK.

Concurrent appointments

Director - Orient Finance PLC

As at 31 December 2022 Mr. Cooray held office as Director in a total number of 02 companies (including the Bank).

Mr. Dimantha Seneviratne

Chief Executive Officer

Executive Non-Independent Director

Date of appointment: 01 January 2017

Date of Last Re-election / Re-appointment as a Director: N/A

Length of Service as a Director: 6 years

Skills and experience

Mr. Dimantha Seneviratne, Chief Executive Officer (CEO) of the Bank, counts 33 years in the banking industry contributing his strong strategic focus and drive towards the success of NDB. Having held this position for 6 years, he has transformed NDB as a high performing entity with a customer centric approach. Prior to joining the Bank he was the Director/ CEO of Pan Asia Banking Corporation PLC (PABC) for three years and prior to that, he spent 15 years with the HSBC Group, where he held key senior management positions including the Chief Risk Officer Post for Sri Lanka and Maldives, Bangladesh and Thailand where he was also responsible for business growth, strategy and governance in those respective geographies as a member of the Country Leadership Team.

Mr. Seneviratne commenced his banking career with Sampath Bank and has also served in Overseas Trust Bank, Colombo

Branch and Saudi British Bank, Saudi Arabia prior to joining HSBC.

Mr. Seneviratne is a Fellow Member of the Chartered Institute of Management Accountants – FCMA (UK), CGMA and a Senior Fellow Member (SFIB) of the Institute of Bankers of Sri Lanka. He holds a MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura, and BSc, from the same University. He is also a Post Graduate Diploma holder in Computer System Design from the National Institute of Business Management. He successfully completed the High Potential Leadership Programme at the Harvard Business School, Boston, USA, in 2016.

He was the former Chairman of Sri Lanka Banks' Association (Guarantee) Limited and a Past President of The Association of Professional Bankers (APB) Sri Lanka, having held various positions in the Executive

Council of the APB for over a decade. He was also a Director of Lanka Clear (Pvt) Ltd and the Credit Information Bureau - Sri Lanka.

Concurrent appointments

Chairman, Development Holdings Private Limited, Director, The American Chamber of Commerce in Sri Lanka and several subsidiaries of the Bank. He was also re-appointed to serve as a Director of Sri Lanka Banks' Association (Guarantee) Limited in 2021. He was recently appointed as a Member of the Board of Management to the Sri Lanka Sustainable Energy Authority (SLSEA) and as a Committee Member to revise the bills of Exchange Act.

As at 31 December 2022 Mr. Seneviratne held office as Director in a total number of 11 companies (including the Bank and group companies).

Mr. Bernard Sinniah

Non-Executive Non-Independent Director

Date of appointment: 28 March 2019

Date of Last Re-election / Re-appointment as a Director: 30 March 2022

Length of Service as a Director: 3 years 9 months

Skills and experience

A veteran banker, Mr. Sinniah retired in 2018 as Managing Director of Citibank and Global Head of FX Corporate Sales and e-FX Solutions after 38 illustrious years of service, having started his career at Citibank Colombo, then moving to Citibank Australia, and ending his career based out of London.

Mr. Sinniah holds a Masters in Applied Finance (Macquarie University, Australia). He has also added to his proficiency, knowledge on Digital Transformation Strategies, conducted by the Judge Business School – University of Cambridge – UK and further on Digital Transformation, Strategies for Success, conducted by the MIT Sloan School of Management.

Concurrent appointments

Director Transact Lanka, Codevus (Pvt) Ltd, Youcan (UK), Knightsbridge eCommerce, SenzAgro, Arogya (US), Mintpay and several subsidiaries of the Bank.

As at 31 December 2022 Mr. Sinniah held office as Director in a total number of 14 companies (including the Bank and Group companies)

Mr. Sujeewa Mudalige

Non-Executive Independent Director

Date of appointment: 06 January 2020

Date of Last Re-election / Re-appointment as a Director: 30 March 2022

Length of Service as a Director: 2 year 11 months

Skills and experience

Mr. Mudalige counts over 33 years of experience as a Chartered Accountant. His qualifications are FCA (ICA - SL), FCMA (CIMA - UK), FCCA (ACCA - UK) and FCPA (CPA - Australia).

Mr. Mudalige has vast experience as an Audit Committee Chairman in both public and private sector organisations. He is a past President of ICASL and has been a Member of the Council of ICASL and of the Governing Board of CIMA UK, Sri Lanka Division, a Commission Member of the Securities and Exchange Commission of Sri Lanka and held

several such other positions locally and globally during the span of his career.

Mr. Mudalige was a Non-Executive Independent Director of Hatton National Bank PLC (HNB) from 2012 to 2019 and was the Chairman and Member of several of its Board subcommittees during his tenure with HNB. He was also the Deputy Chairman of the Financial System Stability Consultative Committee of the CBSL and a Member of the Advisory Committee to advise the National Economic Council and the Advisory Committee for Revival of Failed Licensed Finance Companies.

Concurrent appointments

He is the Managing Partner of PwC, Sri Lanka and a Director of its related companies and Non-Executive Chairman of Mercantile Services Provident Society (MSPS). He is also an Independent Non-Executive Director at CIC Holdings PLC, CIC Feeds group, NSBM Green University, Link Natural Products Limited, Sherwood Capital and Ideal Finance Ltd. He is also a Committee Member of the Ceylon Chamber of Commerce.

As at 31 December 2022 Mr. Mudalige held office as Director in a total number of 11 companies (including the Bank).

Mr. Hiran Perera

Non-Executive Non-Independent Director

(Resigned w.e.f. 14.02.2023)

Date of appointment: 23 April 2020

Date of Last Re-election / Re-appointment as a Director: 09 April 2021

Length of Service as a Director: 2 years 8 months

Skills and experience

Counting a period of 28 years as a Corporate Banker, Mr. Perera has held various senior management positions in HSBC and also gained experience in overseas banking. He was also a former corporate trainer in the Middle East for international trade and corporate lending.

Mr. Perera joined Softlogic in 2013 to head its treasury function excluding the two regulated companies of the Group.

Concurrent appointments

Director Group Treasury, Softlogic Holdings PLC (Non-Board member) serving in this capacity in all Non-listed companies in the Softlogic Group.

As at 31 December 2022 Mr. Perera held office as Director in 01 company (the Bank).

Mr. Kushan D'Alwis, President's Counsel

Non-Executive Independent Director

Date of appointment: 06 July 2020

Date of Last Re-election / Re-appointment as a Director: 09 April 2021

Length of Service as a Director: 2 years 5 months

Skills and experience

Mr. Kushan D'Alwis took oaths as an Attorney-at-Law in the year 1985 and is in active practice for over a period of 37 years. He was conferred Silk and took oaths as President's Counsel in November 2012. The areas of specialisation of Mr. D'Alwis are civil, corporate, commercial and administrative law in both the Original and Appellate Courts. Further, he has been actively involved in alternate dispute resolution mechanisms such as arbitrations, advising on corporate legal matters, regulatory frameworks, compliance requirements and legal due diligence.

Mr. D' Alwis was a Member of the Law Commission of Sri Lanka from 2011 to 2015. He was also a Member of the Panel of Legal Advisers to the Tax Appeals Commission. He has served as a Member of the Public Representations Committee on Constitutional Reform appointed by the Cabinet of Ministers. He has also served as the Vice Chairman of the Civil Aviation Authority of Sri Lanka. Mr. D'Alwis served as the Chairman of the Office of the National Unity and Reconciliation (ONUR) of Sri Lanka and was also a Director of the Colombo Lotus Tower Management Company (Pvt) Ltd and a Member of the Financial System Stability Consultative Committee of the Central Bank of Sri Lanka. He also served as a Member of the Board of Investment of Sri Lanka.

Mr. D' Alwis served as a Member of the Committee appointed by His Excellency the President to reformulate the guidelines with regard to the appointment of President's Counsel. He was also a Member of the Committee appointed by the Ministry of Defence to review the Issuance of Frequency Permits for Television & Radio Broadcasting and related procedures.

Concurrent appointments

Director Ceylon Tobacco Company, Lanka Hospitals Corporation PLC and Vurthiya Lanka (Pvt) Ltd.

As at 31 December 2022 Mr. D'Alwis held office as Director in a total number of 04 companies (including the Bank).

Ms. (Fay) Piyachatr Chetnakarnkul

Non-Executive Non-Independent Director

Date of appointment: 25 May 2021

Date of Last Re-election / Re-appointment as a Director: *N/A

Length of Service as a Director: 1 year 7 months

* The appointment of Ms Chetnakarnkul was initially approved by the Shareholders of the Bank at the EGM held on 09 April 2021.

Skills and experience

Ms. Chetnakarnkul carries with her knowledge and experience in Economics, Information Technology and Investments. She joined the Board in 2021 to represent the interests of The Norwegian Investment Fund for Developing Countries (NORFUND). Ms. Chetnakarnkul holds a Master's Degree in Arts – in Quantitative Methods and Economic Theory and Southeast Asia Studies, School of Advanced International Studies (SAIS), Johns Hopkins University (Washington D.C.) and a Bachelor's Degree in Economics (International Program) from Thammasat University, Bangkok. She has also followed

the Director Certification Program (DCP 184, Board Training) of the Institute of Directors of Thailand (Bangkok) and a Fintech certification course at the Massachusetts Institute of Technology (MIT).

As the Investment Director, Head of Asia Region of NORFUND, Ms. Chetnakarnkul has been responsible for founding NORFUND's Asia office and for building, leading, and managing NORFUND's investments in Asia. Prior to joining NORFUND, she worked at the International Finance Corporation (IFC)/The World Bank Group. She was also a Director of Yoma Bank, Myanmar.

Concurrent appointment

Ms. Chetnakarnkul, is the Investment Director (Non-Board), Head of Asia Region (Bangkok, Thailand) of the Norwegian Investment Fund for Developing Countries ("NORFUND").

As at 31 December 2022 Ms. Chetnakarnkul held office as Director in 01 company (the Bank).

Ms. Chandima Dilrukshi

Non-Executive Non-Independent Director

Date of appointment: 21 June 2021

Date of Last Re-election / Re-appointment as a Director: N/A

Length of Service as a Director: 1 year 6 months

Skills and experience

Ms. Chandima Dilrukshi is an officer of the Sri Lanka Accountants' Service, with an experience over 20 years in the public service. She is presently working as a Director (Non-Board) of the Department of Public Enterprises under the Ministry of Finance, Economic Stabilisation and National Policies. Prior to that, she worked as a Director (Non-Board) at the Department of Fiscal Policy and has been, in her career, responsible for policies related to income tax and betting and gaming levy. Ms. Dilrukshi has also represented the General Treasury on the Boards of Sri Lanka Export Credit Insurance Corporation, Lankaputhra Development Bank Ltd, Sri Lanka Insurance Corporation Ltd and Litro Gas Lanka Ltd. She has also been a Director on the Board of Directors of the Urban Development Authority and

Postgraduate Institute of Management. From 2018-2022, she also functioned as the Finance Manager on an acting basis at the Rooftop Solar Power Generation Project, which was funded by the Asian Development Bank.

She is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds a Special Degree in Accountancy and Financial Management from the University of Sri Jayewardenepura, Master of Business Administration from the International University of Japan, a Diploma in Procurement and Contract Administration and a Diploma in Business Communication from the Institute for Government Accounts and Finance.

Concurrent appointments

Ms. Dilrukshi is a Director (Non-Board) of the Department of Public Enterprises. She also serves as a visiting lecturer at the Sri Lanka Institute of Development Administration and represents number of technical evaluation committees and project committees to assist the standing cabinet appointed procurement committees including that of National Water Supply & Drainage Board and Ministry of Fisheries.

As at 31 December 2022 Ms. Dilrukshi held office as Director in 01 company (the Bank).

Ms. Kasturi Wilson

Non-Executive Independent Director

Date of appointment: **03 October 2022**

Date of Last Re-election / Re-appointment as a Director: **NIL**

Length of Service as a Director: **3 months**

Skills and experience

Counting over 20 years of service in the Hemas Group, Ms. Wilson is the Group Chief Executive Officer of Hemas Holdings PLC. She has held many senior management positions, including Chief Process Officer and Managing Director of the Hemas Transportation Sector. In 2016, Ms. Wilson took over as Managing Director of Hemas Pharmaceuticals, Surgicals and Diagnostics, where she was responsible for driving the company's local and regional expansion. She also functioned as the Managing Director of Hemas Mobility Sector prior to being appointed as Group CEO in October 2020.

Ms. Wilson is a Fellow of the Chartered Institute of Management Accountants, and an alumni of Harvard Business School.

She is also the immediate past President of the Sri Lanka Chamber of the Pharmaceutical Industry and has also served as a Council Member of the National Sports Council of Sri Lanka till March 2022 and on the Board of SLID (Sri Lanka Institute of Directors), CIMA Sri Lanka and Board of the Lankan Angels Network (LAN) – a leading start up eco system in Sri Lanka.

Ms. Wilson has been recognised as one of the 12 Top Women Change-Makers in the country in 2019 by the Parliament of Sri Lanka and was also recognised as one of the ten 'Wise Women' impactful leaders of Sri Lanka by the Ministry of Skills and Vocational Education in 2022.

Concurrent appointments

Ms. Wilson serves on the Board of Capital Alliance Limited as a Non-Executive Director along with several other Hemas subsidiaries in the healthcare, logistics and consumer sectors. She is an active member of several industry associations and currently serves on the main committee of the Ceylon Chamber of Commerce and was recently appointed as the Regional Champion for the World Bank for South Asia.

As at 31 December 2022 Ms. Wilson held office as Director in a total number of 20 companies (including the Bank)

Ms. Shehani Ranasinghe

Company Secretary

Skills and experience

Ms. Shehani Ranasinghe was appointed as the Company Secretary of the Bank in 2012. She was formerly attached to the Legal Department of the Bank where she gained experience in corporate banking and financial law, investment banking and legal advisory services during her career spanning over 29 years with the Bank. She has also functioned as the Company Secretary of several subsidiary companies of the Bank prior to her appointment as the Company Secretary of the Bank. She is an Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka, a Notary Public, Commissioner for Oaths, Qualified Company Secretary and earned her Bachelor of Arts (Hons) degree from the University of Colombo.

Concurrent appointments

None.

THE LEADERSHIP TEAM



05

01 Mr. Dimantha Seneviratne
Director/Chief Executive Officer

13

02 Mr. Sanjaya Perera
Senior Vice President -
Personal Banking and Customer Experience

02

04 Mr. Niran Mahawatte
Vice President - Treasury

05 Mr. Indika Ranaweera
Vice President -
SME, Middle Market and Business Banking

11

06 Ms. Ishani Palliyaguru
Vice President -
Project Finance and Corporate Credit
Control

07

03

07 Mr. K V Vinoj
Vice President - Wholesale Banking

16

08 Mr. Zeyan Hameed
Vice President - Branch Network
Management and Product Development

17

09 Ms. Suvendrini Muthukumarana
Vice President/ Chief Financial Officer

10



08

10 Ms. Ruwani De Silva
Vice President - Audit

09

11 Ms. Shehani Ranasinghe
Vice President/Company Secretary

12 Ms. Melody Wickramanayake
Vice President - Legal

14

13 Mr. Lasantha Dasanayaka
Vice President - Human Resources

01

14 Mr. Indika Gunawardena
Vice President - Information Technology/
Chief Information Officer

12

15 Mr. Damitha Silva
Assistant Vice President -
Digital Financial Services

15

16 Mr. Chandima Kannangara
Assistant Vice President/Compliance Officer

06

17 Mr. Darshana Jayasinghe
Assistant Vice President/Head of Marketing
(Appointed w.e.f. 09 February 2023)

04

01 Mr. Dimantha Seneviratne

Director/Chief Executive Officer

Please refer page 24 for the profile

02 Mr. Sanjaya Perera

Senior Vice President - Personal Banking and Customer Experience

MBA (PIM - University of Sri Jayewardenepura), Fellow Member (IBSL), Passed Finalist (AAT - UK)

32 years of experience, including 7 years with NDB

03 Mr. Deepal Akuretiyagama

Chief Operating Officer

FCMA (UK), CGMA, FBCS (Chartered Institute for IT - UK), M.Sc. in IT - First Class (Keele University - UK), Project Management Certification (CICC - Japan), Leadership Skills Certification (Asian Institute of Management - Philippines)

33 years of banking experience, including 4.5 years with NDB

04 Mr. Niran Mahawatte

Vice President - Treasury

FCMA (UK), CGMA, B.Sc. (University of Colombo)

30 years of experience, including 21 years with NDB

05 Mr. Indika Ranaweera

Vice President - SME, Middle Market and Business Banking

MBA - Merit (University of Colombo), MFE - Merit (University of Colombo), PG Dip. in Business Management (University of Colombo), B.Sc. Engineering (Hons) (University of Moratuwa)

26 years of experience, including 24 years with NDB

06 Ms. Ishani Palliyaguru

Vice President - Project Finance and Corporate Credit Control

FCMA (UK), CGMA, ACMA (SL), AIB (SL), MBA - Merit (PIM - University of Sri Jayewardenepura), B.Sc. - First Class (University of Colombo)

26 years of experience, including 23 years with NDB

07 Mr. K V Vinoj

Vice President - Wholesale Banking

CMA (Australia), ACSI (UK), MBA (University of Southern Queensland), MFE - Merit (University of Colombo), PG Dip. in Business and Finance (Cranfield University School of Management UK/CA SL), NDHRM (IPM SL)

30 years of banking experience, including 17 years with NDB

08 Mr. Zeyan Hameed

Vice President - Branch Network Management and Product Development

ACMA (UK), CGMA

30 years of banking experience, including 5.5 years with NDB

09 Ms. Suvendrini Muthukumarana

Vice President/ Chief Financial Officer

FCA (SL), B.Sc. (University of Colombo)

28 years of experience, including 22 years with NDB

10 Ms. Ruwani De Silva

Vice President - Audit

FCMA (UK), CGMA, FCA (SL)

27 years of experience, including 21 years with NDB

11 Ms. Shehani Ranasinghe

Vice President - Company Secretary

Please refer page 27 for the profile

12 Ms. Melody Wickramanayake

Vice President - Legal

Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka, Commissioner for Oaths and Qualified Company Secretary

31 years of experience, including 29 years with NDB

13 Mr. Lasantha Dasanayaka

Vice President - Human Resources

Fellow Member (Cambridge Association of Managers - UK), BBA (UNEM), Certified HR Manager

24 years of experience, including 3.5 years with NDB

14 Mr. Indika Gunawardena

Vice President - Information Technology/ Chief Information Officer

Fellow Member (British Computer Society), Fellow (Chartered Professional Managers), MBA (University of Mahatma Gandhi), Chartered IT Professional (British Computer Society), Member (Sri Lanka Computer Society), M.Sc. in information Security (Asia e University), Executive Dip. in Leadership (Northern Illinois University - USA), Dip. in Computer System Design (NIBM), Certificate of Current Competence (COCC - Chartered Institute of IT - UK), Oracle Certified Professional (OCP), VMware Certified Professional (VCP), ITIL, ISO27001 Lead Auditor

23 years of experience, including 2.5 years with NDB

15 Mr. Damitha Silva

Assistant Vice President - Digital Financial Services

FCMA (UK), CGMA, Associate Member (IBSL), MBA - Merit (PIM - University of Sri Jayewardenepura)

24 years of experience, including 5.5 years with NDB

16 Mr. Chandima Kannangara

Assistant Vice President - Compliance Officer

CAMS (Association of Certified Anti Money Laundering Specialists), MBA (University of Honolulu - USA), PG. Dip. in Bank Management (IBSL), Dip. in Banking and Finance (IBSL), Dip. in Compliance (IBSL)

30 years of experience, including 2 years with NDB

17 Mr. Darshana Jayasinghe

Assistant Vice President - Head of Marketing (Appointed w.e.f. 09 February 2023)

Chartered Marketer (CIM - UK), MBS - Merit (University of Colombo), PG.Dip. in Marketing (CIM - UK), B.Sc. in Marketing Management (Sp.) - First Class (University of Sri Jayewardenepura)

16 years of experience

18 Mr. Nilanga Gajaba

Assistant Vice President - Centralised Recoveries/Acting Vice President - Risk Management

MBA (Cardiff Metropolitan University - UK), PG Dip. (IBSL), CISI (UK) - Risk in Financial Services

30 years of experience, including 15 years with NDB (Please refer Senior Management on page 31)

SENIOR MANAGEMENT



Mr. Nilanga Gajaba
Assistant Vice President - Centralised Recoveries/Acting Vice President - Risk Management

Please refer page 30 for the profile



Ms. Camy Somasunderam
Assistant Vice President - Customer Experience and Contact Centre

MBA (University of Wales - UK), CIM Dip. (UK)
28 years of experience in banking



Mr. Gihan Punchihewa
Assistant Vice President - Privilege Select Banking

PQHRM (CIPM - SL), MBA (Anglia Ruskin University - UK), LL.M Master of Laws (Business with Finance) (Cardiff Metropolitan University - UK), LL.B (Hons) (BNU - UK), PG Dip. in Business Strategy (ABP - UK), BA (Hons) - First Class - (University of Wales - UK), ADBM (NIBM)

17 years of experience in banking



Mr. Priyantha Gamage
Assistant Vice President - Branch Operations

CISI (UK) - Risk in Financial Services, CISSP (ISC2 - USA), MBA (University of Southern Queensland), PG Dip. in Business and Finance (ICASL)

28 years of experience in banking



Mr. Sydney Downall
Assistant Vice President - Colombo Region and Product Development

MBA (University of Southern Queensland), Dip. in Marketing (CIM - UK)

29 years of experience in banking



Mr. Sameera Senerath
Assistant Vice President - Sales

ACIM, ASLIM, Dip. in Marketing (CIM - UK), Dip. in Banking and Finance (AIB)

22 years of experience in banking



Mr. Dilum Amarasinghe
Assistant Vice President - Leasing

MBA (Anglia Ruskin University - UK)

33 years of experience in finance leasing



Mr. Ashan Wikramanayake
Assistant Vice President - Card Centre

Member (Association of Business Executives - UK), MBA (Cardiff Metropolitan University - UK), Adv. Dip. in Business Administration (ABE - UK)

16 years of experience in banking



Ms. Ganga Wanigaratne
Assistant Vice President - Operations - Trade Finance, Payments and Treasury Operations

37 years of experience in banking



Mr. Indika Tennakoon
Assistant Vice President - Retail Credit and Operations

MBA - Merit (University of Colombo), MFE - Merit (University of Colombo), B.Sc. Physical Science (University of Colombo)

30 years of experience in banking



Mr. Vijitha Wettimuny
Assistant Vice President - Administration

Graduated from Military Academy as Commissioned Officer of Sri Lanka Air Force

12 years of experience with 3.5 years in banking



Mr. Sunil Karunaratne
Assistant Vice President - Treasury

MBA (University of Western Sydney)

37 years of experience in banking



Mr. Damitha Samaranayake
Assistant Vice President - Treasury

Associate Member (IBSL), ACI Dealing Certificate - Paris

31 years of experience in banking



Ms. Vidisha Jayawardena
Assistant Vice President - Legal

Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka, Notary Public, Commissioner for Oaths, Qualified Company Secretary

30 years of experience in banking



Mr. Amal Yapa
Assistant Vice President - Wholesale Banking

BBA (University of Houston - Texas)

29 years of experience in banking



Ms. Ronali Kumarasinha
Assistant Vice President - Wholesale Banking

MCIM (UK), MBA (University of Colombo), B. Com (University of Colombo)

27 years of experience in banking



Mr. Romesh Tissera
Assistant Vice President -
Business Banking
31 years of experience in banking



Mr. Malake Herath
Assistant Vice President -
Business Banking
FCA (SL), MBA (PIM - University of Sri
Jayewardenepura), B.Sc. in Accounting
(Sp.) - Second Class Upper (University of Sri
Jayewardenepura)
21 years of experience with 18 years in
banking



Ms. Shareen Jayasuriya
Assistant Vice President -
Credit
FCMA (UK), CGMA, ACSI, CIM Dip. (UK)
29 years of experience with 27 years in
banking



Ms. Anushca Saranapala
Assistant Vice President -
Risk Management
40 years of experience in banking



Mr. Sameera Wijegunawardena
Assistant Vice President - Business
Relationship and Portfolio
Management
MBA (University of Wolverhampton - UK),
Dip. in Credit Management (IBSL)
29 years of experience in banking



Mr. Sanjeev Kulendran
Assistant Vice President -
Internal Audit
Associate Member (Financial Services
Institute of Australasia), Associate Member
(IBSL), B.Sc. (University of Madras)
30 years of experience in banking



Ms. Dayani Algama
Assistant Vice President -
Human Resources
Masters in Development Studies (University of
Colombo), BA (Hons) (University of New Delhi)
31 years of experience with 25 years in banking



Mr. Lasantha Mathupala
Assistant Vice President -
Information Technology
MBCS, PMI, ISACA, PCI Implementer,
B.Sc. (Hons), PG Dip. in Computer Science
(University of Sri Jayewardenepura)
32 years of experience with 22 years
in banking



Mr. Amila Withanage
Assistant Vice President -
Information Technology
MBA (University of Colombo), M.Sc.- IT
(University of Colombo), B.Sc. (University of
Kelaniya), PMP, ITIL- V4, VCP, OCP
19 years of experience with 4.5 years in
banking



Mr. Chandima Alwis
Regional Manager -
Greater Colombo Region
FCA (SL)
31 years of experience with 25 years in
banking



Mr. Thilina Hewage
Regional Manager - Central Region
MBA (University of Wales - UK), Dip. in Human
Resource and Organisational Behaviour
(American College of Higher Education),
Certificate in Inspiring and Motivating
Individuals and Influencing People
(University of Michigan - USA)
27 years of experience in banking



Mr. Nalin Abeyratne
Regional Manager -
North Western Region
Senior Associate Member (IBSL), MBA
(University of Ruhuna), BBA (Sp.) (Hons)
(University of Ruhuna)
25 years of experience with 22 years in
banking



Mr. Vinjaya Jayasinghe
Regional Manager - Southern Region
Associate Member (IBSL), MBA (Cardiff
Metropolitan University - UK), Dip. in
Management (The Open University of Sri
Lanka), Level 4 Certificate in Advanced Wealth
Management (CISI - UK), Level 3 Certificate in
Wealth and Investment Management (CISI -
UK), BMS (The Open University of Sri Lanka)
25 years of experience in banking



Mr. Prasanna M. Jayawardhana
Chief Manager -
Privilege and Privilege Select Banking
MBA - Merit (University of Gloucestershire - UK),
PQHRM (CIPM - SL)
32 years of experience in banking



Mr. Sanath Susantha
Chief Manager -
Leasing
MBA (University of Ruhuna), B.Sc. in Physical
Science (University of Colombo)
33 years of experience in banking



Ms. Nadie Samaraseena
Chief Manager -
Product Development
ACMA (UK), CGMA, MBA (PIM - University
of Sri Jayewardenepura), B.Sc. - First Class
(University of Colombo)
24 years of experience in banking



Ms. Dilhani Piyasena
Chief Manager -
Transformation

MBA (PIM - University of Sri Jayewardenepura), B.Sc. - First Class (Nagarjuna University - India)

29 years of experience in banking



Mr. Manjula Gunawardana
Chief Manager -
Trade Finance

30 years of experience in Trade Finance



Mr. Renuke Perera
Chief Manager - Business Intelligence

MBCS (UK), MBA (Cardiff Metropolitan University - UK), B.Sc. in Computer Science (The Open University of Sri Lanka), Dip. in Management - (ICFAI University - India)

24 years of experience in banking



Mr. Gehan Heenkende
Chief Manager - Business Intelligence

MBCS (UK), CITP (BCS - UK), M.Sc. in Advanced Information Systems (University of London)

32 years of experience with 10 months in banking



Mr. Thusitha Boyagoda
Chief Manager -
Business Banking

PG Dip. in Business Administration (University of Peradeniya), B.Sc. (Hons) in Agriculture - Second Class Upper (University of Peradeniya)

28 years of experience with 26 years in banking



Ms. Manik Boteju
Chief Manager -
Project Finance

B.Sc. in Management (University of London)

20 Years of experience in banking



Ms. Darine Fernando
Chief Manager -
Wholesale Banking

MBA (Edith Cowen University - Australia), Dip. in Corporate Banking (IBSL)

32 years of experience in banking



Mr. Niroshan De Silva
Chief Manager -
Wholesale Banking

AIB (Sri Lanka), Dip. in Credit Management (IBSL)

30 years of experience in banking



Mr. Himansu Wickramasinghe
Chief Manager -
Wholesale Banking

AIB (Sri Lanka), MBA (University of Colombo)

30 years of experience in banking



Ms. Ayomi Kaviratne
Chief Manager -
Wholesale Banking

ACMA (UK), CGMA, B.Sc. in Engineering (University of Moratuwa)

19 years of experience in banking



Mr. Ramesh Perera
Chief Manager -
Transaction Banking

ACMA (UK), CGMA

33 years of experience in banking



Mr. Thilanke Weerasinghe
Chief Manager -
Transaction Banking

MBA (University of Colombo), PG Dip. (CIM - UK), BA (Hons) in Leadership and Management (Northumbria University - UK), CITF (London Institute of Banking & Finance), CSDG (London Institute of Banking & Finance), CSCF (London Institute of Banking & Finance)

18 years of experience in banking



Ms. Medhini Senathirajasegaram
Chief Manager -
Credit Risk Management

ACMA (UK), CGMA, MBA (University of Colombo), B.Sc. (Hons) in Computer Science (University of Colombo)

20 years of experience with 19 years in banking



Ms. Gayanthi Manatunga
Chief Manager - Integrated Risk
Analytics and Assessment

Associate Member (IBSL), Financial Risk Manager (FRM) - Level I (Global Association of Risk Professionals), MBA in Banking and Finance (PIM - University of Sri Jayewardenepura), B.Sc. (Hons) in Finance, Business and Computational Mathematics - First Class (University of Colombo)

19 years of experience in banking



Mr. Nishantha Amunugama
Chief Manager -
Centralised Recoveries

MBA (University of Southern Queensland), PG Dip. in Business (ICASL)

26 years of experience with 24 years in banking



Mr. Rukshan Liyanage
Chief Manager -
Credit Review Division

MBA (Anglia Ruskin University - UK), PG Certificate in Business Administration (University of Leicester - UK), Professional Diploma in International Business (London School of Commerce - UK), Certificate Course in Credit (IBSL)

26 years of banking experience



Mr. Mohan Paliawadana
Chief Manager -
Credit Review Division

AICM (SL), CISI (UK) - Risk in Financial Services,
PG Dip. in Business and Finance (ICASL)

29 years of experience in banking



Ms. Rasika Dassanayake
Chief Manager - Business Relationship
and Portfolio Management

ACA (SL), B.Sc. in Accounting (Sp.) - First Class
(University of Sri Jayewardenepura)

22 years of experience in banking



Ms. Himali Nandika
Chief Manager -
Finance

ACA (SL), B.Sc. in Accounting (Sp.) - Second
Class Upper (University of Sri Jayewardenepura)

22 years of experience with 16 years in
banking



Ms. Aloka Ekanayake
Chief Manager -
Corporate Planning and Business
Intelligence

ACMA (UK), CGMA, ACA (SL), MBA (University
of Leicester)

28 years of experience in banking



Ms. Madara Ariyaratne
Chief Manager - Legal

Attorney-at-Law (Hons) of the Supreme
Court of Sri Lanka, Notary Public,
Commissioner for Oaths, Qualified
Company Secretary, BA (Hons) (University of
Sri Jayewardenepura)

29 years of experience in banking



Ms. Anushi Vithanage
Chief Manager - Legal

Attorney-at-Law (Hons) of the Supreme
Court of Sri Lanka, Notary Public,
Commissioner for Oaths, Qualified Company
Secretary, LL.M Master of Laws (with
Company Law and Banking Law) (University
of Colombo), Post Attorney Diploma in
Banking Law and Insurance Law - Merit (Sri
Lanka Law College)

28 years of experience in banking



Ms. Champa Wickramanayake
Chief Manager - Legal

Attorney at Law of the Supreme Court of
Sri Lanka, LL.B (Hons) (University of
Colombo), Post Attorney Diploma in
Intellectual Property Law (Institute of Higher
Studies - Sri Lanka Law College)

25 years of experience in banking



Mr. Ranisha Perera
Chief Manager - Human Resources

PG Dip. in Management (Cambridge Academy
of Management), BBA (Business University of
Costa Rica), Adv. Dip. in Teaching, Training and
Assessing (City & Guilds), Adv. Dip. in HRM (EIP),
Applied Lean Six Sigma Practitioner (SSMI),
Certified HR Business Partner (AON), Executive
Certificate in HR Analytics (CIPM)

18 years of experience with 16 years in
banking



Mr. Vinod Sivapragasam
Chief Manager -
Shared Services

MBA (Anglia Ruskin University - UK)

28 years of experience in banking



Mr. Deepa Edirisooriya
Chief Manager -
Digital Financial Services

MBA (Cardiff Metropolitan University -
UK), B.Sc. (Hons) in Business Information
Technology - Second Class Upper
(University of Greenwich - UK)

16 years of experience in banking

GROUP SUBSIDIARY LEADERSHIP TEAM



04

01 Mr. Dimantha Seneviratne
Director/Chief Executive Officer

Please refer page 24 for the profile

07

02 Mr. Senaka Kakiriwaragodage
Chief Executive Officer -
NDB Capital Holdings Limited

CFA, FCMA (UK), CGMA, MBA (University of Manchester - UK), B.Sc. in Computer Science and Engineering (University of Moratuwa)

20 years of experience, including 18 years with the NDB Group

03

03 Mr. Darshan Perera
Chief Executive Officer -
NDB Investment Bank Limited

Associate Member (IBSL), Associate Member (CIM - UK), Passed Finalist (CIMA - UK), Passed Level 2 (CFA - USA), MBA (University of Colombo), B.Sc. in Physical Science (University of Colombo)

30 years of experience, including 21 years with the NDB Group

01

04 Mr. Ruwan Perera
Chief Executive Officer -
NDB Wealth Management Limited

ACMA (UK), CGMA, MAFE (University of Colombo), MBA in Finance (University Of Colombo), B.Sc. in Physical Science (University of Colombo), PG. Dip. in Business Administration and Management (University of Colombo), PG Dip. in Corporate and Strategic Finance (CA - SL)

21 years of experience, including 13 years with the NDB Group

05 Mr. Gihan R. Cooray
Chief Executive Officer -
NDB Securities (Pvt) Limited

MBA in Finance (Cardiff Metropolitan University - UK), Certificate in Capital Markets (SEC - SL), High Potentials Leadership Programme (Harvard Business School - USA)

21 years of experience, including 19 years with the NDB Group

02

06 Mr. Girish Patil
Managing Director -
NDB Zephyr Partners Lanka (Pvt) Limited

PG Dip. in Management (SDM IMD - India)

20 years of experience, including 8 years with the NDB Group

06

07 Mr. Kazi Farhan Zahir
Managing Director & Chief Executive Officer -
NDB Capital Limited (Bangladesh)

MBA (North South University - Bangladesh), B.Sc. in Electrical Engineering (Purdue University - USA)

16 years of experience, including 1.5 years with the NDB Group

05



OPERATING LANDSCAPE
AND STRATEGY

NAVIGATING TURBULENCE

We continued to maintain our momentum and journey steadily onward while responding to ever-evolving dynamics with strength, energy, and boundless vigour.

The ocean is a vast space that always remains in motion. Waves represent a limitless energy that can traverse across entire ocean basins, derived from a range of environmental factors including planetary motion, heat and wind.



WE ARE NDB

National Development Bank PLC is one of Sri Lanka's leading private commercial banks, serving the country's retail, SME and corporate sectors through an array of lending, saving and transactional banking solutions. Established as a development bank in 1979, NDB has maintained its development orientation while transforming itself to an innovative and customer-centric bank through an ambitious strategy centring on digitalisation, diversification and operational excellence. The Bank's subsidiaries are also engaged in providing capital market solutions, enabling the Group to collectively offer the entire gamut of integrated financial solutions. The Group operates primarily in Sri Lanka and has limited operations in Bangladesh and Mauritius.

What sets us apart



Consistent growth

NDB has delivered above average growth in recent years led by a solid strategy which has transformed its operating model and market positioning.

17%

CAGR in Total Assets (5-year)

20%

CAGR in Customer Deposits (5-year)

Best-in-class technology platform

Pioneering and market-leading innovations including,

Virtual KYC based account opening and digi-loans

Mobile app combining banking and e-wallet solutions

Strong client satisfaction metrics

99%

Customer satisfaction rate



Strong balance sheet

LKR 833 Bn

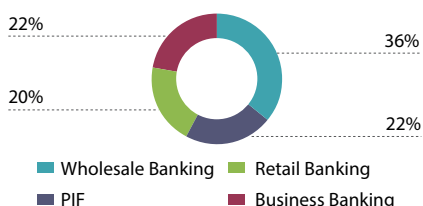
Total Assets

13.35%

Total Capital ratio

Diversified business profile

Segment Wise Breakdowns in Loans and Receivables



Socio-economic impact

Financial inclusion

Driving entrepreneurship

Empowering the women's market segment

Facilitating trade and supporting exporters

Supporting capital market vibrancy

Our Investor Proposition



Track record in delivering shareholder returns

The Group has continued to deliver on its shareholder commitments despite the persistently challenging operating landscape.

LKR 177.60

Net asset value per share



Strong corporate governance and risk management practices

The Group's governance framework has been developed to ensure compliance with several mandatory and voluntary frameworks, ensuring accountability, integrity and transparency across all levels of the organisation.

A comprehensive Enterprise Risk Management Framework and a risk conscious culture ensures that risks are managed proactively.



NDB share valuations

0.2

Price to book value

4.2

Price earnings ratio



Future-fit digital capabilities

The Bank has driven a market-leading digital transformation in recent years with the aim of delivering seamless client experiences, building an agile and responsive workplace and a lean operating model.



Financial resilience

The Group's capital position strengthened following a Rights Issue and Private Placement in 2021. Meanwhile, a cautious approach towards lending, stringent credit appraisals and ongoing engagement with customers has enabled the Bank to mitigate a sharp deterioration in its portfolio quality.

9.87%

CET 1 ratio

6.24%

Impaired loans (Stage 03) ratio



Responsible corporate citizenry

The Group adopts a multi-stakeholder approach towards value creation as it seeks to generate economic and social value while operating within planetary boundaries.

Certified as a
Great Place To Work

One of the largest lenders to the
renewable energy sector

Empowering women through
lending products and unique
propositions

VALUE CREATION MODEL

The Value Creation Model presented below is a graphical illustration of how the Group utilises its resources and relationships in generating stakeholder outcomes. The inputs have been classified based on the six capitals defined by the Integrated Reporting Framework, together with a seventh capital identified by NDB, namely, Digital Capital given its significance and relevance to us; while value transformation consists of strategy, processes and risk exposures. Outputs and outcomes have been showcased through capitals and stakeholders, with the latter also being linked to Sustainable Development Goals.

Quality and availability of our capital inputs

Financial resources FINANCIAL CAPITAL

Shareholders' funds:	LKR 67.5 Bn
Deposits:	LKR 671.7 Bn
Other borrowings:	LKR 80.8 Bn

Page 58

Digital infrastructure and capabilities DIGITAL CAPITAL

IT infrastructure:	LKR 973 Mn
Integrated IT systems and digital services	

Page 76

Physical Infrastructure MANUFACTURED CAPITAL

Branches:	113
Phygital branches:	2
Privilege Centres:	16
ATMs:	85
CRMs:	84

Page 78

Knowledge, skills and experience of our team HUMAN CAPITAL

Employees:	2,929
Experienced and highly skilled Executive Management	
Board Agile and diverse team	

Page 80

Organisational capital INTELLECTUAL CAPITAL

Brand and franchise value	
Appetite for innovation	
Organisational tacit knowledge	

Page 86

Relationships with stakeholders SOCIAL & RELATIONSHIP CAPITAL

Loyal and demographically dynamic customer base	
Correspondent relationships	92
Relationships with the communities we operate in	

Page 88

Natural resources NATURAL CAPITAL

Electricity consumption:	4.68 (kWh.Mn)
Fuel consumption:	155,847 L

Page 95

Vision, Business activities and Strategic priorities

VISION

To be the driving force for a financially empowered Sri Lanka.



OUR TOP RISKS (refer page 107 for further information)

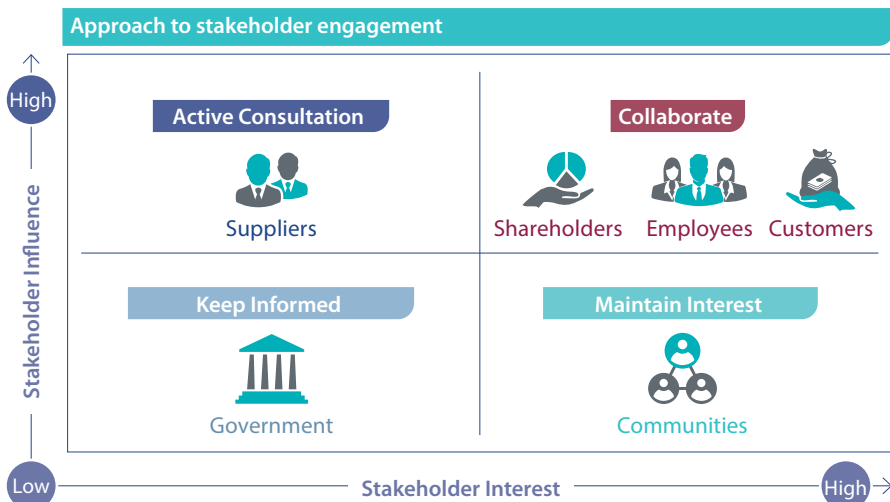


Value Transformation

Outputs	Capital outcomes	Stakeholders benefitted	Contribution to SDGs
 LKR 3.1 Bn Profits generated	FINANCIAL CAPITAL ⊖ Earnings per share of LKR 7.92 (-62%) ⊖ Profit generated LKR 3.1 Bn (-56%) + Strong Balance Sheet (CET1 ratio: 9.87%) ⊖ Share price declined by 54%	 Shareholders  Employees	
 LKR 120 Bn Deposits mobilised (+22%)	DIGITAL CAPITAL + >85% digital transactions + 92 processes automated + 56% of digitally enabled customers	 Customers  Employees	
 >85% Transactions through digital modes	MANUFACTURED CAPITAL + LKR 1.2 Bn capital expenditure	 Customers  Employees	
 5 Branches refurbished/relocated	HUMAN CAPITAL + LKR 5.7 Bn paid as salaries and benefits ⊖ Attrition increased to 15% + LKR 17 Mn investment in training + Improvement in diversity metrics + Certified as Great Place To Work	 Employees	 
 LKR 17 Mn Training & Development	INTELLECTUAL CAPITAL + 7% increase in brand value ⊖ High attrition levels and adverse implications on organisational knowledge	 Customers  Employees  Shareholders	
 7% NDB brand value enhancement	SOCIAL & RELATIONSHIP CAPITAL + Improvements in customer satisfaction indicators + 3 customer education programmes + LKR 8.0 Mn corporate sustainability initiative	 Customers  Country and community	  
 Grant aid to 8 women entrepreneurs	NATURAL CAPITAL + LKR 24 Bn investment in renewable energy + 100% loans assessed for environmental criteria + 5% decrease in carbon footprint	 Country and community	 
 5,279 tCO2e Carbon footprint			

STAKEHOLDER PRIORITIES

Measures are in place to ensure that engagement with stakeholders remains meaningful, inclusive, and sufficiently frequent, enabling us to understand their expectations and concerns. This allows the Group to align stakeholder needs with our strategic priorities. Our approach to stakeholder engagement and the platforms we use are summarised below:



How we ensure meaningful communication

Shareholders

- Annual and Extraordinary General Meetings
- Quarterly investor webinars and publication on quarterly financial results
- Year-round meetings with investment analysts, stock brokers, etc.
- Investor road-shows when required
- Numerous publications including Annual Report, quarterly performance updates, ongoing investor presentations and announcements to the CSE
- Dedicated investor relations page on our website www.ndbbank.com
- Dedicated top management persons earmarked for investor relations support

Employees

- Annual employee surveys including satisfaction, HRIS and department surveys
- Ongoing digital engagement
- Periodic staff meetings (Town halls, weekly leadership team meetings, monthly regional manager and business review meetings, quarterly branch manager meetings)
- Quarterly induction programmes
- Year-round work life balance initiatives such as Recreation and Toastmasters' club
- Annual Retail Banking awards
- Staff recreation activities

Customers

- Periodic customer satisfaction and feedback obtained via QR table tops
- Ongoing customer interaction at branches
- Ongoing online and social media interactions
- Print and electronic media publications as and when required
- Online and mobile banking portals

Suppliers and Business Partners

- Periodic supplier reviews and assessments
- Periodic meetings and written communication
- Dedicated communication channel through ndb.tenders@ndbbank.com
- Press releases, invitation for bids, tenders and information on the website

Country and Community

- Meetings with beneficiaries of CSR initiatives and capacity building programmes as and when required
- Ongoing publications including the Bank's Sustainability reporting and other press releases
- Ongoing CSR projects, and engagement on social media

Government and Regulators

- Regular statutory reporting
- Liaison with the regulatory bodies on matters concerning the sector
- Ongoing engagement through industry associations



Shareholders

Who it covers: NDB's 553 institutional and 10,783 retail shareholders.

Concerns and expectations in 2022/23

- Implications of the macro-economic crisis on the Group's financial performance and stability
- Effective risk management practices
- Sustainable returns commensurate with the risk undertaken
- Strength of Leadership Team
- Integrity and high standards of corporate conduct and governance
- Integration of ESG considerations

How we responded

Our response

Preservation of shareholder value through sound performance, strong governance and risk management practices



Where to find our response?

Financial Capital	58
Investor Relations	340
Delivering our Strategy	50

Quality of relationship and value delivered in 2022

Quality of relationship: Strong

LKR 177.60 NAVPS

LKR 12.2 Bn Market Capitalisation



Employees

Who it covers: The Group's strong team who are spread across the Island.

Concerns and expectations in 2022/23

- Increased focus on managing anxiety and ensuring mental well-being
- Flexibility in work arrangements given fuel shortages
- Financial security
- Effective performance management and attractive remuneration schemes
- Opportunities for talent and career development

How we responded

Our response

Ensuring employee physical and emotional well-being



Where to find our response?

Human Capital	80
Delivering our Strategy	50

Quality of relationship and value delivered in 2022

Quality of relationship: Strong

Certified as a **Great Place To Work**

58%

Employees facilitated with remote working

Maternity leave increased to

100 working days



Customers

Who it covers: Individuals, SMEs, Corporates, and Government institutions to whom NDB offers deposits, lending, transaction banking and capital market services.

Concerns and expectations in 2022/23

- Uninterrupted service delivery and seamless access to digital platforms
- Empathy of front-line employees
- Fast response times
- Relief in repayment in view of macro-economic challenges
- Competitive and transparent pricing
- Responsible banking practices

How we responded

Our response

Fortified digital platforms and strong customer advisory support



Where to find our response?

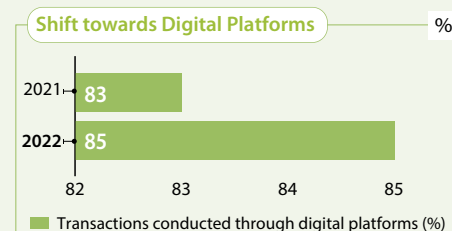
Social & Relationship Capital	88
Business Line reviews	61

Quality of relationship and value delivered in 2022

Quality of relationship: Strong

99%

Customer satisfaction (through QR Scanning)



69%

of requests resolved within 5 working days



Suppliers and Business Partners

Who it covers: The Group's extensive network of suppliers, business partners and correspondent banks.

Concerns and expectations in 2022/23

- Continued demand given the prevalent macro-economic conditions
- Fair and transparent pricing
- Ease of transacting
- For correspondent banks - secure and stable platform for transacting

How we responded

Our response

Ethical sourcing and pricing



Where to find our response?

Social & Relationship Capital



88

Quality of relationship and value delivered in 2022

Quality of relationship: **Strong**

LKR 8 Bn

Payments to suppliers



Country and Community

Who it covers: The communities in which the Group operates and the country's general population.

Concerns and expectations in 2022/23

- Support in addressing challenges stemming from economic crisis
- To partner combating common social and environmental issues
- Employment creation within communities
- To develop products and provide guidance on achieving desired community outcomes

How we responded

Our response

Strategic focus on community support through corporate sustainability and financial inclusion initiatives



Where to find our response?

Social & Relationship Capital



88

Quality of relationship and value delivered in 2022

Quality of relationship: **Strong**

LKR 8 Mn

Investment in corporate sustainability initiatives



Government and Regulators

Who it covers: The Group's key regulators include Central Bank of Sri Lanka, Securities & Exchange Commission, and Inland Revenue Authority among others.

Concerns and expectations in 2022/23

- Contribution to restoring macro-economic stability through facilitating essential imports, restricting forex outflows and directing funds towards critical sectors of the economy
- Compliance to all relevant regulations, directions, and guidelines
- Contribution towards stimulating economic activity
- Maintain regular and transparent communications
- Control direct and indirect impact on stakeholders, the society and the environment

How we responded

Our response

Full compliance with regulations and congruence with roadmaps/directions



Where to find our response?

Corporate Governance



108

Quality of relationship and value delivered in 2022

Quality of relationship: **Strong**

100%

Compliance to laws and regulations

OUR OPERATING ENVIRONMENT

The operating landscape for the Group and its stakeholders remained volatile and ambiguous for most part of the year, reflecting the country's economic woes, political instability, and social unrest, particularly during the first half of 2022. Key dynamics which shaped the operating landscape in 2022 and could impact value creation going forward, are listed below:

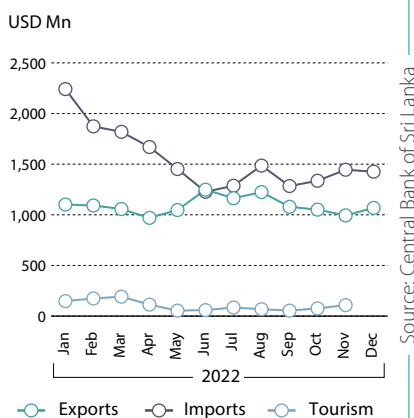
Macro-economic Volatility

- Sri Lanka faced an acute and unprecedented economic crisis in 2022, with sustained fiscal disparities and external sector imbalances together with political fluidity, culminating in a default on the country's debt payments.
- Successive credit rating downgrades from 2020 limited the country's access to international markets. Continued external debt servicing together with the sharp downturn in tourism earnings triggered by the pandemic led to the gradual depletion of official reserves. This led to the ultimatum of the Government of Sri Lanka (GoSL) failing to meet its international debt obligations in April 2022. With the lapse of one month's grace period in May 2022, Sri Lanka was downgraded to the status of Restricted Default by international rating agencies.
- Depleted foreign reserves and a resultant severe shortage on forex liquidity across the banking sector was addressed by the GoSL by imposing import restrictions on a wide range of items.
- Spillover effects including severe fuel and power shortages, soaring cost of production and acute shortages in imported raw materials and finished goods led to significant disruptions across multiple sectors, with the economy contracting sharply at an estimated -8.8% (source: <https://www.adb.org/countries/sri-lanka/economy>), together with loss of jobs particularly in the SME sector.
- The abandoning of a LKR 200 to the US dollar peg by the Central Bank of Sri Lanka in early March 2022 resulted in Sri Lankan Rupee severely depreciating by around 80% by end 2022.
- Inflation spiked to record highs due to this depreciation of the Rupee, increase in global commodity prices, supply side disruptions and long-overdue adjustments in administrative prices. The CCPI peaked to 69.8% and NCPI to 73.7% in September 2022, before decelerating in ensuing months in response to monetary policy measures and subdued inflationary pressures.
- CBSL tightened its monetary policy stance from January 2022, with the aim of stemming inflationary pressures. Following several adjustments to policy rates – most notable being in April 2022 where the SDFR, SLFR and

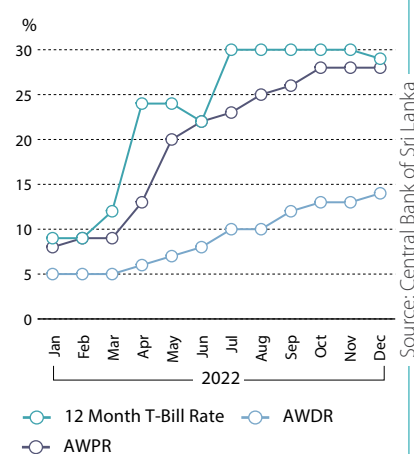
the Bank Rate were increased by 700 bps – the highest ever by the CBSL, market interest rates escalated rapidly reflecting significant liquidity deficits in the money market.

- The GoSL has engaged the International Monetary Fund (IMF) for an Extended Funded Facility (EFF) and macro-economic adjustment programme, with a staff level agreement reached in September 2022.
- While the IMF-EFF programme will provide an opportunity for Sri Lanka to implement critical reforms and structural adjustments, the success of the programme will depend largely on political will and leadership commitment. Successful implementation of reforms can rectify significant imbalances, provide renewed access to international markets and pave way for sustainable and equitable economic growth.

External Sector Trends



Interest Rate Movements



Impact on NDB

Opportunities

- Selective lending opportunities across business lines in local manufacturing, exports and import substitution
- Policy impetus towards strengthening the SME Sector

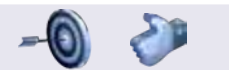
Risks

- Curtailment of business (particularly imports) due to shortage in foreign currency liquidity
- Rising inflationary pressures and resultant impacts on operating costs
- Sharp slowdown in credit demand reflecting weak economic sentiments and high interest rates
- Escalated stresses on credit quality

Our Response

Strategic Action

- Strategic focus on preserving liquidity
- Reliance on predictive forecasts to prioritise commitments and ensure facilitation of essential imports
- Ongoing efforts by the Remedial Management Unit to provide timely support to customers facing repayment pressure



Link to Risk

- Curtailment of business (particularly imports) due to shortage in foreign currency liquidity
- Rising inflationary pressures and resultant impacts on operating costs
- Sharp slowdown in credit demand reflecting weak economic sentiments and high interest rates
- Potential stress on credit quality

INFLATION

CCPI (December 2022)

57.20% YoY

CCPI Headline Inflation

59.20% YoY

NCPI Headline Inflation

Regulation and Demands on Governance

- Regulatory focus during the year shifted to preserving the country's foreign currency reserves, addressing inflation and stabilising macro-economic fundamentals through the following:
 - Interest rate caps on foreign currency deposits
 - Restrictions on forward sales and purchase of forex
 - Margin requirements against imports
 - Restrictions on discretionary payments by banks
- Given the conditions that prevailed, the CBSL also permitted the drawdown of banks' capital conservation buffer by 2.5%.
- Amidst the prevalent macroeconomic challenges, the CBSL also introduced concessions to affected borrowers to be determined on a case-by-case basis.
- In May 2022, the CBSL issued the Sri Lanka Green Finance Taxonomy, a classification system categorising economic activities that are environmentally sustainable. The regulator also issued a Direction on sustainable financing activities for licensed banks, which included establishing appropriate governance structures, risk management frameworks and staff capacity building.

Mega Trends Shaping the World of Work

Increased exposure to data privacy and cybersecurity related risks

ESG and Sustainable finance

Basel III capital requirements

Emphasis on equal opportunity and diversity

Impact on NDB

Opportunities

- Developing competitive advantage through focus on ESG and Sustainable lending
- Strengthening customer relationships through continued support for businesses impacted by the economic crisis

Risks

- Increased cost of compliance
- Implications on fee income and ability to service import customers

Our Response

Strategic Action

- Compelled to prioritise and trade-off import customers to manage foreign currency positions
- Maintained close engagement with customers to support them through the crisis
- Strong governance framework where daily and weekly top management level meetings were held to manage foreign currency positions, along with guidance from the Board of Directors



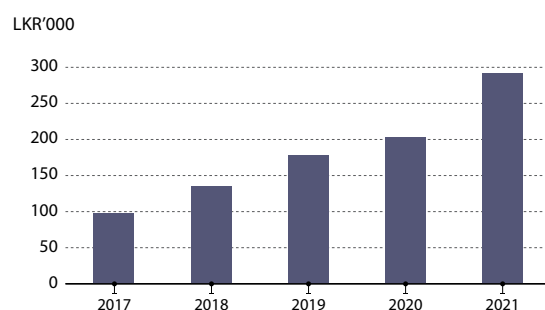
Link to Risk

- Compliance Risk (312)
- Credit Risk (316)
- Liquidity Risk (322)

Acceleration of Digitalisation

- The digitalisation of financial services is transforming banks as they embrace mobile technology, big data and analytics, artificial intelligence and block-chain technology (among others) in the pursuit of operational efficiencies and new revenue models.
- In Sri Lanka, technology continues to be a key differentiator for banks, particularly in the aftermath of COVID-19 which saw permanent shifts in customer behaviour to digital platforms.
- In addition to enhancing the customer experience, digitalisation has transformed how banks operate and interact with its employees, including the enablement of remote working solutions.

Per Capita Internet Based Transaction Value



Source: Central Bank of Sri Lanka

Impact on NDB

Opportunities

- Enhancing client experience and increasing fee-based contributions
- Improving efficiencies through technology
- Increasing penetration in new market segments

Risks

- Increasing risks of cyber attacks and financial crime
- Technological obsolescence

Our Response

Strategic Action

- Completion of core banking upgrade enabling access to enhanced architecture and product functionalities
- Launch of several digital customer processes (refer page 76)
- Ongoing focus on strengthening IT security infrastructure



Link to Risk

- IT and Cyber security Risks (326)
- Operational Risk (324)

Evolving world of work

- Mega trends shaping the world of work including digital transformation, socio-economic dynamics, and new working models (among others) have compelled organisations to rethink their people, practices and processes.
- Sri Lanka's brain drain has emerged as a key problem across sectors, as the country's economic crisis led to a mass exodus of skilled workers to developed nations.
- Industry transformation in recent years has also led to a shift in the skill profile required of bank employees, with increased emphasis on digital skills, analytics as well as empathy and creativity.

Mega Trends Shaping the World of Work

Expectations of connectivity and opportunities for remote working

Increased focus on stress management and mental well-being

Limited availability of skilled talent

Emphasis on work-life balance

Growing need for purposeful and meaningful work

Impact on NDB

Opportunities



- Embracing new ways of working, including remote working models for selected roles

Risks



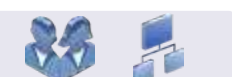
- Shortage in skilled labour given increasing brain drain
- Impact of escalating cost of living on labour costs and employee morale
- Health and safety risks stemming from the outbreak of COVID-19

Our Response

Strategic Action



- Facilitated remote working for nearly 40% of the workforce on a long-term basis
- Special relief allowance to selected employee categories
- Transportation for staff members at high-density locations for free/ at concessionary rates
- Strategic alignment through a holistic organisational change management programme



Link to Risk



- Operational Risk (324)

Achieving Growth Aspirations within Planetary Boundaries

- The World Economic Forum's Global Risk Report (2022) lists environmental risks among the most critical long-term threats facing humanity in both impact and likelihood.
- Sri Lanka's high temperature, unique hydrological regime, and exposure to extreme climate events, make it highly vulnerable to climate change and was ranked 100th out of 181 countries in the ND-Gain Index.
- Businesses are under increasing pressure to address critical environmental issues facing the world today. For banks, this includes emphasis on sustainable lending, emissions reduction strategies and climate adaptation and mitigation.

Top Global Risks in the Next 10 Years

1 Climate action failure	5 Livelihood crises
2 Extreme weather	6 Infectious diseases
3 Biodiversity loss	7 Human environmental damage
4 Social cohesion erosion	8 Natural resource crises

Impact on NDB

Opportunities



- Developing new solutions to address climate change related risks and support climate resilience
- Implementing green financing schemes to promote environmentally sustainable business

Risks



- Increasing risks of climate change on several key sectors including agriculture, power and energy and tourism
- Potential disruptions to operations stemming from natural disasters and ecosystem damage

Our Response

Strategic Action



- Ongoing engagement with Sri Lanka Climate Fund to formulate an action plan for achieving net zero
- Ongoing measures to embed social and environmental sustainability considerations into strategy and decision-making



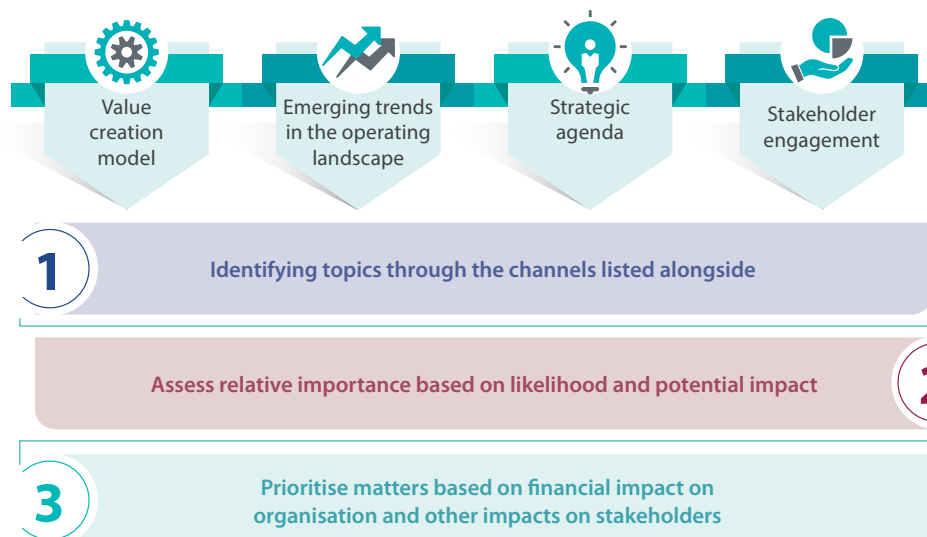
Link to Risk



- Credit Risk (316)
- Operational Risk (324)

MATERIALITY

NDB's materiality map (illustrated below) represents the issues that can potentially impact the Group's value creation in the short, medium, or long-term. We adopt a **double materiality lens** when determining these topics, thereby considering both financial impacts to the organisation as well as economic, social, and environmental impacts to other stakeholders. Material issues are informed by the feedback received from our stakeholders, changes in the operating environment which present opportunities and threats and the Group's strategic aspirations. The topic boundaries remained unchanged from the previous year.



The Group's Materiality Map changed considerably during the year, reflecting significant shifts in the operating landscape. Improvements to the materiality assessment process and changes in the list of material topics compared to 2021 is presented below:

Process improvements

- Topics determined through a double-materiality lens
- Inclusion of material topics recommended by the SASB Standards, in addition to the GRI Standards

Changes to materiality in 2022

New topics added

- (1) Brain-drain due to migration
- (2) Employee mental well-being
- (3) Environmental, Social and Governance aspects
- (4) Managing socio-political impacts
- (5) Power and energy shortages and fuel crisis

- (6) Foreign currency shortage
- (7) Regulatory developments

Increase in importance

- (1) Embracing and leveraging technology and data
- (2) Managing macro-economic headwinds
- (3) Impacts of sovereign rating changes

Materiality Map 2022

Organisational Impact

Stakeholder Impact



Rating Scale

10 - 7: High importance

6 - 4: Medium Importance

3 - 0: Low importance

Material topic	Prioritisation		Changes in materiality compared to last year	Stakeholder group impacted	Relevance to our strategy	Page reference for further information
	Organisational impact	Stakeholder impact				
Profitable growth	H	H	-	Shareholders	Business focus 	Financial Capital (258) Performance against strategy (250)
Brand positioning	H	M	-	Customers	Business focus 	Intellectual Capital (286)
Ensuring safety of employees and customers	H	H	-	Employees Customers	Empowered staff 	Human Capital (280)
Customer centricity	H	H	-	Customers	Business focus Customer solutions 	Performance of Business Lines (261)
Customer privacy	H	H	-	Customers	Customer solutions 	Social & Relationship Capital (288)
Operational efficiency	H	H	-	Employees Customers	Digital and data as transformers 	Digital Capital (276) Intellectual Capital (286)
Talent attraction & retention	H	H	-	Employees	Empowered staff 	Human Capital (280)
Brain-drain due to migration	H	M	New topic	Employees	Empowered staff 	Human Capital (280)
Employee mental well-being	H	H	New topic	Employees	Empowered staff 	Human Capital (280)
Digital transformation	H	H	-	Customers Employees	Digital and data as transformers 	Digital Capital (276) Performance of Business Lines (261)
Embracing and leveraging technology and data	H	H	Increased importance	Customers Employees Shareholders	Digital and data as transformers 	Digital Capital (276)
Facilitating financial inclusion and financial literacy	H	H	Increased importance	Government Communities	-	Social & Relationship Capital (288)
Responsible lending	H	H	-	Customers	Customer solutions 	Social & Relationship Capital (288)
Environmental, Social and Governance aspects	H	H	New topic	Shareholders Employees Business partners	-	Commitment to Sustainability (254)
Managing macro-economic headwinds	H	H	Increased importance	Shareholders Employees Customers	-	Operating Environment (245)
Managing socio-political impacts	H	H	Increased importance	Shareholders Employees Customers	-	Operating Environment (245)
Impacts of sovereign rating changes	H	M	Increased importance	Shareholders	-	Risk Management (2310) Financial Capital (258)
Market and liquidity management	H	H	New topic	Shareholders	Business focus 	Risk Management (2310) Financial Capital (258)
Power and energy shortages and fuel crisis	H	H	New topic	Employees Shareholders	-	Operating Environment (245)
Foreign currency shortages	H	H	New topic	Shareholders	-	Performance of Business Lines (261)
Elevated importance of risk management	H	H	-	Communities	-	Natural Capital (295)
Community engagement	H	H	-	Communities	-	Social & Relationship Capital (288)
Regulatory developments	H	H	New topic	Shareholders	-	Operating Environment (245)
Adapting to post-pandemic realities	H	H	-	Customers Employees	-	Human Capital (280) Performance of Business Lines (261)
Ecosystem partnerships	H	M	-	Business Partners	-	Social & Relationship Capital (288)

DELIVERING OUR STRATEGY

Voyage 2025 comprises five integrated pillars that are designed to sharpen the Bank's competitive edge through driving customer centricity across all aspects of its operations, thereby effectively catering to customers' increasing needs for convenience and personalised solutions. The five pillars are underpinned by organisation-wide efforts to achieve operational excellence and a commitment to integrating ESG consciousness. The extraordinary circumstances that prevailed during the year necessitated exceptional agility and while maintaining focus on the pillars of Voyage 2025, the Bank was compelled to make tactical changes to its strategy to ensure stability and resilience in the short-to-medium term.

Reviewing progress in delivering Voyage 2025			
Strategic pillar	2025 goal	How we measure success	Resources allocated
Customer Solutions 	Shift from a product-centred approach to a customer-centred approach, driving customer centricity across the customer journey	- Customer retention rate - Customer satisfaction rate - Brand value	Insights into customer behaviour  IC Customer-service related training  HC Digital capabilities  DC
Business Focus 	Identify and strengthen presence in growth segments in the economy	- Growth in loans and receivables - Acquisition of export-oriented customers - Gross NPA ratio - CASA ratio	Funding directed to growth sectors  FC Digital capabilities  DC Collaborations with external stakeholders  S&RC
Digital & Data as Transformers 	Leverage data and digital infrastructure to offer seamless, personalised and customer-centric solutions	- Transactions conducted through digital platforms - Digitally active customers	Investments in digital capabilities  FC Culture of data-driven decision making  IC Employees' digital skills  HC
Organisational Realignment 	Drive cohesive changes in the organisational structure to achieve customer centricity	- Intra-group cross selling - Earnings diversity - Customer wallet share	Collaboration and coordination between departments  IC Dedicated Group Relationship Managers  HC
Empowered Staff 	Build a motivated, creative, and productive team through empowering employees and fostering a culture of innovation and customer centricity	- Employee satisfaction rate - Retention rate - Female representation - Career development opportunities	Employee payments and investments in training  FC Performance-driven organisational culture  IC
 Delivered over three time horizons			
Short-term - Preserve capital adequacy and profitability through tactical changes including preserving asset quality and cost optimisation - Sharpen competitive edge and increase customers' wallet share through strengthening digital capabilities and multi-faceted value propositions - Extending continued support to customers in navigating the present challenges	Medium-term - Increased diversity of revenue streams - Repositioning the branch network as a universal customer touch point - Harnessing Group expertise and specialisation to provide tailored solutions	Long-term Becoming the "Banking Group of Choice" of all Sri Lankans with focus on improving financial inclusivity and social resilience	

CUSTOMER SOLUTIONS



Highlights

- Tiered segmentation benefits, which enable personalised offerings
- Centralised relationship model launched for high-end SMEs
- Efforts to improve accessibility and service standards of Contact Centre
- Strengthened the platforms in place to measure customer satisfaction
- Customer education and business development workshops

Way forward

- Offer continued support to customers through the prevalent economic challenges

Impacts from operating environment

- ➔ Repayment pressure arising from the macro-economic challenges
- ➕ Increasing prevalence towards digital platforms

Tactical interventions to address impacts of crisis

- Close engagement, support and advisory services to customers
- Focused support to customers with challenged debt servicing through the newly established Remedial Management Unit

Measuring progress

99%

Customer satisfaction rate

Value creation/preservation/erosion

- ➔ Prioritising customer requirements to manage foreign currency liquidity pressure
- ➕ Increasing prevalence towards digital platforms



S&RC

- Leverage social media platforms to drive improved customer engagement

- Continued emphasis on improving service standards and Contact Centre effectiveness

BUSINESS FOCUS



Highlights

- Daily and proactive monitoring of forex inflows and outflows and prioritising commitments
- Detailed analysis on branch efficiency and launch of new operational procedures
- Implemented an agile lending strategy with focus on export-oriented business
- Partnerships with DFIs and third party service providers (such as ADB and Maersk) to drive value addition to customers
- Strategic emphasis on preserving portfolio quality through interventions from the Remedial Management Unit
- Organisation-wide efforts to increase fee-based income

Way forward

- Increased focus on capital efficient lending through detailed RORAC analysis

Impacts from operating environment

- ➔ Severe foreign currency shortage in the banking system
- ➔ Evolving regulatory landscape
- ➔ Unprecedented increase in interest rates and inflation
- ➔ Industry wide deterioration in portfolio quality

Tactical interventions to address impacts of crisis

- Aggressive export drive with the formation of an Export Drive Committee and prioritising export customers
- Facilitating import of essential items including fuel in supporting economic recovery
- Preserving liquidity to ensure short-term resilience and stability

Measuring progress

10%

Growth in gross loans and receivables

6.24% (2021 - 4.55%)

Impaired loans ratio

22%

Deposit growth

Value creation/preservation/erosion

- ➔ Profitability impacted by rising impairment charges



FC

- Remittance drive pursuing potential tie-ups with exchange houses

- Pursue selective growth opportunities in generating fee-based income

DIGITAL & DATA AS TRANSFORMERS



Highlights

- Upgrade of Core Banking platform and several innovations including digital loan onboarding, digital account opening, NDBS integration with NEOS and electronic KYC among others
- Appointment of data stewards across business lines
- Dashboard-driven performance management for several key areas
- Pursue opportunities in blockchain technology
- Obtained ISO 27001 (Information Security Management)

Impacts from operating environment

- ➔ Increased risk of cyber threats and fraud
- ➕ Rapidly evolving customer needs and sophistication

Measuring progress

85%

Transactions conducted through digital platforms

27%

Cost to income ratio

86%

Growth in NEOS based transaction value

Tactical interventions to address impacts of crisis

- Increased investments in remote working arrangements
- Driving cost and process efficiencies through workflow and RPA technology

Value creation/preservation/erosion

- ➕ Increased reach and penetration of new market segments



FC

- ➕ Increased customer convenience and accessibility



S&RC

Way forward

- Implementation of ISO 20000 (IT Service Management) and ISO 22301 (Business Continuity)
- Launch of new system for channel financing
- Pursue opportunities in implementing blockchain technology in supporting trade finance businesses

ORGANISATIONAL REALIGNMENT



Highlights

- Appointment of sector specialists for selected sectors including Agriculture, Energy, Construction and Apparel
- Introduction of central contact points in business lines to facilitate business referrals from Project Finance
- Leveraging the Group's matrix structure to drive shared ownership of client servicing in performance evaluation
- Cross-department engagement in strategy workstreams
- Deep dive analysis to customer behavioural patterns to identify cross-sell opportunities for lending and transactional banking services

Impacts from operating environment

- ➔ Sharp slowdown in credit demand due to macro-economic headwinds

Tactical interventions to address impacts of crisis

- Improvement in credit impairment process

Measuring progress

- Deeper customer relationships and higher wallet share
- Increased diversity of earnings profile

Value creation/preservation/erosion

- ➕ Nurture a cohesive, goal-congruent organisational culture



IC

- ➕ Opportunity in driving customer centricity across business verticals



S&RC

Way forward

- Further capitalisation on opportunities offered by data analytical capabilities to map customer behaviour and curate solutions accordingly
- Strengthen business intelligence to secure sustained growth
- Continue upskilling of the NDB Team to support organisational realignment



Highlights

- Initiatives to ensure well-being of staff members in the economic meltdown
- Continued efforts to minimise the spread of COVID-19 and ensure safety of all employees
- Flexible working arrangements through facilitating Work from Home options
- Ongoing engagement to drive Voyage 2025 linked Organisational Change Management
- Revamped digital learning academy and strengthened internal training capabilities

Impacts from operating environment

- ➔ Notable increase in attrition, reflecting the severe exodus of skilled workers from the country
- ➔ Adverse implications on mental well-being amid the economic crisis and prevalent uncertainty

Tactical interventions to address impacts of crisis

- Offered free transport services through deployment of 13 buses during the months of severe fuel shortage
- Ensure financial security of employees through additional relief allowances and awareness programmes on financial well-being

Measuring progress



Certified as a Great Place To Work for 2nd consecutive year

85%

Retention rate

41%

Female representation

16%

Promotions

Value creation/preservation/erosion

- + Improvement in employee productivity
- + Increasing prevalence towards digital platforms
- ➔ Increase in attrition



HC

Way forward

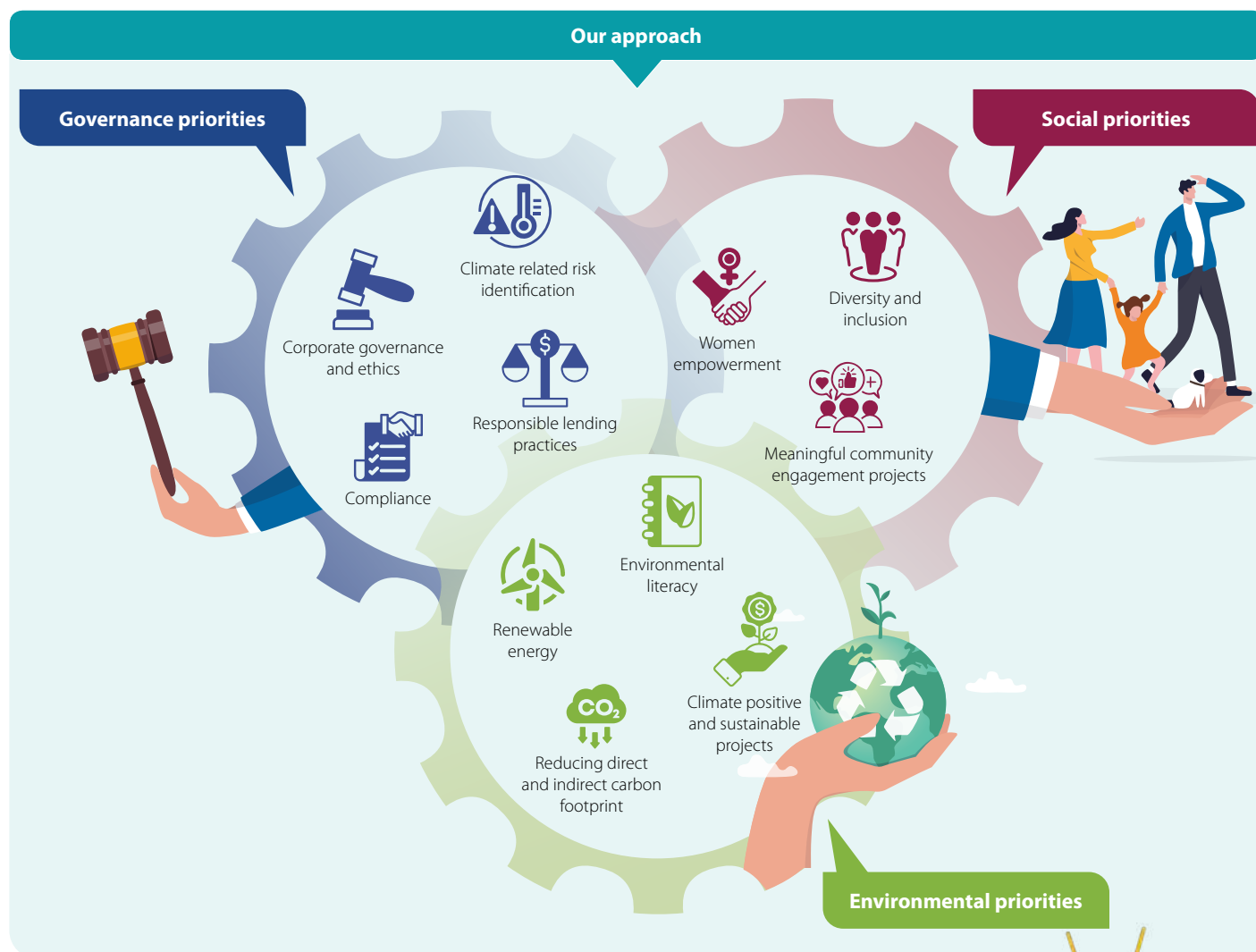
- Launch of holistic employee well-being programme including multi-faceted counselling services
- Succession planning and establishing new pathways of specialisation

COMMITMENT TO SUSTAINABILITY

Although global economic development has enhanced living standards, the world is facing unprecedented economic, social and environmental issues due to rising inequality, degradation of ecosystems, resource depletion and conflict. These trends present new systemic risks to organisations, which can be detrimental to long-term prospects. As stakeholders place increasing prominence on ESG issues and regulation tightens, NDB has sought to embed ESG considerations across the organisation, underpinned by a holistic Sustainability Policy and ESRM Framework.

THE SUSTAINABILITY CONTEXT

Banks' sustainability context is evolving at a rapid pace fuelled by the convergence of several disruptive forces which includes demographic trends, regulations, environmental and climate impacts, technological shifts, and economic disparity among others. By aligning strategy to respond to these emerging issues, banks can support the development of a greener planet and a more equitable society, driving towards the aspirations of the United Nation's Sustainable Development Goals while generating shareholder value.



Key trends shaping our sustainability context

Financial inclusion to support vulnerable communities

Moving to a low-carbon economy

Support and capacity building for SMEs

ESG related regulation

Empowering women to drive increased economic contribution

Customer privacy and data security

Rising implications of climate change



ALIGNMENT TO THE ROADMAP FOR SUSTAINABLE FINANCE ISSUED BY THE CENTRAL BANK OF SRI LANKA

Issued in 2019, the Roadmap provides guidance to financial institutions in effectively managing ESG risks of the projects that are financed and support investments that are socially inclusive and climate-friendly. Measures adopted to strengthen our ESG framework and align same to CBSL guidelines are as follows:

Governance Structure: The Bank has a dedicated Environmental and Social Risk Management Integrated Committee (ESRMIC) with representation from all business lines and related enabling functions such as Human Resources, to continuously improve and roll out the Bank's responsible lending agenda. The ESRMIC receives guidance from the top management, as well as from the Board of Directors, as the Bank's ESRM function comes under the purview of the Board Integrated Risk Management Subcommittee.

Furthermore, the Bank's Corporate Sustainability Committee comprising top management and cross-functional representation drives the Bank's sustainability agenda. The Committee works closely with the Sustainability Division in selecting, implementing and monitoring relevant

sustainability projects, which augment the Bank's overall endeavours in sustainable financing. Examples include conducting capacity building programmes for customers on related topics

Policy Framework: A comprehensive ESRM Policy and an ESRM Manual has been developed and approved by the Board with the aim of strategically supporting businesses that are financially, socially, and environmentally sustainable. The E&S risk rating support the Bank to categorise clients based on their E&S impact and further evaluate them to explore appropriate mitigates and/or compensation to minimise and/or eradicate the identified E&S gaps. The ESRM Framework of the Bank is focused on responsible lending and bridges the overall ESG appetite of the Bank with the goals of the CBSL's Sustainable roadmap. The ESRM Policy and the Manual of the Bank is strengthened by international best practices, supported by the Bank's foreign shareholders and creditors.

Capacity Building: The Bank has commenced organisation-wide capacity building programmes with the aim of nurturing an E&S-conscious risk culture. Such capacity building initiatives are

structured in line with a specifically developed curriculum and the Bank has allocated dedicated internal resource persons to drive E&S learning and development amongst its staff. NDB also partners with E&S experts and facilitate E&S training programmes regularly.

Market and Policy Actions

Sri Lanka Sustainable Banking Initiative launched in 2015

CSE joining the UN Sustainable Stock Exchanges initiative in 2018

Issue of Green Finance Taxonomy by CBSL in May 2022

Direction of Sustainable Finance Activities of Licensed Banks

ESG Scorecard

Environment 95

Renewable energy

NDB is a key lender to renewable energy projects in Sri Lanka.

		2022	2021
• Disbursements for RE projects (to date including Equity Finance)	LKR Bn	24.29	23.63
• Number of projects (to date)	No. of	105	105
• GHG and harmful gases avoided	Mn. KgCO ₂ e	739	739

Hybrid/electrical vehicle financing

• Number of vehicles financed	No. of	2,420	2,065
• Amount extended	LKR Mn	6,845	5,480

Reducing carbon emissions

The Bank computed and verified its GHG emissions inventory in partnership with the Sri Lanka Climate Fund as a first step to formulating its action plan for achieving net zero.

NDB is a key lender to renewable energy projects in Sri Lanka.

• Carbon footprint	tCO ₂ e	5,279	5,579
• Carbon intensity	tCO ₂ e/LKR Mn	0.05	0.09

Environmental literacy programs

The Bank conducts awareness sessions to address contemporary environmental issues.

• Sessions conducted (both physical and virtual)	No. of	66	38
• Beneficiaries	No. of	>7,000	>8,000

Climate positive projects

• Let's Grow reforestation project at Himbilyakada Matala (trees planted in 2020 – nurtured to maturity till 2025)	No. of	3,000	3,000



Social

2022

2021

Diversity

The Bank has obtained and continues to comply with the EDGE Certification for gender equality at the workplace. (80)

- Female representation at senior management levels

%	31	33

Women empowerment

Through the Banking on Women initiative and Vanithabhimana initiative the Bank drives women's socioeconomic empowerment. (88)

- Participants from across the country

No. of	>3,500	>3,000

Financial inclusion

The Bank drives socio-economic empowerment through lending to unbanked/underprivileged sections. (63)

First time mortgage customers

- First time mortgage customers
- Lending to first time mortgages

Lending to small-business owners

No. of	200	487
LKR Mn	2,018	4,345
LKR Mn	3,654	2,761

Engagement

- Donation of white canes to visually impaired

No. of	100	-



Governance

2022

2021

Responsible lending practices

The Bank has implemented a comprehensive ESMS system to embed social and environmental consciousness to lending decisions.

- No. of loans screened
- Employees trained on ESMS
- Employee training hours

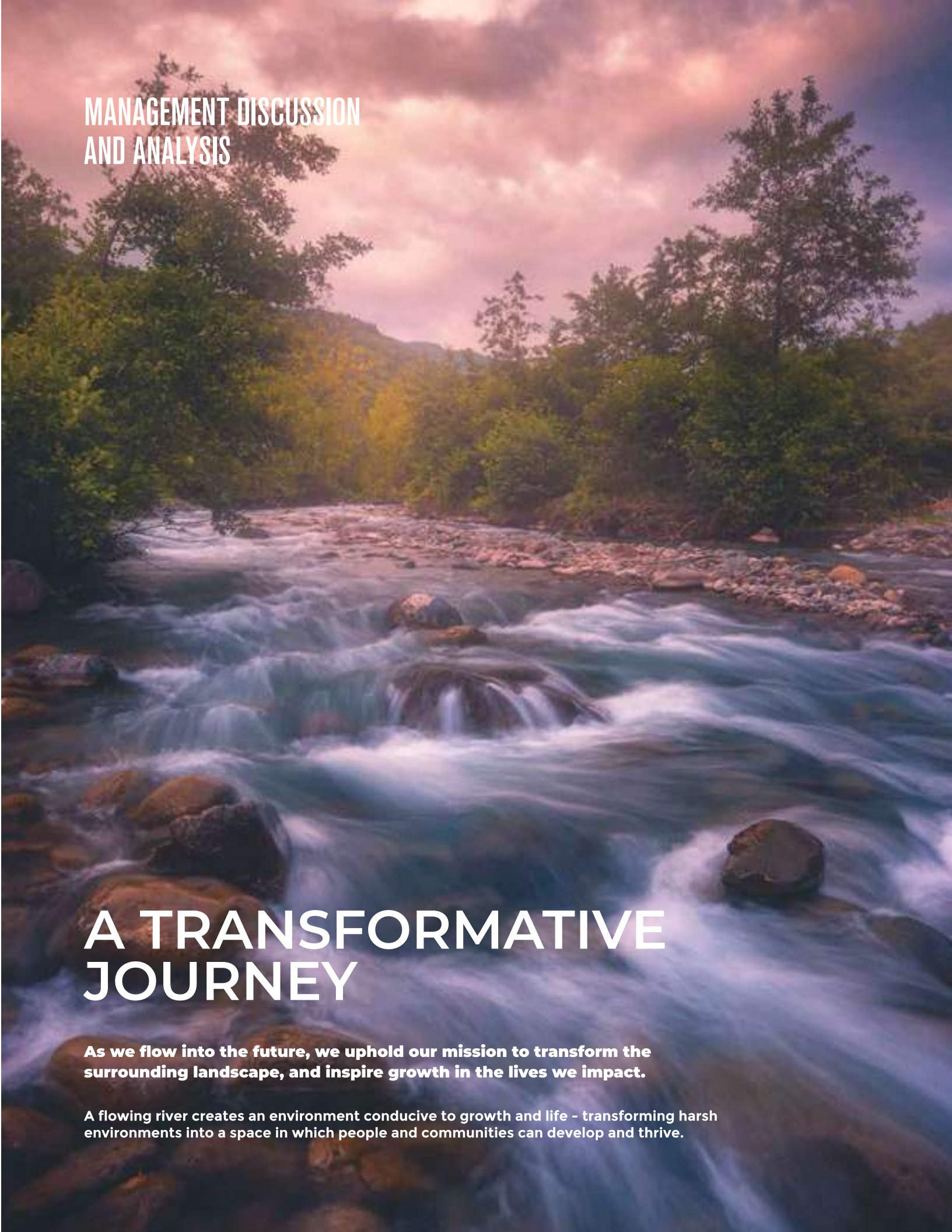
%	100	100
No. of	650	756
Hours	786	6,796

* The Bank launched its comprehensive training programmes on ESMS aspects in 2021, covering a wide base of employees. During 2022, the same trainings were extended to relevant new recruits.

Risk Management

With our aspiration of embedding climate-related risks to the Bank's overall risk management framework, we have identified the following implications of climate change on our risk profile.

Type of Risk	Implications
Credit risks	Arising from lending exposure to industries which have relatively high vulnerabilities to climate change. This includes agriculture, tourism and energy among others.
Funding risks	Arises from counterparts withdrawing funding lines from potentially climate-negative businesses
Operational risks	Erratic weather patterns and natural disasters can direct or indirectly disrupt the Group's operations
Regulatory risks	More stringent scrutiny and regulations relating to mitigating climate change may impact our business model and key lending decisions.

A photograph of a river flowing through a forest. The water is turbulent and white with foam as it flows over rocks. The surrounding trees are lush green. The sky is filled with dramatic, colorful clouds in shades of pink, orange, and purple, suggesting a sunset or sunrise. The overall mood is serene yet powerful.

MANAGEMENT DISCUSSION AND ANALYSIS

A TRANSFORMATIVE JOURNEY

As we flow into the future, we uphold our mission to transform the surrounding landscape, and inspire growth in the lives we impact.

A flowing river creates an environment conducive to growth and life - transforming harsh environments into a space in which people and communities can develop and thrive.

FINANCIAL CAPITAL

Financial Capital is represented by the pool of funds consisting of shareholders' funds and borrowings which are used to fund to the Group's strategic aspirations and growth agenda.

Role of Financial Capital in value creation

- Access to low-cost deposits is vital to funding our growth and preserving profitability
- Financial Capital is also critical in building liquidity buffers to ensure the smooth continuity of day to day operations

Activities affecting Financial Capital

- Organisation-wide efforts to preserve portfolio quality
- Effective re-pricing of assets and liabilities
- Risk and capital efficient lending

Outcomes

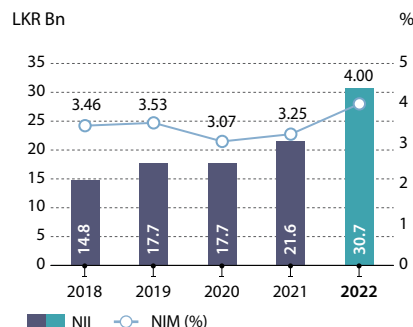
- + 42% increase in NII
- + 28% growth in Non-fund based income
- + 27% Cost to income ratio through productivity and process efficiencies
- + LKR 7.92 Earning per share - Group
- + LKR 177.60 Net asset value per share - Group

FINANCIAL PERFORMANCE

Net Interest Income

Drivers: Credit demand, Interest rates, Competition, Reach, Funding composition, Attractiveness of products

NII Trends

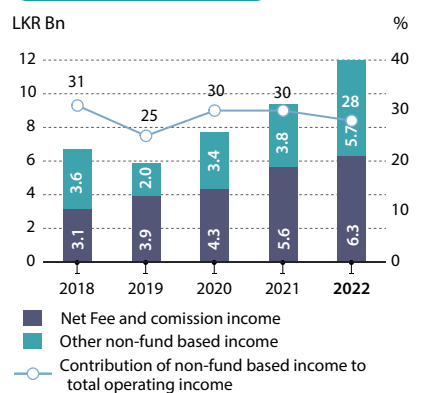


The Bank's NII recorded growth of 42% to LKR 30.7 Bn supported by an 86% increase in interest income amidst the unprecedented rise in interest rates during the year. Meanwhile, customers capitalised on the high interest rate environment by shifting deposits to time deposits, resulting in the Bank's interest expense surging 116%. Consolidated NII increased by 43% to LKR 31.1 Bn. Timely re-pricing and effective management of assets and liabilities enabled the Bank to widen its NIM to 4.00%, from 3.25% in 2021.

Non-fund based Income

Drivers: Fee and commission income, Growth in digital transactions, Trade services, Investment portfolio, Trading decisions, Interest rates, Exchange rates

Non-fund based Income

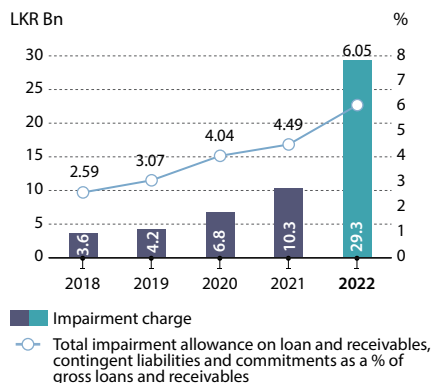


Non-fund based income grew by 28%, supported by a respective 12% and 51% increase in net fee and commission income and other non-fund based income. The former represents fee income generated from core banking operations, including trade related services while the latter comprises revaluation gains on foreign currency balances, given the sharp depreciation of the Sri Lankan Rupee during the year. Net losses from trading amounted to LKR 340.3 Mn as trading opportunities in fixed income securities were adversely affected by limited activity and constrained liquidity levels. Bank's total operating income increased by 38% to LKR 42.7 Bn during the year.

Impairment Costs

Drivers: Sovereign rating, Underlying portfolio quality, Macro-economic conditions, Strength of customer relationships

Impairment Charges



The broad-based escalation in impairment charges, inserted significant pressure on the industry's profitability during the year. The Bank's impairment costs increased by 185% to LKR 29.3 Bn, mainly driven by impairments on foreign currency denominated Government securities as the country's sovereign rating was downgraded to Restricted Default in May 2022. Accordingly, the Bank accounted for LKR 17.4 Bn for impairment charges on financial assets, which increased from LKR 2.1 Bn in the previous year, an increase of 729%.

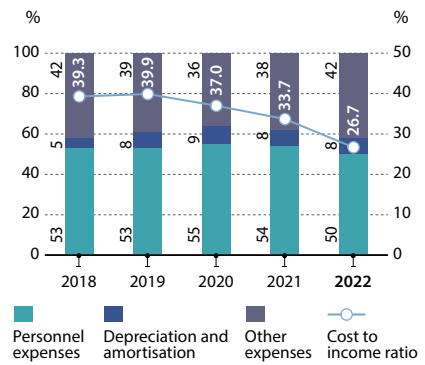
Inevitably, impairment charges on loan and receivables, contingent liabilities and commitments also increased to LKR 11.8 Bn from LKR 8.2 Bn in 2021, an increase of 45%, reflecting the impacts of the prevalent economic challenges on customers' repayment ability. The impaired loans (stage 3) ratio was 6.24% from 4.55% in 2021 and the impairment cover for stage 3 loans, i.e., impairment (stage 3) to stage 3 loans ratio increased 37.44% from 32.81% in 2021.

Please refer Investor Relations from page 340 onward for an analysis on key shareholder ratios.

Cost Management

Drivers: Credit demand, Interest rates, Competition, Reach, Funding composition, Attractiveness of products

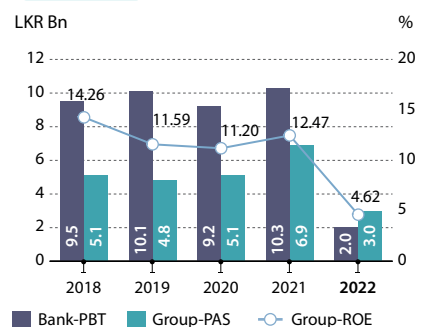
Cost Management



Relentless focus on managing controllable costs through productivity, process improvements and automation enabled the Bank to curtail the increase in operating expenses to 9%, a commendable achievement given the sharp increase in inflation, rupee depreciation and higher taxes during the year. Personnel and other expenses increased by a respective 1% and 22% in 2022. Cost to income ratio continued its improving trend, declining to 26.7% from 33.7% the previous year, supported by effective cost management and enhanced revenue.

Profitability

Profitability



The Bank's pre-tax profit fell by 80% to LKR 2.0 Bn, reflecting the escalation in impairment charges amidst the prevalent macro-economic challenges. Profit for the year also recorded a decline of 54% to LKR 2.9 Bn. At Consolidated level, the Group's profit for the year crossed LKR 3.0 Bn to reach LKR 3.1 Bn, a decrease of 56%. Despite the challenging conditions that prevailed, the Group's capital market subsidiaries generated a profit of over LKR 555 Mn.

Taxation

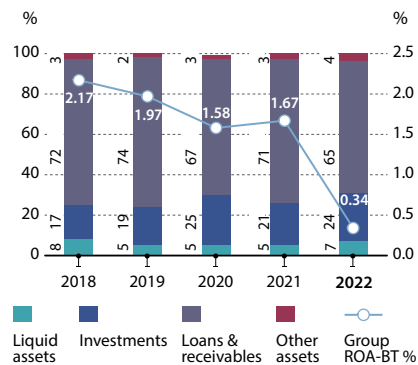
Bank's Tax on Financial Services declined by 40% to LKR 1.2 Bn in view of lower profitability while Deferred Tax reversals due to the revision of income tax rates resulted in an overall tax reversal of LKR 2.1 Bn for the year.

Tax management: The Bank's tax strategy is formulated and implemented by a dedicated Tax Management Unit, driven by a team of highly skilled finance professionals. A tax consultant has been engaged to compute the income tax liability and handle the administrative functions relating to filing of income tax returns. Tax compliance is consistently monitored by Internal Audit, Compliance Unit, and the external auditors. The Chief Manager in charge of the Tax Management Unit liaises with the tax authorities on a regular basis, while engagement is also supported by the tax consultant. The Bank was fully compliant with all tax related regulations during the year.

Financial Position

Total Assets

Group Asset Growth

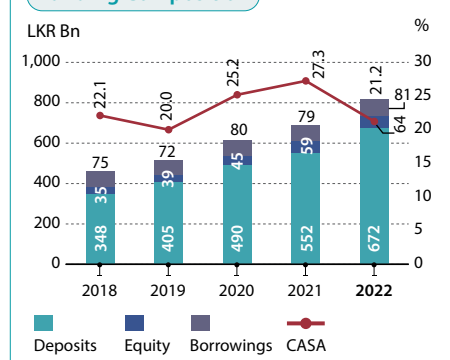


The Bank's total assets increased by 18% to LKR 832.8 Bn, supported by 10% expansion in the gross loan portfolio, which reflects the inflationary impact of the Rupee depreciation. Given the prevalent conditions, the Bank consciously sought to curtail loan growth, only pursuing selective lending opportunities within stringent risk parameters. The Bank's liquidity levels were healthy, supported by focused initiatives towards driving deposit growth and proactive measures to shore up liquidity in view of escalating risks; resultantly cash and cash equivalents more than doubled to reach LKR 34.8 Bn during the year. Consolidated assets at the Group level also grew by 18% to LKR 839.2 Bn during the year.

FINANCIAL POSITION (CONTD.)

Funding and Capital

Funding Composition

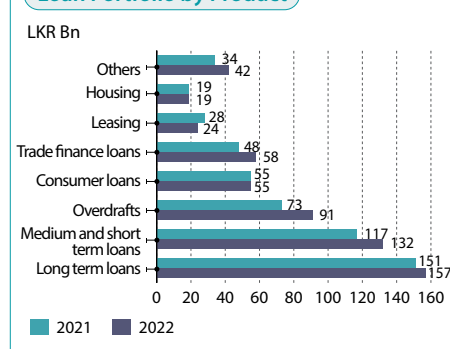


The Bank's deposit base increased by 22% to LKR 672.3 Bn, reflecting targeted deposit mobilisation drives as well as the Bank's improving deposit franchise. Deposits continued to dominate the mix, funding 81% of the Bank's total assets. In view of the interest rate dynamics that prevailed, customers sought to shift low-cost deposits to fixed deposits during the year.

The Bank's capitalisation levels remained healthy with the equity base increasing by 8% to LKR 63.5 Bn. Tier 1 and Total capital adequacy ratios clocked in at 9.34% and 13.35% by end 2022. Proactive efforts to repurpose the Bank's Balance Sheet in response to rising impairments, has enabled the Bank to cushion adverse impacts and preserve capital adequacy.

Loans and Receivables

Loan Portfolio by Product



Understandably lending opportunities were limited during the year, and the Bank adopted a cautious approach to expanding its portfolio. Gross loans to customers expanded by 10% to LKR 579.6 Bn. Besides the inflationary impact of the Rupee depreciation, loan book increase comprised loans granted within the Bank's enhanced precautionary risk parameters and as warranted within the ailing economy with a negative GDP growth. The Wholesale banking segment grew by 20%, while expansion in Retail and Business Banking were limited to 3% and 2% respectively.

Portfolio quality: The quality of the loan book moderated an industry-wide phenomenon given the extraordinary challenges that prevailed during the year, as reflected in the impairment ratios discussed previously. As discussed in other sections of this Report, the all business segments and the Bank's Remedial Management Unit worked closely with stressed customers to offer flexible repayment solutions and facility restructuring.

FINANCIAL VALUE ADDED

For the year ended December 31	2022 LKR Mn	2021 LKR Mn
Invested Equity		
Total equity	63,536	58,932
Add : Allowance for impairment charges for loans and receivables and other losses	55,674	26,804
Total	119,210	85,736
Earnings		
Profit after tax and dividend on preference shares	2,909	6,362
Add: Impairment for loans and receivables and other losses	29,292	10,265
Less: Loan losses written off	-	-
Total	32,201	16,627
Cost of equity (Based on 12 months weighted average T-bond rate plus 2% for risk premium)	26.99%	8.00%
Cost of average equity	27,653	5,983
Economic value added	4,548	10,644

WAY FORWARD

Macro-economic pressures are expected to be inevitable in the short-to-medium term, as necessary policy measures required to set the economy on a path to long-term recovery affects economic growth over the next few months. Against this backdrop, NDB will place strategic focus on maintaining financial stability, pursuing selective growth opportunities through emphasising capital-efficient lending. Further, impairments on Government securities as well as weaker credit quality remains the key downside to performance in the near term. That said, we remain optimistic on long-term prospects and are confident that a successful restructuring of Government debts and implementation of long-overdue reforms will set the country on a path to resilience and economic recovery.

PERFORMANCE OF BUSINESS LINES

RETAIL BANKING

The Bank's foray into the Retail Banking Segment from its traditional markets over the last few years has enabled NDB to build a more diverse and stable portfolio while enhancing its brand equity and increasing the resilience of its operating model. In an intensely competitive space, NDB has developed a unique competitive edge centering on best-in-class digital offerings, customer centric solutions and service excellence.

Value Creation/ Non-Financial Performance



OPERATING CONTEXT

- Unprecedented increase in interest rates, with the AWPR spiking from 8.42% in January 2022 to 28.19% in December 2022, resulting in a sharp increase in funding costs and slowdown in credit demand.
- Sharp increase in inflation reflecting the LKR depreciation, supply side disruptions and restrictions on imports which led to repayment pressure.
- Adverse impact on loan book quality stemming from inflation driven deterioration of people's spending capacity and high interest rates.

STRATEGY AND PERFORMANCE REVIEW

While performance inevitably reflected the challenging landscape, the Retail Banking Unit's foresight in identifying emerging risks and adapting its strategy enabled the Unit to navigate the prevalent conditions. Overall, the strategy shifted to two predominant focus areas; one, consolidating the portfolio and prioritising portfolio quality, and two, deposits mobilisation to strengthen liquidity across all retail sub-segments of mass, high and ultra high network.

Loans and receivables increased by 3% driven by moderate growth in cards and secured products as well as the LKR depreciation, which inflated foreign currency denominated loan book. Operating income increased by 79% reflecting the sharp increase in interest rates. The cost to income ratio improved further as strategic focus was placed on driving efficiencies through automation and various other cost conscious measures deployed.

As customers faced increasing repayment pressure, portfolio quality weakened, resulting in a sharp increase in impairments which is an industry wide phenomenon. On the other hand, deposits increased by a record 39% reflecting NDB's strengthening deposit franchise and a flight to quality. Increase in the deposits base in part comprised the effects of the LKR depreciation.

Furthermore, the Unit ensured customer interests amidst the acute foreign exchange shortage that prevailed during the year by prioritising on essential payment needs and channelling foreign currency towards same.

FOCUS ON QUALITY

Retail Banking was focused on touch based customer-centric model, offering dedicated restructuring arrangements going beyond the simple conventional banking relationships to address the distresses of its clients on a proactive basis to ensure the portfolio quality is maintained. This in turn helped customers ease the pressure stemming from inflated loan commitments due to the sharp rise in interest rates.





AN AGILE PRODUCT STRATEGY

The Bank strengthened its competitive position in credit cards, recording healthy customer acquisition and transaction growth while ensuring underwriting standards remained stringent. The launch of affinity cards with several leading educational institutions proved fruitful, leading to increased brand equity and portfolio activity. During the year, the Unit increased penetration of the NDB Zee Digital Youth Account through market activations and the Shilpa Children's Savings Account through direct engagement activities. The Bank's wide range of deposits solutions catering to diverse saving preferences of both mass and high net worth individuals bode well amidst the strong inclination from customers towards bank deposits in the high interest rate environment (refer Social & Relationship Capital on page 88).

34%

NDB NEOS - YoY User Registration Growth

37%

Transaction Volume Growth

MARKET LEADING DIGITAL PROPOSITIONS

Despite the challenges that prevailed, the Unit maintained focus on driving customer-centricity through market leading digital offerings. NDB's digital proposition is delivered through the NDB NEOS platform, which comprises mobile banking and online banking. As the first banking app to combine the features of mobile banking and e-wallet, NDB NEOS has maintained its growth momentum as one of the leading apps in the banking sector. NDB was also the first bank to launch digital vKYC based online account opening with direct connectivity to the Department of Registration of Persons, which in turn facilitated fully digital onboarding.

BANKING ON WOMEN

Aligned with the Bank's long-term aspirations of empowering Sri Lankan women through financial inclusion, the Unit continued to strategically drive its Banking on Women initiative. The NDB Araliya proposition comprising financial cum advisory support reached out to large numbers of female customers during the year, across the specific segments of home-makers, salaried females and female entrepreneurs providing them vital support in achieving their aspirations. In addition, emphasis was placed on setting the relevant KPIs and targets as well as educating female customers through webinars, financial literacy programmes and capacity building initiatives. The third edition of Sri Lanka Vanithabhimana was also successfully launched for the period 2022/2023, drawing a significant increase in applications which reflects improving brand recognition of this unique awards programme (refer Social & Relationship Capital on page 88).

PRIVILEGE BANKING

NDB Privilege Banking commands market leadership in Sri Lanka's private banking space underpinned by its customer service excellence and an unmatched array of solutions comprising both banking and capital market products.

PERFORMANCE OVERVIEW

The unit recorded exceptional growth during the year, benefitting from the flight to safety of deposits amidst economic uncertainty. Accordingly, liabilities grew by 35% while asset growth was moderate at 10%, reflecting Group wide efforts to prioritise portfolio quality. Growth was driven by the strong performance of all the high net worth sub-segments of Privilege, Privilege Select and Privilege Select Plus, and also emerging high net worth client segment of Elevate. This was a direct result of the curated and customised services extended via deep segmentation of NDB's high net worth proposition, in ensuring the precise services to our valued clientele.

UNIQUE PRODUCT AND SERVICE PROPOSITION

The Bank has redefined the private banking proposition through curating an array of personalised solutions which includes advisory, family banking, health benefits and concierge services (refer next page for full list). Over the last few years, the Bank sought to widen its Privilege Banking footprint through the appointment of dedicated Relationship Managers across the Bank's branch network. We also continued to leverage the Bank's digital

Voyage 2025 Interventions

Customer solutions

- Customer revival and advisory through restructured repayment plans implemented based on customer needs
- Strengthening customer engagement and experience

Business focus

- Prioritisation of portfolio quality while pursuing growth in selected segments

Empowered staff

- Ensuring job security and motivation of all employees despite business slowdown

pro prowess to offer customer centric solutions catering to the increasing sophistication of our discerning clientele.



OUTLOOK AND WAY FORWARD

Operating conditions are anticipated to remain challenging in the first half of 2023. High interest rates together with the implementation of the new tax regime are expected to lead to a further slowdown in credit demand and increased repayment pressure. The second half of the year, however, is expected to post a gradual economic recovery supported by multipronged policy interventions to support macroeconomic stability (refer Navigating Macro Economic Complexities on page 10 for further information).

Our Plans



Short-to-medium term

- Focus on risk efficient lending
- Recalibration of growth targets amid efforts to preserve portfolio quality
- On-going focus on customer centricity, innovation, and cost efficiencies

Long-term

- Increase emphasis on fee-based income generation
- Pursue cross sell opportunities through leveraging Group capabilities

Opportunities



- Gradual deceleration of interest and inflation rates and resultant uptick in credit demand
- Increasing customer sophistication and thrust towards digital propositions

Risks



- Delays in receiving access to the IMF's EFF and resultant impact on macroeconomic stability
- Implications of brain drain on talent retention

NDB Privilege Offering

Financial Advisory Services

An integrated solution for all investment advice done in partnership with the Bank's capital markets cluster group companies.



Curated Quarterly Newsletter

Containing macroeconomic, investment coverage and emerging themes in banking and finance.



Exclusive Life and Health Benefits

Provided in partnership with international service providers.



Enhancing Lending Services

Designed to meet complex borrowing requirements.



Exclusive Concierge Services

Designed to meet global and local lifestyle requirements



Priority Service

Priority and personalised services offered across the NDB Group network.



Additional Services

Estate planning advisory, Loyalty programmes, Philanthropy services, Family banking and Digital services.



BUSINESS BANKING

As a Bank with its roots in development banking, NDB's entry into the SME Sector has been both organic and incisive. The Bank has leveraged its well-honed capabilities in development banking and its digital prowess to offer a unique value proposition to the SME segment, thereby diversifying its portfolio while supporting the national economic growth agenda.

Value Creation/ Non-Financial Performance



Profitability impacted by adverse external conditions



Leveraged digital innovations to drive customer centricity



Deepen relationships with export customers through NDB Jayagamu Sri Lanka



Contribution to national economic agenda through empowering the SME Sector

Adapting our strategy



Pursue selective lending opportunities in sectors such as exports and local manufacturing



Focus on building a risk and capital efficient portfolio



Supporting SME survival and revival through the crisis

OPERATING CONTEXT

- Multitude of challenges affecting SME businesses including interruptions to electricity supply, fuel shortages, escalating costs and slowdown in demand, which in turn led to pressure on repayment capabilities
- Impact of import restrictions on security of supply chains and cost of production of SME businesses

STRATEGY AND PERFORMANCE REVIEW

SME sector is highly vulnerable to the economic shocks and as a consequence most of the SMEs operated with a conservative approach and placed lesser priority on growth and conversely focused on revival of operations. Bank strengthened its relationship assisting them more with short term capital and debt restructuring.

Moving away from the collateral based typical development banking, the Unit crafted and implemented strategies giving its focus on transaction banking and promoting exports which is a national priority. The Bank approached institutional authorities such as the Export Development Board, Industrial Development Board, Ministry of Finance and Ministry of Industries and Commerce to build close ties with them to assure governmental support under one roof. The Unit also witnessed its commitment to utilise right technology to improve internal process efficiency. Continued emphasis was placed on automating internal processes and driving synergies which enabled the Unit to optimise its costs despite the sharp increase in inflation. In 2021 NDB introduced industry first digital app "NEOSBIZ" with multiple digitalised services such as bulk salary transfers, bills payments, merchant QR payments, etc.

Deposit growth of the Unit was healthy at 4%, demonstrating the wider trend across all business segments, which further bolstered the Bank's liquidity position.

SUPPORTING THE SURVIVAL OF SMEs

Customer engagement was strengthened significantly during the year, as the Unit conducted site visits and face to face meetings with almost all customers across regions. This enabled the Bank to identify potential pain points, offer advisory services and determine customised plans to ensure commercial survival. The Unit also established regional Remedial Management Teams which worked closely with the Bank's newly established

central Remedial Management Unit in restructuring and rescheduling facilities. As at end December 2022, LKR 16.6 Bn of the SME portfolio had been offered concessions and moratoria. Meanwhile NEOSBIZ which was launched last year played a key role in ensuring business continuity during COVID-19 lockdowns and periods of fuel shortages, by offering a safe and seamless platform for digital enablement and continued banking transactions for SMEs.



NEOSBIZ performance 2022

>2,500

Active customers

>LKR 18 Bn

Value of transactions

EXPORT FOCUS

Strengthening the country's export sector is a national priority and has been part of the Bank's growth agenda since its inception. The launch of NDB Jayagamu Sri Lanka in 2020 enabled the Bank to sharpen its edge in the sector through a multifaceted value proposition to exporters, innovators, and entrepreneurs, who typically lack market access and face resource constraints. In 2022, we sought increased regional penetration of export customers through five regional teams and leveraged capabilities of our industry specialists in pursuing growth in selected industries such as agriculture, apparel and textile and manufacturing among others (refer Social and Relationship Capital on page 88).

Voyage 2025 Interventions

Customer solutions

- Customer revival, advisory and personalised solutions through the Remedial Management Unit

Business focus

- Customer acquisition in the export sector through NDB Jayagamu Sri Lanka
- Cautious approach to lending with low cost refinancing schemes.
- Prioritisation of portfolio quality

Digital & data as transformers

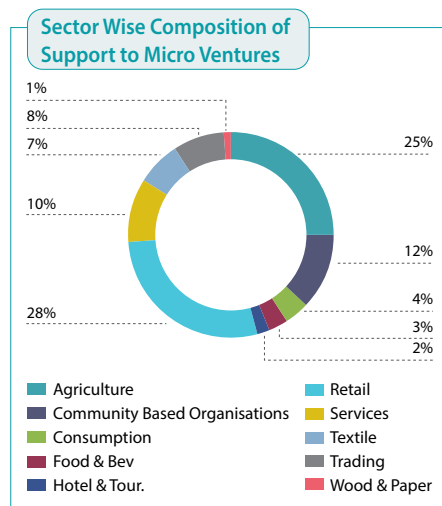
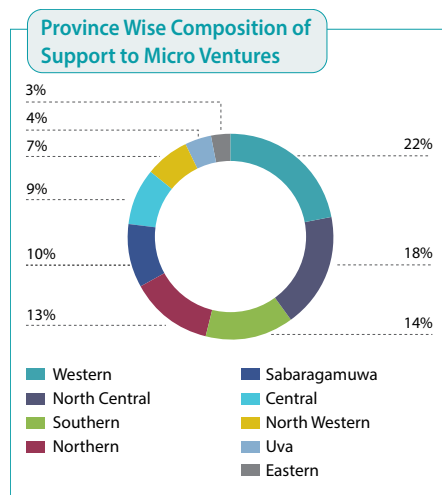
- Provide safe and seamless digital platforms for conducting transactions through NEOSBIZ

SUPPORT TO WOMEN ENTREPRENEURS

NDB's SME proposition is notable for the dedicated support it extends to female entrepreneurs. In addition to standard and flagship initiatives such as NDB Jayagamu Sri Lanka available to all SMEs as discussed before, the Bank offers further customised support to women entrepreneurs, as this segment is often under-served and faces unique challenges in securing business financing. NDB Araliya and Sri Lanka Vanithabhimana are our iconic support to female entrepreneurs. In addition to progress made along these two aspects, the Bank also conducted a grant aid programme to 8 high potential entrepreneurs from all over Sri Lanka, netting LKR 2.6 Bn to support their business growth (refer Social & Relationship Capital on page 88).

In addition to its support to SMEs, the Bank continued powering the grass-root level micro business ventures through its financial inclusion initiatives, in close congruence with its strategic commitment to drive socio-economic and community development in the country's most vulnerable communities.

The economic headwinds during the year had a direct and sharp impact on grass-root level micro business ventures resulting in collection issues and rising impairments. The Bank ensured its commitment to help these customers to remain resilient and revive from current crisis, deploying regional field officers and offered customised relief. NDB's support in this regard includes access to financial literacy programmes, doorstep banking services through the Bank2U proposition and ongoing advisory services.



Please refer Social & Relationship Capital on page 88 for more information on support extended to SME customers, including female entrepreneurs.

ISLAMIC BANKING

NDB Shareek Islamic Banking Unit continues to gain momentum as one of the country's leading Islamic Banking propositions underpinned by a wide array of products, close customer engagement and a widespread geographical footprint. The Unit marked a key milestone in 2022, having been awarded by Sri Lanka Islamic Banking and Finance Industry Awards and Islamic Finance Forum of South Asia which are prominent awarding bodies of locally and South Asian countries.



- 1) Eminent Shariah Scholars
- 2) Regional Footprint
- 3) Excellent Services Scholars
- 4) Array of attractive products

STRATEGY AND PERFORMANCE

The Unit recorded strong growth and profitability demonstrating resilience to external challenges to post asset and liability growth of 18% and 56% respectively during the year. The Unit leveraged healthy customer acquisition over the past few years to deepen relationships and cement its market share as the second largest Islamic Banking window in the country. Portfolio quality improved during the year, contrary to the industry-wide trend of rising impairments and attesting to the Unit's stringent underwriting standards and strength of customer relationships. The Unit continued to generate cost efficiencies, posting continued growth despite resource limitations.

Aligned to the Bank's overall strategy, the Unit proactively sought to aid customers in weathering the economic crisis through offering flexible repayment schemes and rescheduling including moratoria to over 200 customers. The Unit also contributed to industries such as poultry, restaurants and food chains, manufacturing and trading under many credit lines.



A manufacturing entity prospering under NDB Shareek Islamic Banking solutions

REFINANCE OPERATIONS

The Bank's Refinancing Unit has a strong track record as a Participating Financial Institution (PFI) in many funding lines offered by the Government of Sri Lanka and global multilateral funding agencies. Through these partnerships, NDB continues to channel funding at concessionary rates to priority sectors in the economy.

The Unit disbursed LKR 3 Bn to 292 projects during the year, which comprised primarily lending under an emergency credit loan facility granted by the Asian Development Bank (ADB) to support the working capital requirements of businesses affected by the economic crisis. Given the unprecedented conditions that prevailed, emphasis was placed on providing maximum relief to affected borrowers through restructuring and concessionary rates. In addition the Bank continued lending actively under ongoing schemes such as ADB SMELoC, SMILE 111 Revolving and E Friends 11 Revolving Fund.

It is a notable achievement that the Bank partnered the U.S. International Development Finance Corporation (DFC) and executed a SME Financing agreement in February 2022 to support expansion activities of SMEs.

As a part of the SMELoC facilities offered during the year, loans amounting to LKR 145 Mn were granted under women lead businesses financing initiative and this included focused support to female entrepreneurs, with 10% of the loan amount being given as a grant. Bank offered LKR 15 Mn worth of grants benefiting 9 women owned projects.

Furthermore as a key development during the year, NDB partnered the USAID in the CATALYZE Sri Lanka Private Sector Development (PSD) Activity, a multi-faceted initiative aimed at strengthening the country's MSME sector. The Activity has identified five priority sectors with growth potential, namely, tourism, ICT, food processing, apparel and commercial care for which incentive schemes will be introduced to partner banks. Key aspects of the activity are set out below:

Objectives

Mobilise funds in underfinanced social sectors and high-risk countries to develop commercially viable business models to,

1. Create jobs
2. Expand sustainable social services
3. Optimise supply chains
4. Advance inclusive growth

Implementation Model



Develop a pipeline of financeable transactions



Support financial and non-financial intermediaries in USAID presence countries to build or strengthen local ecosystems



Link financeable opportunities to sources of capital, structure funds, and close complex transactions



Facilitate the use of blended finance and private capital in development

Outcomes

Outcomes to partner banks

Opportunities for up skilling staff in serving MSME clients

Capabilities in developing unique products which facilitate access to finance

Outcomes to MSME customers

Local and international market access

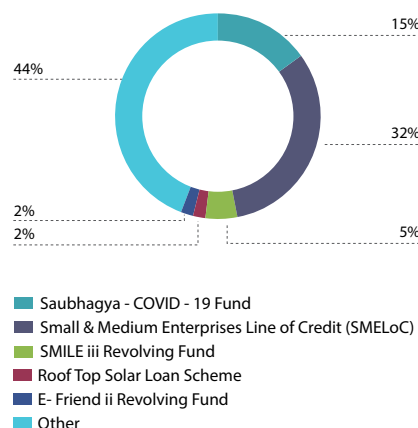
Strengthen technological adoption

Accelerate innovation

Access to affordable finance

With banks under increasing pressure to incorporate ESG factors into their lending decisions, most lending schemes now require strict adherence to eligibility standards and responsible business practices which seek to address critical social and environmental issues. As a PFI, the Bank therefore has an opportunity to fulfill its sustainability aspirations and contribute towards the UN Sustainable Development Goals through partnering in funding lines aimed at empowering women, generating renewable energy and mitigating environmental pollution.

Refinance Loans Granted 2022



Our Plans

Short-to-medium term

- Selective risk efficient lending and recalibration of growth targets
- Strategic emphasis on preserving portfolio quality
- Pursue growth opportunities in the export segment

Long-term

- Development of new solutions targeting sustainable lending

Opportunities

- Improved decision-making capabilities resulting from the upgrade of the Core Banking platform
- Policy stimulus towards supporting the country's SME sector
- Plans to establish a National Credit Guarantee Institution

Risks

- Potential repayment pressure over the short-term
- High tax regime of the Government to enhance fiscal income and impact on SME viability

FOCUS ON QUALITY

The Bank's Remedial Management Unit played a vital role in preserving portfolio quality by identifying customers with potential repayment pressure and tailoring customised repayment and restructuring plans. The Remedial Management Unit was strengthened during the year through increased allocation of human resources and capabilities to ensure customer revival and continued cash flow generation to the Bank.

OUTLOOK AND WAY FORWARD

The short-term outlook for the country's SME Sector is expected to remain challenging given the prevalent macro-economic uncertainty, although a gradual recovery is anticipated towards the second half of the year. The expected deceleration of inflationary pressures, gradual improvement in the country's foreign currency position and improved sentiments as macro-economic stability is restored are anticipated to augur well for the sector over the medium-to-long term.

WHOLESALE BANKING

The Unit maintained its position as the largest contributor to NDB's Loans & Receivables offering the full gamut of Commercial, Transactional and Cash Management services to the country's corporate sector.

Value Creation/ Non-Financial Performance



Profitability impacted by adverse external conditions



Retention of export customers through careful planning



Culture of data-driven decision making



Empower employees to engage with and retain customers

Strategic emphasis on preserving portfolio quality

Adapting our strategy

Deep dive analysis of foreign current inflows and outflows

Trade-offs in serving customer requirements

OPERATING CONTEXT

- Shortage in foreign currency liquidity across the banking system led to significant challenges in serving the requirements of import clients
- Rapid changes in the regulatory landscape, particularly on foreign exchange transactions
- Unprecedented increase in interest rates and inflationary pressures
- Implications of fuel shortages, logistic issues and interruptions in power supply on corporate activity

STRATEGY AND PERFORMANCE REVIEW

As a multitude of challenges converged to create an increasingly uncertain operating landscape, the Unit focused on proactively identifying risks and constantly reinventing its strategy and approach to navigate emerging complexities. Given the constraints that prevailed, the Unit was compelled to prioritise customer requirements and curtail loan growth to 20%. Despite weakening macro-economic conditions during the year, portfolio quality remained better than industry peers attesting to the strength of our customer relationships and ongoing focus on engagement. Unit profitability was supported by continued focus on generating operating efficiencies through automation and digitalisation.

DATA-DRIVEN DECISION MAKING

Optimising the available foreign currency to serve our customers as effectively as possible was imperative during the year. The Unit maintained a continuous dialogue with the Bank's Treasury, Finance and Strategic Planning Units in forecasting forex inflows and outflows, leveraging advanced data capabilities to draw valuable insights on prioritising commitments. This level of detailed planning and forecasting enabled the Bank to continuously generate forex inflows, which in turn enabled the Unit to stabilise its forex liquidity position despite severe industry-wide shortages.

CUSTOMER PRIORITISATION AND RETENTION

The Unit prioritised the requirements of export customers, aligning with the Bank's overall strategy and national interest. Proactive engagement and careful planning of export customers' future commitments enabled the Unit to serve their requirements in a full and timely manner, which in turn supported a near 100% customer retention. The Unit also benefitted from the cross-functional insights and unique capabilities of the recently established Transaction Banking Unit, which continues to play a vital role in deepening client relationships. On the other hand we made a conscious effort to make inevitable trade-offs in serving our import clients, seeking to prioritise essential imports such as pharmaceuticals and essential commodities.

Voyage 2025 Interventions

Customer solutions

- Prioritisation of customer needs and commitments
- Non-financial advisory services
- Tiering of clients

Business focus

- Focus on facilitating exports and essential imports
- Holistic value proposition to export customers
- Supply chain financing – end-to-end penetration

Organisational Realignment

- Leverage specialised capabilities of Transaction Banking Unit to strengthen customer relationships
- RMU - Focusing on the revival of businesses

ENGAGEMENT THROUGH REMEDIAL MANAGEMENT UNIT

The Unit enhanced value addition to its customers, leveraging the specialised capabilities of the Bank's Remedial Management Unit to offer advisory services. In addition to supporting urgent funding requirements, the Remedial Management Unit offered holistic non-financial support which included guidance on new business models, balance sheet restructuring and cash management among others.

OUTLOOK AND WAY FORWARD

Although still at precarious levels, the country's foreign exchange position improved somewhat during the latter part of 2022, with the consistent foreign currency inflows stemming through banking channels, heavy restriction of imports and the slow, yet gradual recovery of tourism. That said, over the short-term, corporate earnings are expected to moderate due to the implementation of the new tax regime and persistently high interest rates. The medium to long-term outlook, however, remains more promising as timely policy interventions, materialisation of long-overdue reforms and improving sentiments set the economy on a trajectory towards recovery and growth. The Bank will continue to strengthen customer relationships through firmly established Group Relationship Management (GRM) initiatives and integrated Customer Requests Management system to give our customers a better experience with value added services.

Our Plans

Short-to-medium term

- Selective approach towards lending with focus on preserving liquidity and portfolio quality
- Proactively monitor industry-specific risk factors in identifying emerging threats
- Continued focus on export sector

Long-term

- Pursue opportunities through GRM strategy and industry specialisation
- Leverage cross functional synergies to optimise opportunities across business verticals

Opportunities

- Customer acquisition in selected sectors to which foreign banks have demonstrated reluctance to lend
- Resumption of corporate activity in line with anticipated macro-economic stability
- Policy stimulus toward export sector

Risks

- Potential repayment pressure over the short-term

PROJECT & INFRASTRUCTURE FINANCING (PIF)

NDB has leveraged its unique insights and domain specific knowledge in project financing honed over four decades to build stakeholder partnerships and emerge as a leader in the segment.

Value Creation/ Non-Financial Performance



Profitability impacted by adverse external conditions



CASA growth through cash management solutions



Industry leadership and stakeholder collaboration in supporting the renewable energy sector to face industry challenges



Focus on retention through development of new skills

Adapting our strategy



Selective risk efficient lending with emphasis on supporting customers to emerge from crisis



Pursue opportunities in generating fee based income

OPERATING CONTEXT

- Steep LKR depreciation, foreign currency shortage and import restrictions had a sharp impact on the segment with on-going projects having significantly increased project costs, some being halted and projects in the pipeline being delayed
- Liquidity constraints within the state sector delayed payments to project partners affecting portfolio quality
- Sharp increase in interest rates and inflationary pressures

STRATEGY AND PERFORMANCE REVIEW

The Unit's performance during the year reflected the multitude of challenges in the operating environment. As a project financier, the Unit felt the impacts of the impending crisis ahead of other business lines, as the term loan portfolio witnessed gradual stress in repayment. Against this backdrop, the Unit swiftly recalibrated its growth strategy, curtailing new lending and directing focus towards restructuring facilities, offering concessions and supporting customers in

emerging from the crisis. Resultantly, despite the macro-economic hardships the loan portfolio increased by 9% while Operating Income increased by 32%. Portfolio quality weakened somewhat, although strategic foresight and swift remedial action curtailed further deterioration.

LIABILITY GROWTH

The Unit also focused on driving liability growth, particularly during the first half of the year in which interest rates were relatively conducive. Accordingly, the liability base increased by 3%, supported by customer acquisition across several new sectors such as financial services, healthcare and education which the unit supported through cash management solutions. The Unit continued to leverage the Bank's best in class digital capabilities, branch network and CRM/ATM network to deepen relationships across its ecosystem.

DRIVING CROSS SELL OPPORTUNITIES

Aligned to the Bank's aspirations under Voyage 2025, the Unit aggressively sought to drive cross sell through identifying opportunities that could be catered by the other business lines and providing referrals accordingly. Central contact points were appointed across key business lines to pursue such opportunities, with considerable success during the year.

GREEN AND SUSTAINABLE LENDING

The Unit is a leading player in financing renewable energy projects, which has enabled it to achieve its financial goals while aligning with the Bank's ESG aspirations. NDB is estimated to have funded nearly 30% of private sector renewable energy projects currently running (in terms of capacity) which includes mini hydro, solar and wind power projects. PIF has built a strong reputation for unparalleled capabilities and project management skills in the renewable energy sector, underpinned by its track record and unique base of organisational capital nurtured through the years.

During the year under review, the Renewable Energy sector was weakened by liquidity constraints stemming from payment delays from the off taker. The Bank played a leadership role in driving multi stakeholder engagement, collaborating with other banks to formulate a common restructuring model for renewable energy suppliers. This enabled the sector to continue operating despite the challenges that prevailed, ensuring their short to medium term viability.



NDB's expertise in renewable energy financing ranges across wind, hydro, solar and bio-mass

CAPACITY BUILDING

Following the publication of CBSL's Green Financing Taxonomy, we took proactive measures to upskill the Project Finance team on topical areas such as green investments, climate financing and green bonds among others. We are cognisant of the growing importance of this emerging area and are keen to build a competitive edge through building capacity and strengthening relevant capabilities.

OUTLOOK AND WAY FORWARD

The short-term economic outlook remains challenging, reflecting the high interest rate environment, high levels of inflation, increase in tax rates and process in securing access to IMF's External Fund Facility (EFF). Against this backdrop, investments in new projects are expected to be limited, at least during the first half of 2023. Over the medium to long term however, conditions are expected to gradually improve as measures adopted to restore macroeconomic stability come to fruition, setting the country on a long-term trajectory to sustainable economic growth.

Voyage 2025 interventions

Customer solutions

- Proactive identification of emerging payment stress and offering customised solutions

Empowered People

- Upskilling team on green and sustainable lending

Organisational Realignment

- Drive cross-sell opportunities through a referral scheme with other business lines

Our Plans

Short-to-medium term

- Cautious approach to lending with emphasis on capital efficient projects
- Increased focus on generating fee based income
- Ongoing efforts to preserve portfolio quality

Long-term

- Pursue opportunities in sustainable finance and green bonds, etc.
- National policy impetus towards renewable energy and export oriented industries

Opportunities

- Resumption of corporate activity in line with anticipated macroeconomic stability
- Policy stimulus toward export sector
- Arranger role in financing offshore projects by collaborating with foreign lenders

Risks

- Delayed economic recovery due to potential challenges in sovereign debt restructuring
- High interest rate climate is likely to deter investments in new projects
- Weakened financial capacity of State sector and resultant payment delays
- Challenges in employee retention due to brain drain

TREASURY

The Treasury Unit plays a pivotal role in managing the Bank's liquidity risk and interest rate risk through the Asset Liability Management (ALM) desk, in addition to its role as a market maker in the foreign exchange and debt market. The Unit benefits from a highly skilled and experienced Treasury team who are very well capable of meeting vigorous market needs with diverse product portfolio.

Value Creation/ Non-Financial Performance



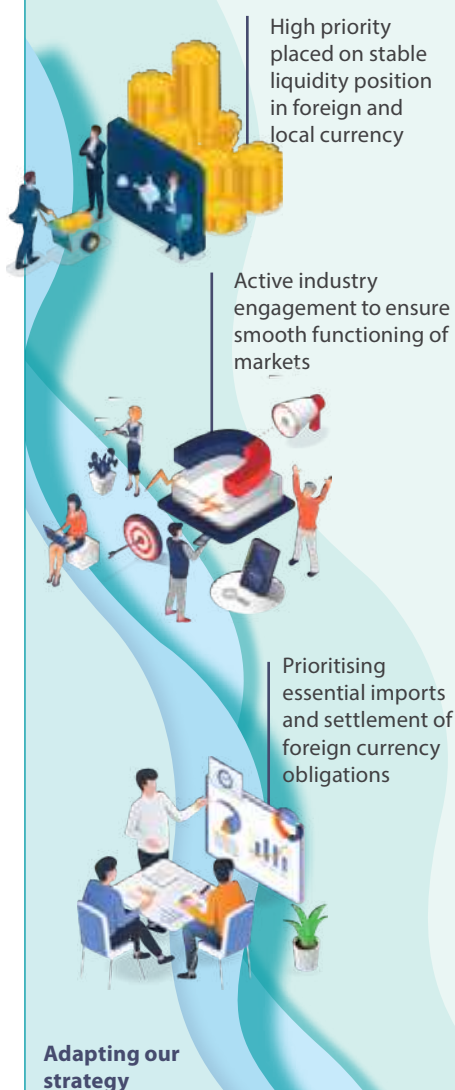
Profitability impacted by adverse external conditions



Compelled to prioritise and serve the needs of selected customers



Agile operating model



OPERATING CONTEXT

- Unprecedented economic breakdown resulting from COVID-19 and political instability exacerbated long-standing fiscal, external and financial sector imbalances
- The Government announced a halt of external debt servicing on bilateral and commercial loans in April 2022 and approached the IMF for a bailout facility
- Foreign exchange, money markets and fixed income markets experienced unprecedented disruption
- Markets experienced a severe shortage in foreign currency with outflows outweighing inflows as investors shifted funds overseas and inflows from worker remittances and tourism fell significantly
- Unprecedented increase in interest rates and inflationary pressures (refer page 10)

STRATEGY AND PERFORMANCE REVIEW

FX Desk: Given unprecedented volatility in the foreign exchange market, strategic emphasis was placed on proactively forecasting and effectively managing the foreign currency commitments of all clients and financial institutions. The Unit engaged closely with a high-level Committee that was tasked with ensuring that foreign liquidity risks were mitigated, and customer requirements were fulfilled with minimal disruptions. Maintained constant engagement with the CBSL and other regulatory bodies to assist the smooth function of FX markets.

Given the conditions that prevailed, the Bank was compelled to prioritise and selectively serve the needs of our customers. Priority was placed on supporting the Government in facilitating imports of essential items such as coal, oil and medicines. Opening of new Letters of Credit was curtailed since March 2022, which have significantly reduced our future commitments and enabled the Bank to build a sound liquidity position. Against this backdrop, the Bank's FX revenue declined by 116% to LKR 0.34 Bn during the year with the restrictive/limited trading and client business volumes and opportunities prevailed during the year under review.

ALM Desk:

The ALM performance was adversely impacted due to significant increase in the local and foreign currency interest rates, and impairment on International Sovereign Bonds (ISBs), due to suspension of servicing foreign debt by GOSL. This is despite maintaining a healthy very low duration Fixed Income portfolio in 2022.

Trading opportunities in Fixed Income trading was adversely affected due to lack of liquidity and market participants throughout 2022.

OUTLOOK AND WAY FORWARD

Sri Lanka's foreign currency position is expected to remain constrained over the short to medium-term. Although slightly improving over the last few months in view of policy interventions and continued import restrictions, a recovery is likely to be triggered upon the receipt of the EFF funding from the IMF, which is expected by mid-2023, and increased inflows expected from the tourism and foreign worker remittances. Rupee liquidity is somewhat constrained, mainly reflecting shortfalls in state banks stemming from the requirement to fund Government expenses. While this has resulted in excessively high interest rates, this is expected to moderate in coming months, as liquidity conditions improve in line with better sentiments as concerns on debt restructuring are alleviated.

Our Plans

Short-to-medium term

- Extend continued support to the Government in facilitating essential imports
- Give priority to trade related business focusing on enhancing Exporter volumes
- Establish/support on building foreign remittance business

Long-term

- Pursue opportunities in trade and transaction banking
- Build a strong foreign inward remittance base
- Continuous engagement with foreign fund institutions and high net worth investors

Opportunities

- Anticipated moderation in interest rates and improved liquidity position
- Increase in local Money Market and Fixed Income trading activities
- Trading opportunities with gradual normalisation of foreign exchange markets

Risks

- Expectations of negative economic growth for 2023
- Possible restructure/profiling of existing debt
- Slowdown in exports, given global economic uncertainties
- Volatility in interest and exchange rates

PERFORMANCE OF OUR GROUP COMPANIES

The year under review was one which presented unprecedented socio-economic challenges, as long-standing structural imbalances converged with external challenges, resulting in the worst economic crisis since independence. As foreign exchange reserves fell to record lows, the country defaulted on its international debt payments for the first time in history which was followed by a power and energy crisis, shortages in essential food and medicines and public unrest. These challenges inevitably impacted the country's capital markets, as share market activity declined drastically resulting in the benchmark of All Share Price Index (ASPI) and the S&P SL20 Index falling by 30.6% and 37.7% respectively during the year. The average daily turnover fell to LKR 2 Bn in 2022, from LKR 4.9 Bn seen in the preceding year which resulted in the brokerage income seeing a significant decline. The appeal for the government securities market remained high with the majority of the participation being at the short end of the yield curve resulting in funds being withdrawn from the unit trust market. However, the tight monetary policy stance and the resultant high-interest rates led to increased investment income, softening the overall impact on the bottom line. The performance of NDB's Group companies engaged in capital market services in such macro-economic backdrop were as follows.

	NDB Capital Holdings Limited	NDB Investment Bank Limited
Profile and Business Activities	NDB Capital Holdings Limited (NCAP) is the fund-based investment banking arm of the NDB Group and the parent entity of the Capital Market Cluster. NCAP directly engages in fund-based activities including investing in listed equities, private equity, fixed income securities, Government bonds, structured debt, acquisition funding and other Balance Sheet related activities.	NDB Investment Bank Limited (NDBIB) is the undisputed market leader in the Sri Lankan Investment Banking sphere, recognised as the ‘Best Investment Bank in Sri Lanka’ by Euromoney Magazine for the eleventh consecutive year in 2022. NDBIB consists of; a Corporate Advisory Team - which manages and advises client on equity market transactions, M & A and other advisory assignments, and a Debt Capital Markets team - which manages and advises on debt transactions. NDBIB’s competitive edge is underpinned by innovative and customised investment banking solutions, a highly skilled and diverse team, and deep-rooted stakeholder relationships built over the years.
Strategic Priorities	- Investment returns increased significantly compared to the previous year. - NDBIB concluded several landmark transactions (refer alongside). - NDBWM maintained market leadership reaching highest ever assets under management. - NDBS increased its market share despite the challenging market situation. - Ongoing investment in NDB Capital Scholarship Trust which aids deserving undergraduates across disciplines.	NDBIB was able to complete several landmark transactions raising nearly LKR 30 Bn in funds, in a year which was overshadowed by unprecedented economic and political challenges. - Managed the Rights Issues of Abans Finance PLC (LKR 200 Mn), Pegasus Hotels of Ceylon PLC (LKR 76 Mn) and AgStar PLC (LKR 803 Mn). All Issues were oversubscribed. - Financial Advisors to; (1) Shareholders of Kings Hospitals Colombo (Pvt) Ltd on the strategic investment by Ceylinco Life Insurance Limited, (2) Shareholders of Browns Investments PLC and Faber Capital Group on the divestiture of Saga Solar Power to Aitken Spence PLC, and (3) Sri Lanka Telecom PLC on the divestiture of Sri Lanka Technological Campus (Pvt) Ltd to a consortium of investors. - Managed the Maiden Listed Rated Guaranteed Senior Redeemable Five-Year Debenture Issue for Brown & Company PLC worth LKR 2 Bn. - Managed the Maiden Listed Rated Redeemable Debenture Issue of Resus Energy PLC worth LKR 500 Mn. - Arranged a USD Loan Facility worth USD 75 Mn for NDB Bank from U. S. International Development Finance Corporation (DFC).
Performance Highlights	- Operating Income - LKR 636 Mn (+117%) - Pre Tax Profit - LKR 514 Mn (+207%) - Net Profit of LKR 370 Mn (+213%)	- Total Revenue - LKR 199.5 Mn - Profit Before Tax - LKR 16.2 Mn Funds Raised LKR Bn 2020 37 2021 75 2022 30 0 10 20 30 40 50 60 70 80
Opportunities / Risks	⊕ Opportunities in fixed income investments including Government securities. ⊕ Potential opportunities in equity markets with asset prices being depressed. ⊖ Macro-economic uncertainty and volatility. ⊖ Domestic debt restructuring. ⊖ Subdued sentiments and high volatility in the stock market.	⊕ The eventual normalisation of the IPO market and corporate debt appetite, following the anticipated improvement in market sentiments. ⊕ Increased activity in the Mergers and Acquisitions space in a volatile macro-economic environment. ⊕ Potential to introduce foreign investors to the market via SOE and corporate restructurings. ⊕ Expand into regional markets by leveraging on NDBIB’s expertise in the South Asian markets ⊖ Macro-economic/ political uncertainty and resultant policy volatility. ⊖ Prolongation of high interest rates and further possible delay in securing IMF Board-level approval.
Way Forward	Focus on enhancing returns of the investment portfolio while supporting subsidiaries in the respective business lines	NDBIB will seek to leverage the multifaceted capabilities of its staff, its strong command of the local market, and strategic collaborations to further solidify and augment the healthy deal pipeline in place for 2023.

	NDB Wealth Management Limited	NDB Securities (Pvt) Limited
Profile and Business Activities	NDB Wealth Management Limited (NDBWM) is the largest private sector wealth management company in Sri Lanka, with LKR 136.8 Bn funds under Management, catering to over 20,300 clients. The Company caters to a variety of investor segments through discretionary portfolio services and eight different risk rated mutual funds in both equity and fixed income and holds a market share of over 30% in the Unit Trust industry. With a time-tested team of investment, operational and marketing professionals NDB Wealth has an established track record of over 30 years in asset management and garners the respect of many individual and institutional investors as a smart choice for investments.	NDB Securities (Pvt) Limited (NDBS) is a leading stockbroker with a strong retail and institutional client base. Its competitive edge is underpinned by a superior customer proposition centring on strong relationship management, a state-of-the-art online trading facility, and market-leading research capabilities. NDBS has contributed towards enhancing the vibrancy of the stock market through introducing foreign and local institutions and individuals to the Sri Lankan capital market.
Strategic Priorities	- Capitalised on the increased interest in government securities and share market investments. - Offer new and more accessible alternatives to retail investors. - Pursue opportunities via mutual funds dedicated to investing in secure banks and Government securities in the equity market. - NDB Wealth will seek to capitalise on the stock market momentum abide cautiously monitoring changes to the macro-economic environment.	- NDBS continued to actively pursue new client acquisition. - The Company continued to adopt robust risk management and compliance strategies to strengthen long-term resilience. - Leveraged group synergies for incremental value creation which in turn strengthened NDBS's non-core revenue streams, while strengthening Group collaborations.
Performance Highlights	- The Company's Operating Income and profitability declined during the year. Revenue declined by 35% to LKR 430 Mn while Profit after Tax fell by 77% to LKR 57 Mn. - Return to shareholders (ROE) of over 23%.	- NDBS concluded another successful year, generating a brokerage income of LKR 372.95 Mn, despite a challenging operating environment. - NDBS's market share rose to 4.47% in 2022, from 4.20% recorded in the year before.
Opportunities/Risks	⊕ Improved attractiveness of fixed income funds offered by NDBWM with the anticipated decline in interest rates. ⊖ Increased macroeconomic vulnerability stemming from the external position, increase in commodity prices, and widening budget deficits will impact interest rates, exchange rates. ⊖ Negative stock market momentum.	⊕ A likely improvement in market sentiment upon receipt of the IMF board level approval. ⊕ A gradual recovery of the tourism sector, and its positive externalities to the economy. ⊕ Moderation in inflation, and its pass-through effect on interest rates. ⊕ Industry-wide technological developments; the completion of the Delivery versus Payment (DVP) system with the implementation of the Central Counterparty Mechanism. ⊖ High interest rate environment dampening demand for equities. ⊖ Uncertainty pertaining to debt restructuring negotiations. ⊖ Fiscal tightening, and its impact on consumer demand and corporate earnings.
Way Forward	NDBWM will fortify its support to customers in enhancing their wealth through timely, relevant and safe investment options within the challenged macroeconomic environment, whilst driving asset expansion to affirm NDBWM's leadership position as Sri Lanka's largest private sector wealth management company.	Strategic focus will be placed on expanding the high net worth client base by leveraging the Bank's captive clients. We will continue to seek collaborations with Group companies leveraging our position and unique capabilities as a total financial service provider (on the back of Group's strengths).

	NDB Capital Ltd (Bangladesh)	NDB Zephyr Partners Limited (Mauritius)	Development Holdings (Pvt) Limited
Profile and Business Activities	NDB Capital Limited (Bangladesh) offers a wide array of investment banking services in Bangladesh including M&A, advisory, IPO, portfolio management, fund raising, bond and preference shares, project finance and working capital, among others.	NDB Zephyr Partners Limited (Mauritius) (NDB Zephyr) is the Fund Manager of Emerald Sri Lanka Fund, a pioneering private equity fund dedicated to investing in small and mid-sized businesses seeking expansion capital in Sri Lanka. NDB Zephyr is jointly owned by NDB Capital Holdings Limited (NCAP) (60%) and Zephyr Management, LP (Zephyr) (40%), a New York based global emerging markets investment firm.	Development Holdings (Pvt) Limited (DHPL) owns and maintains the DHPL building (also known as NDB-EDB Tower), the 16-storeyed commercial property located at No. 42, Nawam Mawatha, Colombo 02. The building houses Sri Lanka Export Development Board (EDB), several departments of NDB Bank, Japan International Cooperation Agency (JICA), Sri Lanka Export Credit Insurance Corporation (SLECIC) and many other reputed global and local corporate and multi-lateral agencies.
Strategic Priorities	- Pursued opportunities in equity investments and IPO participation. - Engaged in debt transactions with reputed organisations, thereby maintaining market leadership. - New opportunities under corporate advisory, agency and trusteeship and M&A. - Several large ongoing transactions including 8 advisory and fund-raising mandates during the period including an IPO mandate and multiple approvals from the Securities & Exchange Commission.	In response to the challenging macroeconomic environment, NDB Zephyr supported its remaining four portfolio companies - Arimac Lanka (Pvt) Limited, Consolidated Business Systems Ltd, Idea Group Limited, and Cleanline Linen Management (Pvt) Limited - in expanding export markets, implementing business diversification strategies, improving access to working capital, and rationalising costs.	The property continued to leverage its strategic location, state-of-the-art facilities and reputation as a premier business space to pursue further opportunities.
Performance Highlights	- Loss after tax of BDT 16 Mn (2021: loss of BDT 16.1 Mn). - NDB Capital Limited has been recognised as 'Highly Regarded Investment Bank - Bangladesh' in the Euromoney Market Leaders Survey 2022.	- Revenue declined by 27% in USD terms reflecting the expiry of the investment period of Emerald Fund and the resultant reduction in management fees. - Profit After Tax of USD 19,740 (+218%).	- Profit Before Tax of LKR 175 Mn supported by revaluation gains of LKR 235 Mn. - The continuous increase in value reflects the Management's ongoing efforts to develop the property.
Opportunities/Risks	⊕ Economic recovery with large scale businesses which are attractive to foreign investors. ⊖ Deal execution has slowed down due to lack of liquidity in the banks and increasing interest rate environment.	⊕ Government thrust towards the SME, export, and domestic manufacturing sectors. ⊕ Exit opportunities for portfolio companies given positive market sentiments around export businesses.	⊕ Leverage on the strategic location and state-of-the-art facilities to attract prospective investors. ⊕ Ongoing investments in upgrading facilities and amenities offered. ⊖ Increased competition from emerging largescale mixed market developments in the city.
Way Forward	Strategic focus will be placed on capitalising on investment banking opportunities emerging in the Bangladeshi market to drive operational results and market strength.	The company will continue to focus on improving the performance and governance in portfolio companies, whilst also continuing to secure exit opportunities for them as apt.	DHPL is shaping up to have one of the most modern and state-of-the-art auditoriums in Colombo, which will be open for use during 2023. Focus will be based on driving operational results using its unique proposition.



DISTRIBUTING VALUE

Founded on a spirit of sharing and connectivity, we serve as a conduit that distributes resources and a positive impact across our wide-ranging network.

Intricate channels across the earth's surface enable the sharing of an essential resource, thereby driving longevity and supporting a sustainable future.





DIGITAL CAPITAL

As NDB continues to leverage the digital banking momentum, Digital Capital has emerged as a vital resource in its value creation process. It is represented by the Group's technology infrastructure comprising hardware, software, hosting networks, enterprise tools and data centres among others.

Role of Digital Capital in Value Creation

Customer-facing digital propositions

Enhance customer experience through providing access to secure, seamless and user-friendly platforms.

RPA infrastructure

Automation of repetitive and mundane tasks through workflow solutions.

Data

Support data-driven performance monitoring and decision-making across the organisation.

Activities affecting Digital Capital

- Upgrade of the Bank's Core Banking system
- Ongoing investments in digital innovations for both external and internal customers
- Process automation through RPA and workflow solutions
- Efforts to nurture a data-driven culture across the organisation

Outcomes

- + 85% of transactions conducted through digital platform
- + 56% of digitally enabled customers
- + 92 processes automated
- + 56% of e-statement cost saving
- + 27% Cost to Income Ratio (2021: 33.7%)
- Increased exposure to cyber security risks

TRANSFORMATION THROUGH DIGITALISATION

NDB has pursued a market-leading digital transformation journey over the past few years, aligned to the aspirations of Voyage 2025. Our digital strategy has centered on elevating technology from an enabling role to a transformational one, thereby rewiring all aspects of our operations to sharpen our competitive edge, improve profitability and create better stakeholder interaction.

The four pillars of our transformational strategy and the progress made under each of these pillars in 2022 is shown below:



TRANSFORMING THE CUSTOMER EXPERIENCE

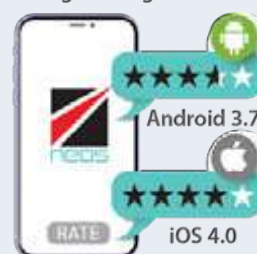
The Group's timely strategic interventions in elevating its digital propositions enabled it to swiftly capture opportunities arising from the unprecedented customer shift to digital platforms. Our customer propositions are designed on a mobile-first approach, thereby facilitating a wider reach of customers and ensuring optimisation of infrastructure. In addition to external customers, during the year the Group sought to enhance the user experience of internal customers.

Digital innovations in 2022

External Customers

- End-to-end digital onboarding (from application, document submission, vKYC to approval) for retail/personal loans through Digi Loans
- Launched Customer Relationship Management (CRM) app for corporate customers
- Expansion of Agency Banking proposition, increasing access to branchless banking

Google rating on NEOS



Internal Customers

- Establishment of an IT Service Management Division to provide an improved service to internal users
- Launch of a System Support Register (SSR), providing a platform for internal users to direct all application support issues
- Systemisation of daily IT operations, providing increased transparency and accountability

TRANSFORMING THE WAY WE WORK

Ongoing automation of repetitive processes have not only increased operational efficiency and generated cost savings, but also improved the meaningfulness of work for employees. During the year, the Bank also strengthened its automation capabilities to design tailor-made workflow solutions based on the requirements of users. Key areas of focus during the year were as follows:

Process automation through workflow solutions

- Revamped workflow system for trade operations
- Seamless integration of vKYC based Digi-Loans process through RPA technology
- 13 ad hoc projects automated through RPA solutions
- Implementation of new system for channel financing
- Digital signature drive
- Systemisation of contract renewals and daily task checklists

Flexible working

- Remote working and Work from Home arrangements facilitated for nearly 58% of the team

TRANSFORMING OUR DECISION-MAKING

In line with the aspirations of Voyage 2025 the Bank has made inroads in leveraging data to drive better decision-making in recent years. This strategic thrust has also entailed nurturing a data driven culture across the organisation, by strengthening capabilities within the data team and embedding data insights into daily operations and decisions. Key areas of focus during the year included the following:

1 Customer behavioural insights

Deep dive analysis into customer behavioural patterns which enable customer profiling and targeted marketing. Utilisation of data models with predictive capabilities provide rich insights into future customer behaviour.

2 Performing monitoring

Use of performance dashboards across all areas of the organisation. Data analytics and visualisation through Power BI platforms with insights shared across regions, branches and business lines.

3 Collaboration

Implementation of a new data warehouse, mitigating the risk of data leakage through secure infrastructure.

4 Risk Management and IT Security

Data stewards appointed in all business lines to equip decision makers with valuable insights to collaborate across business verticals and generate leads for cross sell opportunities.

TRANSFORMING PARTNERSHIPS

NDB has sought to effectively deploy technology to build and transform relationships across its ecosystem, supporting the drive towards cashless by linking customers, merchants and service providers. Key initiatives during the year were:

- Increased biller integration through NEOS with 04 new merchants added to the system
- Fortified partnerships with Trade Lens, a blockchain platforms which facilitates the provision of digital trade finance solutions to customers

Upgrade of Core Banking System

The Bank successfully completed implementation and transitioned to a new Core Banking system in January 2023. During 2022 extensive work was carried out around user testing for features and processes, training for users across the business and support functions, data migration and conversion activity management and other go-live preparations, which ensured a smooth transition. The significant upgrade is anticipated to generate considerable efficiencies across the organisation and drive marked improvements in decision-making capabilities. The new system entails the implementation of several critical modules including a new corporate online banking solution, Treasury module advanced collection modules, data warehousing and analytical capabilities among others.

IT GOVERNANCE AND SECURITY

The Board has appointed a Digital Transformation Committee to drive the implementation of the Group's digital strategy. IT governance is also strengthened by a framework of robust IT policies, proactive risk management practices and the clear demarcation of responsibilities through the three lines of defence governance model. With the increased prevalence and exposure to cybersecurity risks, the Group continued to invest in strengthening its IT security infrastructure. We successfully obtained the ISO/IEC 27001 Information Security Standard, providing external assurance on our information security, cyber security, and privacy protection. Key IT security protocols in place include robust Data Centre infrastructure, access controls, Network Access Control Solutions, data loss prevention controls and firewalls among others.

During the year, the Group did not receive any substantiated complaints concerning breach of customer privacy.

WAY FORWARD

The integration of chatbots on the Bank's corporate website and popular messaging platforms forms a focus area for 2023 which will enable prompt customer service and enhance overall customer experience. Operations will be further streamlined by completely eliminating physical statements and letters, which will reduce paper usage and enhance security, privacy, and efficiency in customers communications. Blockchain technology in trade finance and a new cash management solution are also in our plans for 2023.

Adequacy of Digital Capital

Following the upgrade of the Core Banking system, the current infrastructure is expected to be sufficient to drive the next phase of its digital aspirations.

NDB TAKES BANKING TO A NEW ERA WITH DIGITAL BANKING INNOVATIONS





MANUFACTURED CAPITAL

Manufactured Capital consists of the physical infrastructure which facilitates its value creation, which includes the Group's island-wide network of branches, ATMs, CRMs, plant and equipment and other built assets.

Role of Manufactured Capital in value creation

Branch network

- Enables customer contact and an effective platform to deliver the Bank's products and services and mobilise deposits
- Facilitates financial inclusion among the country's most vulnerable segments

ATM/CRM network

- Enhances the customer experience and provides access to a range of banking services

Activities affecting Manufactured Capital

- Strengthen mechanisms to measure customer satisfaction at branches
- Ensure uninterrupted service to customers through the branch network

Outcomes

- + 22% increase in deposit base
- + 99% customer satisfaction rate
- + Acquisition of customers across geographies
- + Drive the Bank's financial inclusion agenda in 13 economically disadvantaged areas

BRANCH STRATEGY IN 2022

Branch operations were inevitably impacted by persistent pandemic-related challenges, fuel shortages in the first half of the year and social unrest resulting from the country's economic and political instability. Against this backdrop, the operations of selected branches were curtailed for a short period in the second quarter of the year; however the Bank's strategic emphasis on shifting customers to digital platforms in recent years enabled uninterrupted customer access to our services. Key aspects of the Group's branch strategy are listed below:



Uninterrupted customer service

- The operations of certain branches were curtailed for a short period due to fuel shortages and difficulties faced by employees in travelling to work. However, in ensuring continued services, we took measures to open selected branches based on location and proximity to customers.

Enhancing customer experience at branches

- Launched an incentive scheme for branches, with KPIs derived from the Customer Satisfaction QR Code tool which was implemented in branches
- Ongoing training of Service Leaders across the Bank
- Evaluating branch service levels through daily monitoring
- Four branch refurbishments and one branch relocation with enhanced customer-friendly ambience

Brand building and promotions

- Complement the Bank's digital drive with face-to-face interaction at branches
- Awareness building among SME customers on the NEOSBIZ app



Interior view of NDB Gampola branch relocated during 2022, with a customer friendly ambience

Branch Network



Number of Branches in Economically Disadvantaged Areas

District	Branches
Ampara	3
Batticaloa	2
Trincomalee	1
Jaffna	6
Vavuniya	1
Grand Total	13

Vintage

Vintage	Branches
< 5 years	6
5 - 10 years	38
10-20 years	69
Grand Total	113

Branches Offering 365 Days Banking

District	Branches
Colombo	3
Kandy	1
Grand Total	4

Northern Province	7
1. Jaffna District	6
2. Vavuniya District	1

North Central Province	5
3. Anuradhapura District	3
4. Polonnaruwa District	2

North Western Province	11
5. Kurunegala District	6
6. Puttalam District	5

Western Province	52
7. Colombo District	33
8. Gampaha District	14
9. Kalutara District	5

Southern Province	11
10. Galle District	5
11. Hambantota District	4
12. Matara District	2

Central Province	10
13. Kandy District	7
14. Matale District	2
15. Nuwara Eliya District	1

Eastern Province	6
16. Ampara District	3
17. Batticaloa District	2
18. Trincomalee District	1

Uva Province	4
19. Badulla District	3
20. Monaragala District	1

Sabaragamuwa Province	7
21. Kegalle District	2
22. Ratnapura District	5

FACILITATING FINANCIAL INCLUSION

The Bank's network of 113 branches, of which 13 are in economically disadvantaged areas, plays a vital role in driving our financial inclusion agenda, providing access to the most underserved segments of society. Our branch network has also facilitated the effective and island-wide roll out of NDB's Banking on Women initiative, with dedicated resources deployed at each branch to identify and address the needs of female customers.

WAY FORWARD

The Bank's ongoing focus on driving digital adaptation is anticipated to result in a gradual reduction in customer footfall to branches and a resultant rationalisation of geographical expansion. The Bank's branch network offers considerable potential for further penetration-particularly in the Retail and SME segments and we will leverage the current network to pursue selective growth opportunities in the short-to-medium term.

Adequacy of Manufactured Capital

The current branch reach and the ATM/ CRM network are deemed adequate to drive future strategy, given increased shift to digital platforms and prudent approach to growth in the short-term



113

Total Number of Branches



57 Onsite

28 Offsite

55 Onsite

29 Offsite

Automated Teller Machines

Cash Recycle Machines



HUMAN CAPITAL

Team NDB is a true driver of the Group's competitive edge, with the professionalism, skills, attitudes and agility, enabling resilience to the extraordinarily challenging conditions that have unfolded.

Role of Human Capital in Value Creation

Our team plays a critical role in achieving the Group's strategic aspirations, facilitating the customer experience and driving innovation, factors which have truly set NDB apart in the competitive landscape.

Activities affecting Human Capital

- Revision of salaries and remuneration to reflect escalating cost of living and evolving employee expectations
- Ongoing efforts to nurture a diverse and inclusive organisational culture
- Competency-based talent attraction and development

Outcomes

- + Increased staff satisfaction levels - Great Place To Work Survey
- + LKR 2 Mn Value addition per Employee
- + 161,614 training hours provided through LKR 17 Mn
- + 337 promotions and 619 lateral moves
- + 114 job upgrades
- Increase in attrition to 14.9%

MANAGEMENT APPROACH

The Group's comprehensive HR policy framework has been designed in compliance with ISO 9001:2015 and industry best practices in people management. An Employee Code of Conduct also sets clear guidelines on the expected professional and ethical conduct of all employees. Key policy changes during the year included the increase in maternity leave, revisions to staff allowances and educational assistance programmes among others.

OUR PEOPLE STRATEGY IN 2022

Given significant disruption faced by Sri Lankan organisations over the past few years together with external drivers such as digital transformation and Sri Lanka's economic stress, NDB's people strategy was reviewed and aligned to support the evolving requirements of our team.

External Drivers Shaping Our People Strategy

1

COVID-19 related disruptions

2

Economic stress and rising cost of living

3

Sharp increase in attrition due to talent migration

Strategic focus areas



TEAM IN REVIEW

The NDB team of 2,929 employees represents diversity in age, skills and capabilities. 81% of personnel are employed on a permanent basis while the remaining are engaged on contract basis for sales and non-critical functions. The Bank supports economic empowerment in the areas we operate by recruiting nearly 100% of the senior management from the local communities. All employees are engaged on a full-time basis.

Gender Representation - By Contract Year 2022

	Male	Female	Total	Male %	Female %	Total %
Permanent	1,412	953	2,365	60%	40%	100%
Contract	300	183	483	62%	38%	100%
Trainee	21	43	64	33%	67%	100%
Intern	2	15	17	12%	88%	100%
	1,735	1,194	2,929			

Team NDB by Region/Type - Year 2022

	Permanent	Contract	Trainee	Intern	Total
Western	1,755	423	58	12	2,248
North Western	110	16		2	128
Central	119	14	1	2	136
Southern	109	11	3	1	124
North Central	38	1	1		40
North East	121	8			129
Uva Sabaragamuwa	113	10	1		124
Total	2,365	483	64	17	2,929

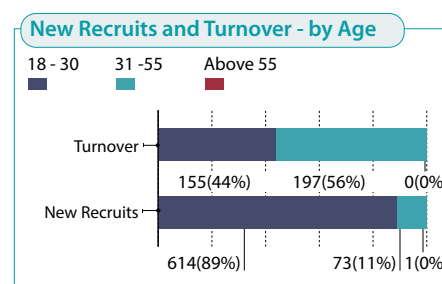
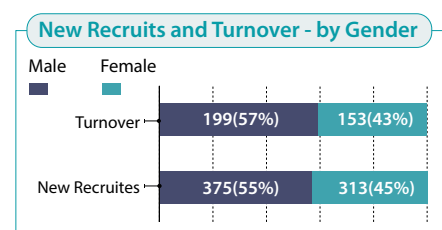
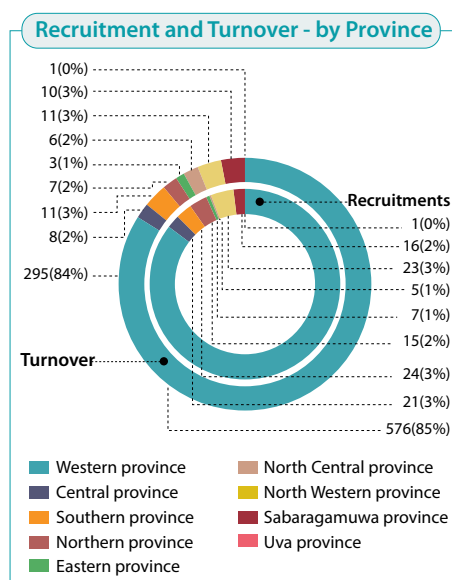
Team NDB by Age Representation - 2022

18-30 Years	31-55 Years	55 Years above	Total
1,471	1,439	19	2,929
50%	49%	1%	100%

MOVEMENTS IN TEAM PROFILE

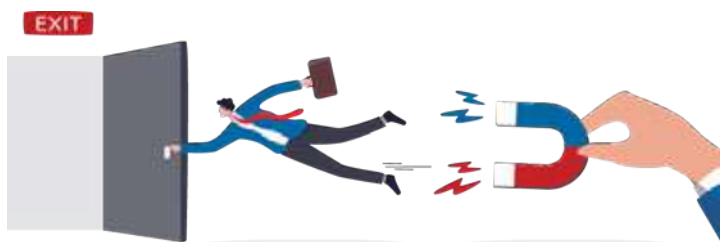
Talent attraction

We continue to evolve our team size and composition in line with our organisational model and design, with the aim of optimising human resource deployment. Accordingly, the total workforce has recorded gradual decline, reflecting increased focus on digitalisation and high levels of employee productivity. During the year, external hires were limited to 688 recruits, primarily at Trainee Banking Assistant level while other vacancies were met internally, which facilitated career progression.



TALENT RETENTION

Attrition rose to unprecedented levels reflecting the mass talent migration from the country during the year. The high turnover, has however, created a vacuum for talent which was fulfilled through both internal and external recruitment.



Key Employee Insights

- More positive sentiments towards the organisation as reflected in the increase in the Bank's GPTW score
- High level of trust in organisation and Leadership Team
- Appreciation of flexible and remote working facilities with 58% employees facilitated with working from home
- Pride, Justice, Manager Competence, Training & Development were identified as areas of Strength during the GPTW survey

EMPLOYEE ENGAGEMENT AND INSIGHTS



The collective voice of our team is used as a vital input in guiding our people strategy. The Bank relies on the globally accepted Great Place To Work® (GPTW) survey, which offers valuable insights on employee concerns and areas for improvement. The Bank's open-door policy allows and encourages all employees to come forward with any grievances, concerns, and suggestions. Further, "Talk to HR" feature, on the Bank's HCM (Human Capital Management System) mobile facilitates ongoing and real time connectivity between employees and the HR team.

The Bank does not have any collective agreements in place and during the year under review, there were no material issues relating to employees and industrial relations which required disclosure. All employees are given sufficient notice of any significant operational changes.

BUILDING OUR TALENT PIPELINES

Learning Platforms Used	No. of Hours	No. of Staff	No. of Hours (%)	No. of Staff (%)
E-learning	18,789	2,664	12	91
Physical	95,903	1,507	59	52
Virtual	46,922	2,624	29	90

The development proposition for the year centred on a competency-based learning approach with the aim of upskilling/reskilling employees to drive towards the aspirations of Voyage 2025. Role-based competency mapping was carried out for all critical business functions, enabling the identification of the required skills and formulation of suitable training programmes.

Key training interventions during the year included the following:

Competency Mapping

- Completed competency mapping for all branch officers
- Coaching competencies developed for 55 senior leaders
- Implemented data-driven competency mode

Delivery Methods and Capabilities

- Revamped digital learning platform
- Strengthened internal trainer pool with 12 newly accredited trainers. Total trainers: 50
- Upskilled 200 trainers on foreign currency operations

Training programmes

- Customer service development in Contact Centre through Contact Centre coaching accreditation programme
- "Aspire" Development Programme for Trainee Banking Assistants

Learning Platforms Used

LKR 17.00 Mn
(2021 - LKR 19.36 Mn)

Total investment in training

161,614 Hours
(2021 - 70,487 hours)

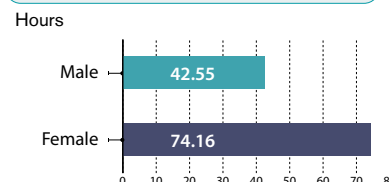
Total training hours

2,917
(2021 - 2,486)

No. of employees received training



Average Training Hours per Gender



Value addition per employee

LKR 2.0 Mn
(2021 - LKR 1.9 Mn)

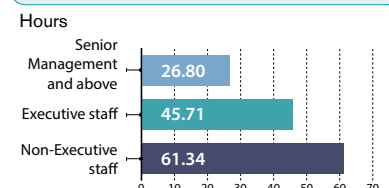
Payments per employee

55.4 Hours
(2021 - 24.4 hours)

Average training hours per employee



Average Training Hours per Category



Distribution of Learning Hours based on the type of programme

Type of training programme	% of total hours
On the Job	37.03
Inductions & Orientations	8.28
Service	7.85
Compliance	7.43
Structured Development	7.20
Branch Operations	6.58
Regulatory	6.54
Products	5.73
Soft Skills	4.21
Strategic Development	2.37
Credit	2.27
Other	4.52



NDB's Administrations Team on an out-bound training programme

PERFORMANCE MANAGEMENT

Percentage of Staff Receiving Regular Performance Appraisals

	Male	Female
Senior Management	69	31
Management	70	30
Executive	64	36
Non - Executive	55	45
Specialised Sales Force	86	14

Our performance management is underpinned by clearly defined performance targets, a collaborative engagement, and formal performance appraisals. During the year, all of our eligible permanent employees engaged in performance reviews. Career progression during the year was facilitated by promoting 337 employees within the Group. Further, 619 lateral staff moves were made with the intention of providing new opportunities for existing staff members. During the year, personality profile assessments were introduced for new recruits.

REWARDS AND REMUNERATION

There is no statutory minimum wage for the entry level in the banking industry. Irrespective of same, the Group has an unbiased, transparent, and consistent reward system in place which facilitates a performance driven culture. This reward scheme consists of guaranteed pay, variable pay and statutory benefits and other attractive incentives.

During the annual salary review, the necessary market adjustments were carried out based on the industry standards and to combat high inflation. A special market survey was conducted by a third party to evaluate gender pay equity as well.

EXTENDED BENEFITS IN RESPONSE TO THE ECONOMIC-MELTDOWN

Several other benefits were also introduced as relief measures, in response to the challenges posed by the economic meltdown.

- Financial relief allowance paid in two installments
- Employees were provided transport due to fuel crisis and traveling difficulties
- Upward revision of accommodation assistance allowance to all branch network staff
- Increased subsistence rates for meals and overnight stay across all grades
- Extension of repayment period of staff facilities up to the age of 60 years in line with revision to private sector retirement age



A DIVERSE WORKFORCE

A diverse workforce is reflective of the demographics we serve and nurturing an inclusive culture in which all employees can thrive is a key long-term priority for the Group. As an equal-opportunity employer, the Bank adopts a gender inclusive recruitment and rewards policy with the ratio of basic salary between women and men at 1:1. The following organisational structures and mechanisms are in place to promote a diverse and inclusive culture for all employees.

Rewards and Benefits

Guaranteed Pay and Allowances

- Fuel/travelling allowance
- Leave pay/holiday allowance
- Job specific allowance
- Accommodation assistance
- Weekend/holiday banking allowance

Reimbursable Expenses

- Professional and club subscriptions
- Education assistance for MBAs

Retirement Benefits

- EPF/ETF, Gratuity (higher contribution to EPF than what is stipulated by statutes)

Variable Pay

- Performance bonus
- Sales incentives and overtime
- Employee share ownership plans

Other Prerequisites

- Holiday bungalow / annual trip
- Medical insurance scheme
- Parental leave
- Toastmasters club
- Recreational club

Subsidised Loan Schemes

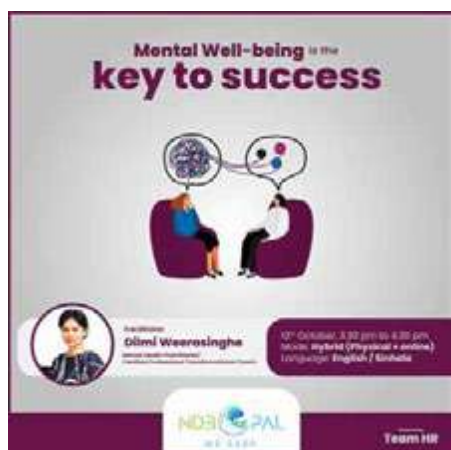
- Housing, vehicle, sundry loans

Of the above, holiday allowances, accommodation assistance, weekend/holiday banking allowances, performance bonus, subscriptions and educational assistance are not provided to contract employees whilst different schemes/conditions are applicable for medical insurance.

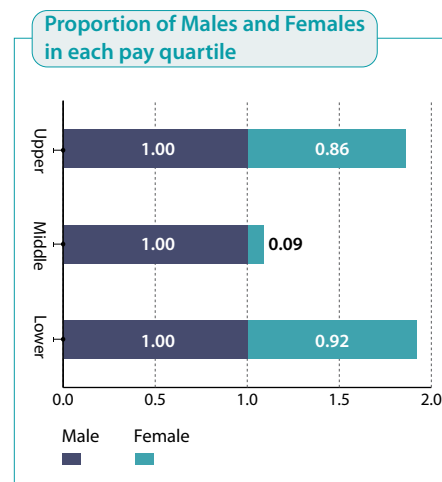
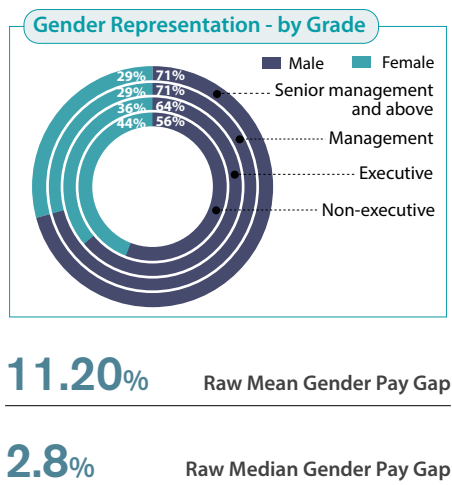
Conductive Policy Framework - Equal opportunity recruitment policy - No discrimination in remuneration between genders - Equal opportunity promotion policy - Strict policy framework covering all forms of harassment at workplace		Improvements in 2022 - Maternity leave increased to 100 paid working days (from 84 days) - Paternity leave of 3 days introduced to the employees on fixed term contract
Employment Practices - Flexi hours - Work from Home arrangements enabled for over 58% of staff 'Dignity at Work' mailbox		Improvements in 2022 Conceptualisation and development of Fearless Female Empowerment Project to be launched in 2023
Partnerships, Certifications and Recognition - First organisation in Sri Lanka to receive the EDGE certification for workplace gender equality - Recognised among Top 50 Great Workplaces in Sri Lanka - Only local bank to be certified as a "Great Place To Work" for the second consecutive year - Recognised among Top 100 Great Workplaces in Asia - Honourable mention at CIMA Sri Lanka's Women Friendly Workplace Awards 2022 - Partnership with Women in Management		

EMPLOYEE WELL-BEING

The unique complexities and uncertainty that stemmed from the operating environment in recent years have led to increased emphasis on employee well-being. Despite the relative normalisation of operating conditions post COVID-19, the Bank maintains its hygiene and safety practices to minimise the risk of a similar spread. During the year under review, NDB also formulated a more holistic well-being initiative, targeting both mental and emotional well-being branded as NDBPAL. The initiative involves a partnership with a professional service provider ensuring confidentiality and anonymity. Support comprises offering counselling services targeting emotional well-being, financial well-being and healthy relationships. This support system is expected to be widened to include employees' family members as well.



NDBPAL, committed to ensuring employee well-being



Gender Representation - By Grade

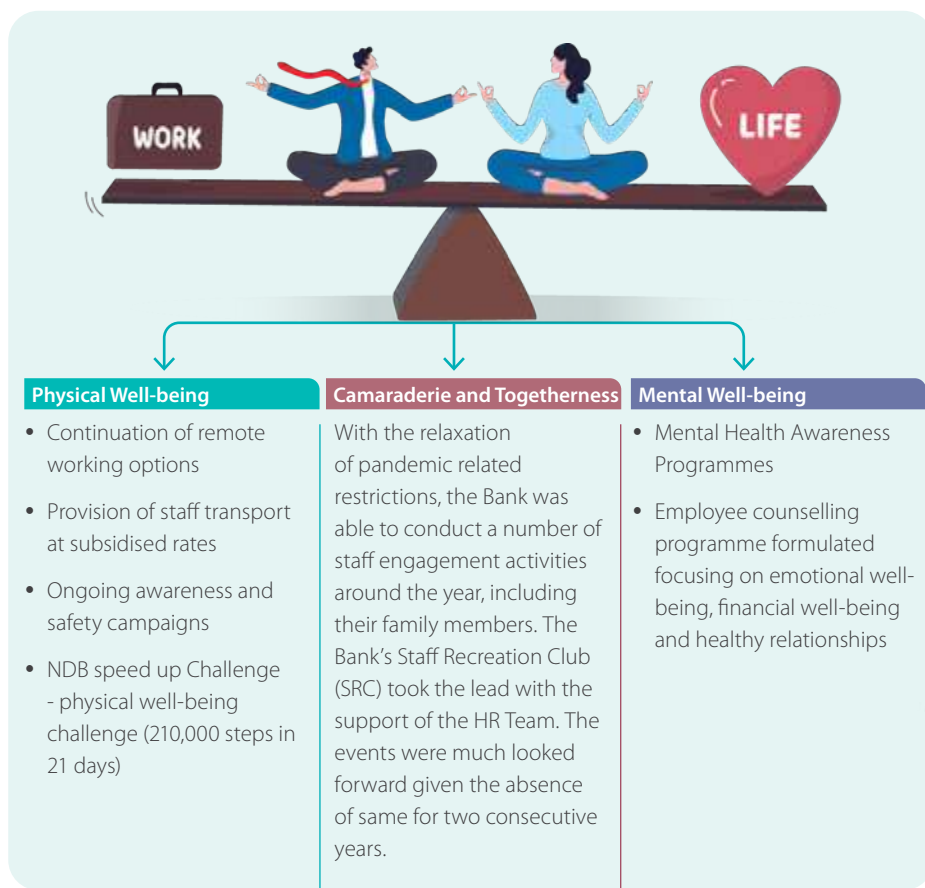
	Male	Female	Total	Male %	Female %
Senior management & above	29	12	41	71	29
Management	145	60	205	71	29
Executive	399	225	624	64	36
Non-executive staff	1,162	897	2,059	56	44
	1,735	1,194	2,929	59	41

Return to Work after Parental Leave

	Male	Female
Employees entitled to parental leave	1,413	1,195
Employees on parental leave	-	25
Employees who returned after parental leave	68	35
Employees still in employment 12 months after returning on parental leave	61	23

Gender Representation by Region-2022

	Male	Female	Total	Male (%)	Female (%)
Head office	931	721	1,652	56	44
Colombo	113	98	211	54	46
Greater Colombo	94	77	171	55	45
Southern	98	53	151	65	35
North Western	118	82	200	59	41
North Central	96	48	144	67	33
Central	115	62	177	65	35
Uva Sabaragamuwa	82	20	102	80	20
North East	88	33	121	73	27
	1,735	1,194	2,929		

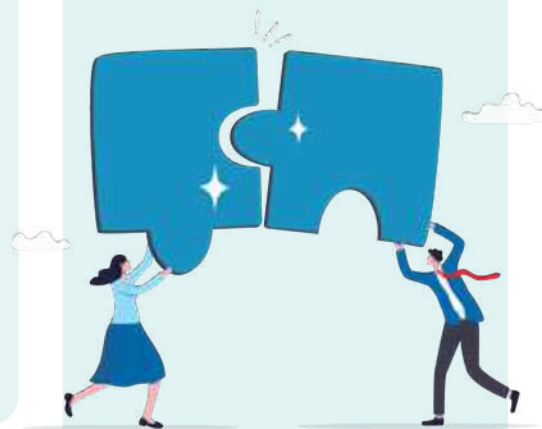


WAY FORWARD

Our short-to- medium term HR strategy will centre on fostering the cultural shift required to drive the Group's Voyage 2025 aspirations amidst current challenges. Talent retention will be a key priority given the increasingly acute challenge of brain drain affecting the country as a whole. Continued focus will also be placed on driving competency-based talent acquisition and development as well as ensuring that our compensation schemes are in line with evolving employee expectations and market dynamics.

Adequacy of Human Capital

In recent years, we have sought to optimise our cadre and achieve the correct balance between reliance on human capital and digital capabilities. The current headcount is estimated to be sufficient to drive the Group's Voyage 2025 aspirations although recruitment will be required to bridge the vacuum created by relatively high attrition.





INTELLECTUAL CAPITAL

The Group continues to hone its Intellectual Capital by nurturing a culture of learning and knowledge sharing, which has sharpened its competitive edge and been a key factor in NDB's resilience to the unprecedented challenges that prevailed over the past few years.

Role of Intellectual Capital in Value Creation

Intellectual Capital is represented by the Group's unique base of tacit knowledge, organisational structures and the NDB brand which drives our innovation, agility and responsiveness.

Activities affecting Intellectual Capital

- Ongoing investments in brand development
- Cross-functional collaboration
- Fostering a culture of learning and knowledge sharing

Outcomes

- + 7% increase in brand value
- + Increased visibility and interaction through social media platforms customers
- + Ability to navigate crisis with agility
- + Data driven decision making
- + Digitised customer solutions and automated processes

THE NDB BRAND

The successful delivery of the Group's previous strategy (Transformation 2020) and the resultant transformation of NDB to a competitive and dynamic bank led to increased visibility of its brand value. Voyage 2025 – the incumbent strategy and relentless focus on driving customer-centricity across its operations have further fortified our brand, with NDB consistently being ranked among Sri Lanka's top brands.

Our brand strategy for 2022 centred on portraying the Bank's strength and stability in building customer confidence and trust given the volatilities and uncertainties that prevailed during the year. Key branding interventions were as follows:

- (1) Multiple campaigns to showcase and promote the Bank's digital capabilities including NDB NEOS, NEOSBIZ, digital onboarding for digi-loans and account opening among others
- (2) Focus on increasing social media penetration and reach
- (3) Engaged national cricketer Charith Asalanka as a brand ambassador
- (4) Continued sponsorships to support school level rugby and other sports
- (5) Sri Lanka Vanithabhimana Awards (refer page 88)



CROSS-FUNCTIONAL CAPABILITIES

The Group has sought to drive interdepartmental collaboration through the establishment of several cross-functional committees with oversight responsibility on specific functions. This has enhanced knowledge sharing within the Group and served as an effective mechanism to combine diverse views and capabilities. For instance, the Management Committee (MANCO) has cross-functional representation and supports the Executive Leadership in implementing strategic initiatives.

The Group also benefits from the unmatched expertise of its best-in-class legal team, which provides strategic guidance across all operations in an increasingly complex regulatory environment, particularly in cross-border project financing deals.

BRAND VISIBILITY

#16

Sri Lanka's most valuable brands

LKR 11,038 Mn (+7%)

Brand value by Brand Finance Sri Lanka



#1

LMD: Sri Lanka's most awarded corporates 2021

>90

Total awards won in 2022 by the Group

SOCIAL MEDIA FOOTPRINT

148 Mn

Impressions

8.1 Mn

Reach

5.5 Mn

Social media engagements

545,079

Fans on social media



481,862

Followers on Facebook



8,247

Followers on Instagram



52,755

Followers on LinkedIn



2,215

Followers on Twitter

Cross-functional Committees (Examples)

Management Committee (MANCO)

IT Steering Committee

Asset and Liability Management Committee

Procurement Committee

Corporate Sustainability Committee



ORGANISATIONAL CULTURE

A unique organisational culture centring on resilience and adaptability enabled the Group to swiftly identify and navigate the complexities of the year. Led by The Leadership Team, business lines were quick to recalibrate performance targets, refine strategies and revise growth expectations to support the Group's long-term stability. Meanwhile, strategic emphasis on data analytics has enabled the Bank to nurture a culture of data-driven decision making, which is supported through interactive dashboards, real-time data insights, predictive models and data visualisation capabilities.

WAY FORWARD

Our brand strategy for 2023 will continue to be aligned to the aspirations of Voyage 2025, with emphasis on promoting attributes of customer centricity, integrated solutions and digital journeys. Efforts to nurture a data and innovation-driven organisational culture will continue while driving the attitudinal and mindset shift required to ensure resilience to the prevalent challenges in the short to medium term.

Adequacy of Intellectual Capital

The Group's organisational capital and intrinsic knowledge will serve it well in weathering the anticipated challenges of 2023.





SOCIAL AND RELATIONSHIP CAPITAL

The Group's Social and Relationship Capital represents the relationships we have nurtured with our customers, value chain partners, communities and other stakeholders. The needs of these stakeholders are embedded into our strategy and decision making which in turn ensures we maintain our social license to operate.

Role of Social and Relationship Capital in Value Creation

Identifying and responding to the needs of our stakeholders through meaningful and informed engagement are vital in driving shared value creation and ensuring the sustainability of our business.

Activities affecting Social & Relationship Capital

- Emphasis on improving customer accessibility given restrictions to mobility that prevailed
- Efforts to enhance customer experience
- Ongoing investments in community engagement initiatives

Outcomes

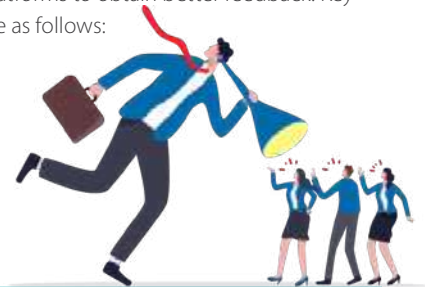
- + Supporting SME exporters and entrepreneurs
- + Improved accessibility through achieving 93% call answer rate
- + LKR 8 Mn investment in community engagement
- + 180 regional-level and 26 national-level women recognised through Sri Lanka Vanithabhimana
- + Ongoing industry collaborations to create a more conducive industry environment

CUSTOMER VALUE CREATION

The Group's customer base comprises individuals, SMEs and corporate customers who we serve through seamless digital channels and an island-wide network of branches. In line with aspirations of Voyage 2025, the Group sought increased penetration in new customer segments and geographies, which has allowed it to build a more diverse client base. During the year under review, we focused on identifying and responding to the critical needs of our customers, given the unique challenges that prevailed for most part of the year.

Listening to Our Customers

In strengthening engagement with customers, we sought to increase feedback platforms while optimising existing platforms to obtain better feedback. Key initiatives launched during the year are as follows:



Improving feedback platforms

- Launch of QR-Booster 2.0 to raise awareness on the process and importance of obtaining customer feedback
- Introduction of account opening feedback through SMS
- Launch of complaint resolution feedback process

How we scored

- **99%** Satisfaction rating received through QR-based technology at branches
- **95%** Satisfaction rate received for account opening

How we used our learnings

- Established a cross-functional feedback link through the NDB Cloud – the Bank's Intranet for staff members, providing a common platform to share internal experiences and rate the service
- Proactively shared internal communication through weekly and monthly emails, dashboards and knowledge sharing
- Electronic Direct Mails (EDM) shared with employees on a range of customer service related aspects including telephone and e-mail etiquette, meeting manners, complaint handling, etc., in line with the Standard Operating Procedures (SOP) for customer service excellence
- Engagement of Service Leaders in nurturing a service culture through multiple initiatives such as trainings, briefing and pocket discussions
- Re-launch of Customer Service Week after a lapse of two years
- Initiated upgrading our Service Level from Expected to Desired Service Level

Flexible Repayment Schemes and Advisory

The Bank maintained close engagement with customers and offered flexible repayment schemes, reschedulements and advisory services, led by the Remedial Management Unit.

Improving Customer Accessibility

As fuel shortages restricted customers' ability to visit branches, the Bank focused on ensuring continued accessibility of its services through the following:

- Improved service standards at Contact Centre through ongoing training
- Dedicated omni-channel team incorporated for inquiries on digital channels
- During stages of high call volumes, an SMS was sent to customers to initiate a WhatsApp conversation

Helping Our Customers through the Crisis



Omni-channel Experience

Enhanced omni-channel experience through innovations such as digital account opening and digital processing of selected loans in addition to processing of Western Union money transfers over the phone.

Customer Education

Regional programmes conducted across all provinces on financial literacy

3 Programmes
>225 Beneficiaries

NDB CONTACT CENTRE – EXTENDING ROUND THE CLOCK SUPPORT TO OUR CUSTOMERS

NDB's Contact Centre, powered by state-of-the-art technology and delivered by an empathetic and well trained team, continued its 24*7 support to our customers as a prime point of contact in the Bank, unabated by the challenges that persisted during the year.

Our main objective

To increase contact ability and offer seamless channels for customers to connect with us

Our support to Bank's strategic imperatives

- Maintain standards in customer service excellence
- Drive remittances by processing Western Union Money transfers – Over 10% of overall Bank volumes handled by Contact Centre
- Aggressively migrate customers to e-statements for cost rationalisation and reduced carbon foot print

Challenges

- Disruption to business as usual prompted by the economic crisis
- High staff turnover
- Up-skilling staff with all-round product and channel knowledge in short time frames

Outlook

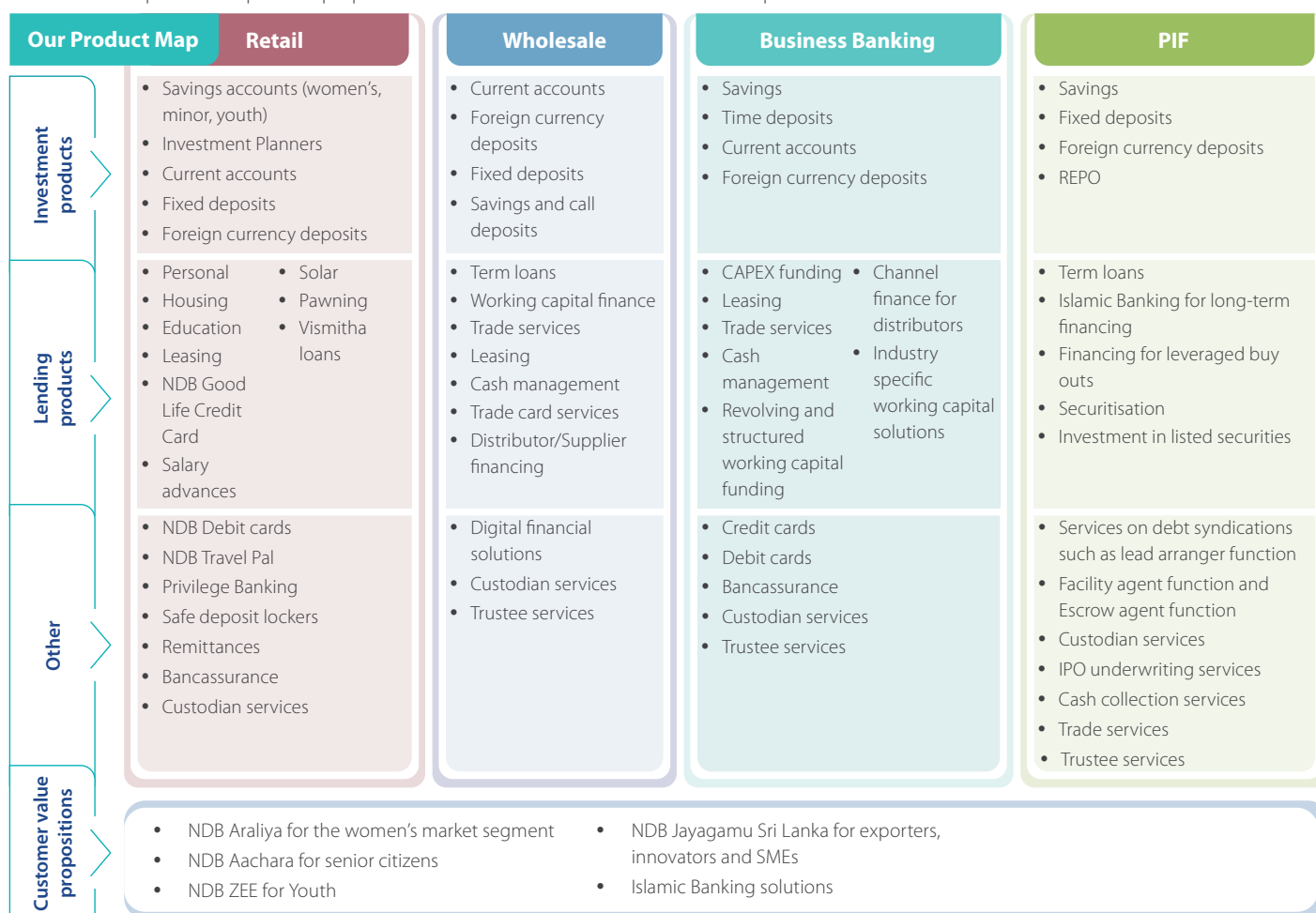
- Implementation of Advanced Interactive Voice Response to increase self-servicing options – IVR
- Chatbot to automate customer interactions and processors to improve service deliveries and timelines
- Dedicated Hotline for high net worth customers

Measuring our service excellence

Service Indicator	Goal	Achievement
Service levels of the incoming calls	To maintain 80% or more	93% of the calls attended 70% answered within 20 seconds
Abandon rate	To maintain below 5%	5%

PRODUCT MAP

The Bank's comprehensive product propositions across the different business lines are presented below:

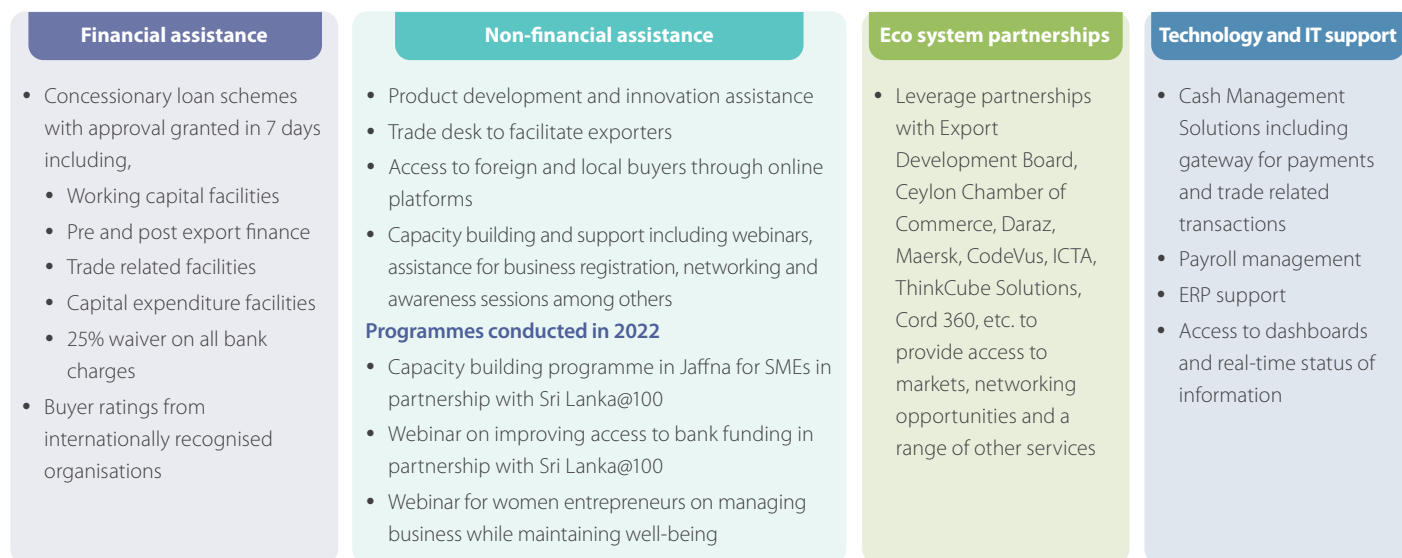


During the year, there were no instances of non-compliance on product and service information and labelling or marketing communications.

Where relevant, the Bank makes its communications in all three languages of Sinhala, Tamil and English on products, services and other relevant announcements.

VALUE PROPOSITION OF NDB JAYAGAMU SRI LANKA

The Group continues to drive the growth of exporters, innovators and entrepreneurs through NDB Jayagamu Sri Lanka, a holistic proposition which provides multi-faceted support as demonstrated below. Through this programme, the Group has also aligned its' growth strategies to areas of critical national interest directly contributing towards the country's economic recovery.



VALUE CREATION FOR WOMEN ENTREPRENEURS

Banking on Women

The Bank's multi-faceted Banking on Women platform aims to drive female empowerment through supporting female entrepreneurs across the country; the programme includes skill development, providing access to affordable finance and identifying solutions to barriers which are often faced by women-owned businesses.



NDB Araliya financial services

Banking facilities catering specially to female entrepreneurs including Araliya business loans, credit/debit cards, preferential interest rates and insurance scheme.

Non-financial services

Access to Araliya knowledge sharing, mentoring and networking sessions, and third party advisory services.

Leveraging partnerships

Partnerships with third parties such as Daraz, Women's Chamber of Industries & Commerce (WCIC), Bobbin Group to provide greater market access and networking opportunities for women, Satyn Magazine for knowledge sharing of women-centric topics of interest.

Key developments relating to Banking on Women platform in 2022 included the following;

- Established portfolio targets for Wholesale Banking, thereby actively encouraging lending towards female led businesses
- Strengthened engagement with external stakeholders including the Women's Chamber of Industries and the Bobbin Group
- Series of videos targeting female entrepreneurs focusing on business management skills, financial literacy, and mental health among others
- Video series on breast cancer awareness, diabetes control and financial management in the new year 2023 in partnership with Satyn Magazine

Harnessing strength of partnerships

During the year, NDB partnered the Asian Development Bank (ADB) via the Government of Sri Lanka in extending financial facilities to small and medium sized entrepreneurs, through the loan scheme SMELoC 111. This loan carries a special feature, wherein any female led SME borrowers from the manufacturing and services industries will be eligible for a 10% grant out of the principal loan amount, with the remaining 90% to be repaid under concessionary terms such as lower interest rates and tenors up to 10 years with 02 years grace period, based on the project cash flow patterns.



Loans for women entrepreneurs

LKR 145 Mn
Loans

LKR 15 Mn
Grants

Sri Lanka Vanithabhimana (SLV) is NDB's iconic initiative to recognise, empower and inspire high performing females of the country through a structured awards programme in joint collaboration with NewsFirst MBC Network. In 2022 the Bank launched the third edition of SLV, based on the success of the event in 2020 and 2022. SLV features recognition of females across eight categories at both provincial and national level - of Sports, Entrepreneur (Micro Scale), Entrepreneur (Small Scale), Entrepreneur (Up Coming), Voluntary Services, Arts, Education Services and Young Leader. In addition, the Corporate category is dedicated to recognising high performing females across 10 professional categories such as HR, legal, tourism and state sector. The event has attracted the interest of approximately 6,000 females across the country over the three years. NDB continues to provide financial and advisory support to females identified through SLV under its Banking on Women proposition.



Awards recipients of the Sri Lanka Vanithabhimana 2021/22 edition Grand Finale held to coincide with the International Women's Day 2022

POWERING POTENTIAL

During 2022, the Bank conducted an island wide assessment of female entrepreneurs, who were previous participants of the Sri Lanka Vanithabhimana programme. Eight of them were selected as finalists, based on their potential to upscale their business and the value addition they do to the country's economy, environment and society. They were awarded Grant Aids netting LKR 2.6 Mn to grow their businesses and make greater socio-economic contribution. Here is what three of the Grant Aid recipients had to say;



Ms. Dinidu Nilanka Iddamalgodu

Highest scorer amongst all participants across the island of the Grant Aid programme

In 2008, I decided to leave my corporate job which offered all benefits and facilities. Then I started a new journey as a Craft Instructor for Government institutes and private banks and conducted craft workshops. From these workshops, I was able to connect with a lot of women from villages. They suggested that I start a business which will utilise my craft and art skills. I started my own eco-friendly business venture in 2012. This decision was driven by my increasing awareness on environmental degradation and my passion to engage in something that would enrich the environment and empower the community. My business involves using an invasive plant as the main raw material and natural dyes to manufacture paper and related products through a zero-waste, eco-friendly process which has minimal impact on the environment. I gradually expanded my operations and now employ 12 women including single mothers and women with physical disabilities. NDB has been a key pillar of strength in the growth of my business, not only through providing funding but also giving me advises and providing access to the NDB NEOS app, which allowed me to conduct transactions and continue my operations smoothly even during times of fuel shortage. Back then, I sold my products at a small-scale stall in front of the Divisional Secretariat Office of Ja-Ela. My products are currently sold at an outlet at the One Galle Face Mall. I am very keen to start exporting my products. The Grant Aid from NDB came to me at a critical juncture in my business progress. It means much to me and I am very much thankful to the Bank for their efforts in identifying, evaluating and empowering female entrepreneurs like us to take our ventures to greater heights.



Ms. Anthony George Marie Karthikesu

Most senior recipient of the Grant Aid programme

I am a 58-year old war widow from Batticaloa, who lost my husband to the war when I was 33 years old with 4 young children. At the time I was working at an NGO, but since I was struggling to make ends meet I started selling food items including murukku and string hoppers. Ten years ago, I started manufacturing herbal products and my business gradually picked up as my products became popular given their good quality. Since my pension is almost completely used to settle my debt, my living expenses are now met fully through my herbal products business. I was fortunate to be selected to the NDB Grant Aid programme through which I obtained a monetary grant to construct a new facility to expand my business. I have also employed four other war widows to help me in my business and I am glad to be able to provide them a regular source of income. I am deeply grateful for this empowerment extended to me by the Bank, particularly at a time that we are challenged by multiple fronts.



Ms. Nirasha Wimalasooriya

Youngest recipient of the Grant Aid programme

I am currently an undergraduate of IT at the University of Moratuwa. I commenced by bag manufacturing business in 2018, when I was 20 years old. I have always been interested in fashion and designing and before venturing into this business I did much research to identify a gap in the market I could fulfill through a unique product and marketing. I designed several bags, subsequently partnering with a lady craftsman to manufacture the products I currently sell. I started advertising and selling my products under the brand 'Nidew' through social media and the interest and demand I received was far more than I anticipated. I have now expanded my business and employ six women, providing them a sustainable source of income. I was the youngest winner of NDB's Grant Aid programme and the support NDB extends to me has been invaluable, both in terms of financial support and business advice. I would like to extend my deepest appreciation to NDB for their dedication and actions in uplifting budding women-led businesses in the country, which possess the potential to turn in to multi-million ventures with high socio-economic impact in the future.

VALUE TO BUSINESS PARTNERS

The Group's value creation is supported by an ecosystem of business partners, which includes over 400 suppliers and 92 correspondent banks. These business partners provide increased access to market, create value to customers through market linkages and ensure the smooth continuity of operations. The Bank procures a range of IT, office equipment and consumables from a network of suppliers with the bulk of these being local corporates and SMEs. A Sustainable Procurement and Supplier Policy sets out the economic, social, and environmental criteria to be considered when screening suppliers, thereby enabling NDB to propagate its sustainability agenda across the supply chain.

The Bank adopts the following practices when engaging suppliers;

- Comprehensive supply chain audits conducted with finding used for process enhancements
- Dedicated channel for receiving supplier grievances via ndbtenders@ndbbank.com and a mechanism to resolve them. During the year there were no such grievances received from suppliers.

Key Memberships in Associations

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

- Sri Lanka Banks' Association
- Institute of Bankers of Sri Lanka (IBSL)
- The Association of Professional Bankers - Sri Lanka (APB)
- Sri Lanka FOREX Association
- Payment Cards Industry Association of Sri Lanka
- Association of Banking Sector Risk Professionals
- Biodiversity Sri Lanka (BSL)



COMMUNITY ENGAGEMENT

The Bank's community engagement initiatives are designed with the overarching objective of creating sustainable shared value by delivering economic, environmental and social benefits and are aligned with the Bank's triple bottom line aspirations.

Corporate Sustainability Governance

The Bank's Corporate Sustainability (CS) Committee provides oversight on the Bank's Corporate Sustainability initiatives. In nurturing a community-conscious culture, employee engagement is encouraged at all levels, with passionate members of the NDB team contributing time and effort. Initiatives are selected based on community needs, resource availability and accessibility to relevant expertise. Key areas of focus are set out alongside:

Supporting national sustainable development & UN's SDGs

Protection and conservation of the environment

Employee volunteerism

Special projects to address specific community needs

During the year, there were no significant negative impacts on local communities through our operations. Progress made in delivering the CS agenda in 2022 is listed below. Given the unprecedented socioeconomic challenges that prevailed during the year, CS efforts were refocused towards addressing acute difficulties faced by communities.

Providing clean drinking water to Veheragalagama village in Matale



NDB installed a 'Reverse Osmosis Water Treatment Plant' (RO Plant) in Veheragalagama, a very remote village in Wilgamuwa, in the Matale district.

The RO Plant has the capability of processing 10,000 litres of water a day and will directly benefit over 300 households (over 1,000 people) in this village.

Donation of essential medicines to the Kurunegala Teaching Hospital Psychiatric Ward

The Bank made this donation in commemoration of the World Mental Health Day of which, the theme for 2022 as set by the World Federation for Mental Health was 'Make mental health and well-being for all a global priority'. The donations marked critical support to beneficiaries, as the medicines were in deficit due to the crisis that prevailed in the country.

Grants - Women Entrepreneur Development Project

Supported eight women entrepreneurs by way of monetary Grant Aid netting LKR 2.6 Mn to expand and grow their business ventures.

The grant recipients were selected based on their potential and the value addition to the economy, environment and society. Key features of their business operations were the integration of sustainable aspects into their daily operations and employment creation for women especially single mothers, widows, marginalised and differently-abled.



The grant recipient in the picture, Ms. Kanchana Wewalpanawa is the founder of the brand Hamboo - which produces storage containers using reed extracted from Hambu, an invasive plant threatening natural eco-systems and cultivations. She has provided employment opportunities to over 60 females in rural Sri Lanka and has made considerable impact towards ensuring the health of the environment, empowering local communities, alleviating poverty and enhancing living standards of her employees. The seasonal complement sent out to the Bank's high net worth customers for 2023 featured the Hamboo storage container, demonstrating NDB's commitment to partnering deserving females wherever possible.

Awareness sessions for the villagers of Veheragalagama

The Bank conducted a series of awareness sessions to address some of the key challenges faced by the villagers of Veheragalagama. The sessions conducted by industry experts included: Climate Smart Agriculture, Financial Literacy to Uplift Livelihood Management, Prevention of Child Abuse and Avoiding Alcohol/ Drug Abuse & Creating a Happy Family.



Assistance to the visually impaired on White Cane Day

NDB joined hands with the Sri Lanka Welfare Society of the Blind to commemorate International White Cane Day by donating 100 White Canes. The Bank also supported 10 visually impaired entrepreneurs by giving them a monetary grant to undertake self-employment work.

The entrepreneurs were also educated on financial well-being, entrepreneurship and the assistance they can receive from the Bank for their self-employment activities.



WAY FORWARD

Enhancing service standards will continue to be a focus in 2023 and the Bank will seek to adopt digital tools such as advanced interactive voice response and chatbots to drive increased efficiency of these processes. Ongoing emphasis will also be placed on developing employees' customer service standards through training and use of visual imagery in EDM which in turn would enable the achievement of 'Desired' levels of service under the Bank's SOP for customer service excellence.

Empowering the women's market segment will also continue with Sri Lanka Vanithabhimana third edition set to take place through 2023 with the culmination on the International Women's Day in March.

Support to various community segments in uplifting their lives and bringing in sustained solutions to their unique challenges will also be pursued.

Adequacy of Social and Relationship Capital

The Group is aptly positioned to leverage the diverse and mutually beneficial relationships it has nurtured with both its internal and external stakeholders in driving its strategic ambitions in the short, medium and long term.



NATURAL CAPITAL

NDB is cognisant of the role it can play in supporting the transition to a lower carbon economy. In addition to reducing the carbon footprint of our operations and contributing to the preservation of ecosystems, we are embedding principles of green financing to our lending strategy while working with our clients to support climate risk adaptation and mitigation.

Role of Natural Capital in Value Creation

Energy, water and paper are important inputs in our value creation process while a healthy and balanced ecosystem is vital for the smooth continuity of operations.

Activities Positively Impacting Natural Capital

- Preserve ecosystems through several long-term strategic projects
- Support the transition to green energy through lending to renewable energy projects
- Organisation-wide drive to reduce paper consumption through automation and digitalisation

Outcomes

- + 10.6% decrease in electricity consumption
- + 300 tonnes (5%) reduction in GHG emissions
- + 2% reduction in paper consumption
- + 650 employees trained on ESMS and ESG
- + 100% facilities screened for environment related criteria
- + LKR 3.93 Mn investment in ecosystem preservation

THE CLIMATE CRISIS

One of the defining crises of this generation is the climate crisis and the World Economic Forum's Global Risk Report (2022) highlights that the health of the planet is potentially damaging the quality of people's lives both in terms of likelihood and severity impact. No country, organisation or community is immune from the devastating consequences of rising temperature, natural disasters, food and water insecurity as well as economic disruption, which has made it clear that unless bold and collective action is adopted now, the cost of climate change will inevitably reach irreversible highs.

Critical Environmental Risks



IMPLICATIONS ON NDB

Climate related opportunities

- Lending opportunities in renewable energy when transitioning to a low carbon economy
- Reduced cost through energy efficiency
- Improved resilience to business disruptions
- Improved reputation and access to global capital markets

Climate related risks

- Credit risk from lending exposure to industries which are highly vulnerable to climate change (such as agriculture and tourism)
- Erratic weather patterns and natural disasters can directly or indirectly disrupt the Group's operations
- More stringent scrutiny and regulations relating to mitigating climate change may impact our business model and key lending decisions

GOVERNANCE AND APPROACH

The Bank's Corporate Sustainability Committee and Environmental and Social Risk Management Integrated Committee are tasked with ensuring the implementation of the ESG agenda, which clearly defines NDB's economic, social and environmental priorities (refer page 54). The Bank is also a founder signatory to the 'Sustainable Banking Principles for Sri Lanka' by the Sri Lanka Banks' Association developed with the technical consultation of leading European investors such as DEG, Proparco, FMO and OeEB, which set out guidelines on environmental and social considerations in decision-making.

The Group's environmental priorities reflect the most critical environmental risks facing the world today, as listed above.

CLIMATE ACTION

The Bank's approach towards reducing its impact on climate change is illustrated below. During the year, NDB invested LKR 3.93 Mn in ecosystem preservation initiatives and drove process automations and digitisation all of which make direct contribution towards mitigating the impact of climate change.

Reducing the carbon footprint of our operations



Contributing to a low carbon economy

Verification of the Bank's GHG emission inventory



Climate conscious lending

Key environmental priorities in 2022



Carbon footprint of our operations

In 2021 the Bank engaged the Sri Lanka Climate Fund, to assess and verify its GHG inventory and the exercise was concluded successfully during the year under review for 2021 and 2022. The verification involved mapping relevant processes, implementing tools and mechanisms to track emissions and ongoing training to the Bank's leadership team and other internal stakeholders. Meanwhile continuous measures are in place to drive increased energy efficiency through better cooling and lighting solutions and comprehensive energy audits. The Bank's energy and emission results for the year is given below:

Journey towards carbon-neutrality

The Bank achieved a 5% reduction in the Bank's Carbon Footprint in 2022 compared with 2021, driven by ongoing measures to optimise energy sources and enhance energy efficiency. The Bank also continues to engage in tree planting and forestry initiatives and the restoring of degraded mangrove patches in the Anawilundawa Ramsar Wetland Sanctuary.

Energy and Emission results in 2022

	Unit	2022	2021
Purchased Electricity	kWh	4,675,105	5,226,209
Fuel consumption (Owned vehicles and fuel paid by the company)	L	46,841	52,170
Petrol	L	33,732	42,670
Diesel	L	13,109	9,500
Diesel consumption in generators	L	109,006	25,350

tCO ₂ e	2022	2021	Change YoY
Direct GHG emissions - Scope 1	669.00	459.00	+46%
Indirect GHG emissions	4,610.00	5,120.00	-10%
Imported energy - Scope 2	2,535.45	2,834.22	-11%
Transportation - Scope 3	1,789.22	1,942.05	-8%
Products used - Scope 3	70.26	100.47	-30%
Other - Scope 3	214.63	242.50	-12%
Total (Direct & Indirect) emissions	5,279.00	5,579.00	-5%

COMPUTATION METHOD

The Bank has reported its annual GHG emissions in accordance with the requirements provided in ISO 14064-1: 2018 – Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals. The organisation boundary established for this reporting includes NDB's Head office and its 113 branches across the island. The inventory is worked out relying on the primary data provided by the divisions/branches of the Bank for the financial years 2022 and 2021. The methodologies and factors appropriate to computation of emissions are obtained from the IPCC Guideline - 2006, the latest Energy balance report published by Sustainable Energy Authority of Sri Lanka and the emission factor database published by Department of Environment, Food and Rural Affairs (DEFRA) for the years 2022 and 2021.



NDB's CEO being presented the GHG Verification Opinion by the Sri Lanka Climate Fund

CLIMATE CONSCIOUS LENDING

NDB has provided its financial services for approximately 30% of the country's non-conventional renewable energy generation capacity including equity financing, emerging as an industry leader in directing funds towards reduction of national reliance on fossil fuels. Renewable energy is a key contributor in driving reductions in the carbon footprint, through avoidance of harmful emissions of gases such as Carbon Dioxide (CO₂), Sulphur Dioxide (SO₂) and Nitrogen Oxide (NO_x). Given lacklustre activity in the renewable energy segment owing to increased interest rates during the year, new lending opportunities were limited although the Bank played a vital role in ensuring the continuity and commercial sustainability of existing projects (refer page 68).

739,264 tCO₂e

GHG emissions and other harmful gases avoided through Renewable Energy Projects

	Investment by NDB (LKR Mn)	Capacity (MW)	GHG emissions and other harmful gases avoided (tCO ₂ e)
Solar - Ground mounted	2,093	31.0	34,828
Solar - Roof mounted	4,861	43.0	48,265
Mini hydro	6,472	137.2	389,734
Wind	8,870	115.1	266,437
Bio Mass	1,992	10.3	-
Total	24,288	336.5	739,264

PRESERVING ECOSYSTEMS

Loss of biodiversity is a critical environmental risk facing humankind and NDB continues to invest in several long-term, strategic projects aimed at enriching biodiversity and preserving ecosystems in selected localities. Progress made in key projects during the year is listed below:

Project Details	Progress in 2022	Expected Outcomes
Life to Our Mangroves NDB partnered with Biodiversity Sri Lanka (BSL) to restore 1 ha of degraded mangrove forest patches in the Anawilundawa Ramsar Wetland Sanctuary, within a period of five years. Guided by IUCN's Global Nature-based Solutions Standard, the project will be carried out in 3 phases. With the aim of encouraging collaborative action towards environmental and biodiversity conservation, BSL engages its members in Public-Private-People Partnerships (PPPP). This collaborative project developed on the lines of a PPPP focuses on achieving nationally significant outcomes in the realm of mangrove and coastal ecosystem conservation, whilst contributing towards the national goals of biodiversity conservation and climate change adaptation.	- Data collection including site assessments for flora, soil and water - Faunal surveys (e.g: mammals, birds, etc.) are ongoing - Canal dredging - Ground preparation of the plots - Construction of inner channels within each plot - Nursery preparations - Forging community partnerships - Naturally germinating seedlings were found & direct planting will commence in the near future - Gap filling and the maintenance of hydrology will commence in the near future	- Strengthen resilience of mangrove ecosystems - Improve mangrove regeneration - Support socio-economic development in community
Let's Grow Campaign The Bank partnered the Department of Forest Conservation on a five year project to reforest a degraded forest area of 5 ha in the Hibiliyakada Forest in Matale	Maintenance of 3,000 planted trees and fire belt to prevent spreading of forest fires	Increase the forest cover and enrich biodiversity
Removal of invasive plants in the Knuckles Conservation Forest NDB in partnership with the Department of Forest Conservation initiated a project in 2020 to clear invasive plants covering an area of 5 ha in Pitawalapathana, in Riverston Matale. The project was expanded in 2022 by including another 5 ha.	- Committed to an additional 5 ha, thereby bringing the total project area to 10 ha - Staff volunteerism including the top management in clearing invasive plants in the area	Support restoration of ecosystem balance



An informative display sponsored by NDB targeting the public encapsulating the environmental significance of Pitawala Pathana

SUPPORTING SUSTAINABLE INNOVATION

In a unique initiative to encourage sustainable innovation, the Bank partnered with the Sri Lanka Inventors Commission (SLIC) during the year. The project involves the evaluation of project applications by a panel appointed by the NDB Corporate Sustainability Committee. Mr. Sunil Perera, an Engineer and entrepreneur received the first grant under this initiative for his ground breaking invention 'EMSOL' – a liquid fuel additive that can be used with all fossil fuels to enhance performance and reduce emissions from combustion. Manufactured primarily from local input material EMSOL claims considerably low emission levels while increasing engine performance by an estimated 10%-25%.

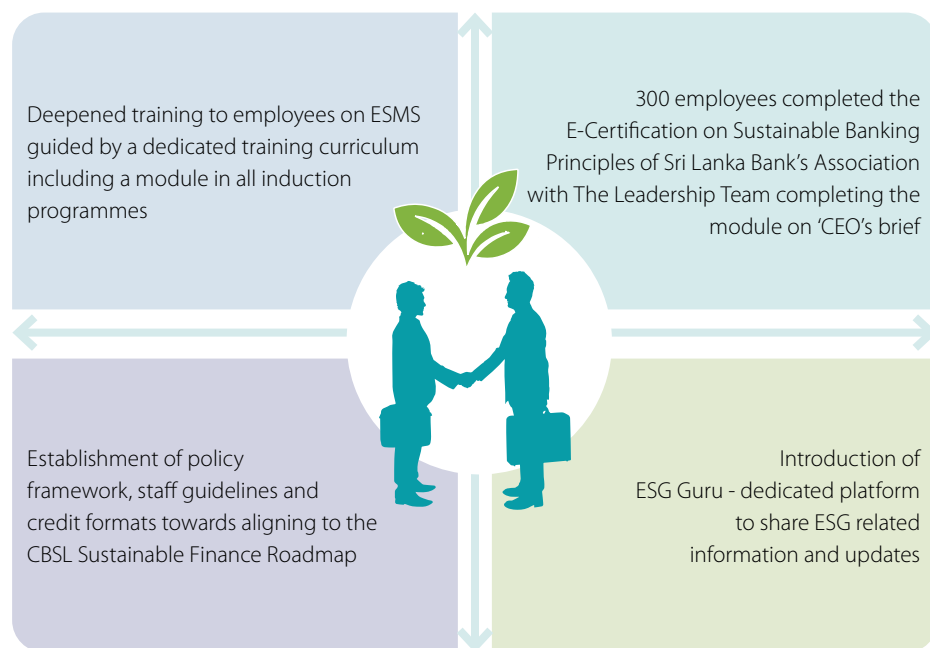
RESPONSIBLE LENDING

As environmental and social, risks intensify, we are acutely aware of the potential risks to our business model and performance stemming from environmental degradation, climate change and social aspects of our sub-borrowers. Accordingly, the Bank has implemented a holistic Environmental and Social Management System (ESMS) to identify and manage exposure to the E&S risk of its portfolio. The function comprise comprehensive policies, procedures, tools and capabilities to identify and manage exposure to the environmental and social risks and has aptly positioned the Bank for creation of sustainable value whilst strengthening the organisation in terms of resilience. The function also bridges the pathway of the Bank to achieve the goals

set out under the CBSL's Sustainable Finance Roadmap. The Bank also benefits from its relationship with bilateral lending partners and international stakeholders such as Norfund, IFC and DFC.

In accordance with the ESRM framework of the Bank, 100% facilities considered by NDB has been screened against the E&S Governance Commitments.

In 2022 emphasis was placed on raising awareness and building internal capabilities on driving the shift in mind-set required to embed social and environmental considerations into our decision-making. Key interventions during the year are listed below:



ENVIRONMENTAL LITERACY

Education for conservation

Conducted as an ongoing initiative, NDB has partnered with the Wildlife & Nature Protection Society of Sri Lanka (WNPS) to nurture "Green Champions" among the next generation, by driving attitudinal changes and inspiring students to contribute towards preserving the planet for future generations. The wide-ranging project includes awareness sessions, field trips and sustainability projects within schools. Physical and online sessions were conducted across 12 districts during the year.

Physical programmes conducted

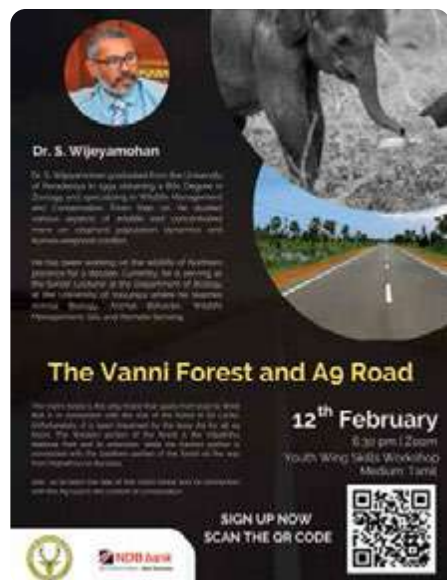
58 Programmes	6,886 Students	56 Schools provided with toolkits	280 Toolkits delivered

Online programmes conducted

40 Beneficiaries in 1 skill workshop for the General Public by a Conservation Scientist	75 participants in 2 online school sessions	180 participants in 5 other online sessions for Undergraduates, General Public & Clubs

Promoting conservation efforts among school children

NDB collaborated with the WNPS to conduct specially curated programmes for schools surrounding the Anawilundawa Ramsar Wetland Sanctuary in commemoration of World Environment Day 2022 and World Oceans Day 2022. The first phase of the programme involved raising awareness on the critical environmental challenges facing the world today. In the second phase, the children will engage in the ongoing restoration efforts at the sanctuary, a project led by the Marine Committee of the WNPS.



WAY FORWARD

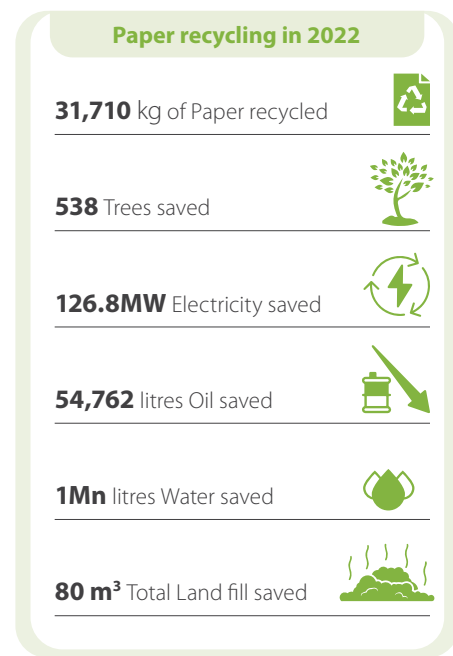
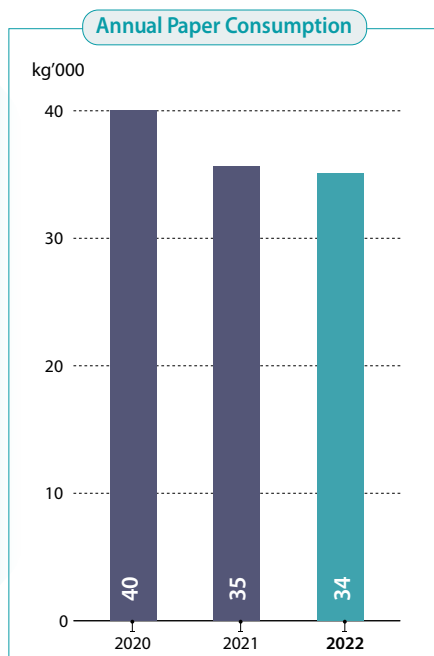
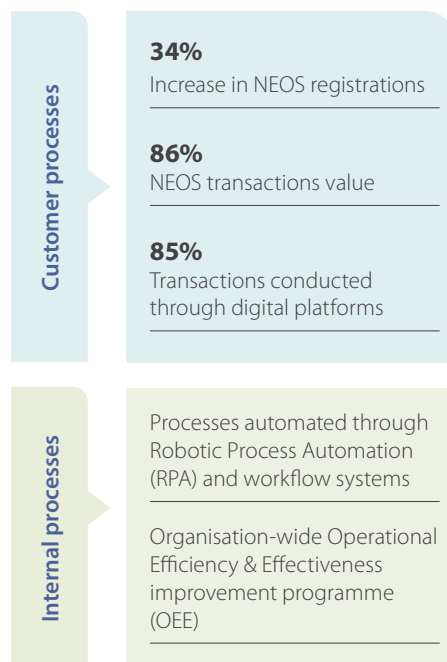
Following the successful completion of the Bank's Carbon Footprint verification the Bank will continue to focus on further reducing its emission levels through efficiency enhancements towards attaining net zero. Focus will also be placed on improving our ESG data gathering processes, inculcating a culture of ESG awareness and pursuing opportunities in sustainable finance opportunities.

Adequacy of Natural Capital

The escalating implications of climate change will result in increased vulnerabilities, stemming from both physical risks and transition risks.

MATERIAL AND WASTE MANAGEMENT

The strategic thrust towards digitalising both customer-facing and internal processes have resulted in a gradual reduction in paper consumption across the Bank's operations. NDB also continues to send its used paper for recycling to an approved third party recycler.



WAY FORWARD

Pressures from the ongoing macro-economic crisis are likely to insert inevitable pressures on the Group's short-term prospects. Key risks stem from portfolio quality pressures, potential haircuts on investments, reduction in disposable income following implementation of the new tax regulations and potential delays in obtaining access to IMF funding. That said, ensuring stability of the financial system remains a key priority in the CBSL's reform and stabilisation plan and will be driven by co-ordinated and collective efforts of the regulator and market participants.

Despite the immediate-term pressures, we remain cautiously optimistic that timely policy interventions, together with fiscal consolidation and much-needed reforms in line with the recommendations of the IMF-supported programme will facilitate a gradual recovery of the economy by the second half of 2023.

The Group's short-term strategies in responding to the immediate threats and its longer term strategies and objectives are set out below:

Risks

-  High interest rate scenario
-  Potential deterioration of portfolio quality
-  Subdued credit demand given reduced scope for business growth
-  Brain drain of skilled talent
-  Delays in receiving the EFF of IMF

Opportunities

-  Materialisation of long-overdue economic reforms
-  Cost reduction through digitalisation
-  Gradual recovery of the tourism sector
-  Serve the vacuum created by lending curtailment of foreign banks

Long term

- Becoming the "Banking Group of choice" of all Sri Lankans with focus on improving financial inclusivity and social resilience

Medium term

- Pursue opportunities for capital augmentation
- Organisation-wide efforts to increase fee-based income
- Harnessing Group expertise to provide tailored solutions to deliver superior customer value

Short-term

- Pursue selective, capital efficient lending opportunities
- Recalibration of growth targets
- Preservation of portfolio quality through strengthening underwriting standards and engaging proactively with customers
- Ongoing emphasis on driving cost efficiencies through automation and productivity improvements

INDEPENDENT ASSURANCE REPORT



Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONAL DEVELOPMENT BANK PLC ON THE INTEGRATED ANNUAL REPORT - 2022

Introduction and scope of the engagement

The management of National Development Bank PLC ("the Bank") engaged us to provide an independent assurance on the following elements of its Integrated Annual Report for the year ended 31st December 2022 ("the Report").

- Reasonable assurance on the information on financial capital management as specified on pages 58 to 73 of the Report.
- Limited assurance on other information on management of the capitals (other than financial capital), stakeholder engagement, business model, strategy, organizational overview & external environment outlook presented in the Report on pages 58 to 73, prepared in accordance with the Guiding Principles and Content Elements given in the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

Basis of our work and level of assurance

We perform our procedures to provide reasonable and limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000) (Revised): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'.

The capital management criteria used for this limited assurance engagement are based on the Guiding Principles and Content Elements given in the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ISAE-3000 (Revised) and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the Guiding Principles and Content Elements given in the Integrated Reporting Framework (<IR> Framework).

This report is made solely to the Bank in accordance with our engagement letter dated 23 February 2023. We disclaim any assumption of responsibility for any reliance on this report to any person other than the

Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by CA Sri Lanka,

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Key Assurance Procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our assurance conclusions. We performed such other procedures as we considered necessary in the circumstances.

Key assurance procedures included:

- Performed a comparison of the content of the Integrated Annual Report against the Guiding Principles and Content Elements given in the Integrated Reporting Framework (<IR> Framework).
- Checked whether the information contained in the Integrated Annual Report – Financial Capital element information has been properly derived from the audited financial statements.
- Conducted interviews with the selected key management personnel and relevant staff and obtained an understanding of the internal controls, governance structure and reporting process relevant to the Integrated Report.
- Obtained an understanding of the relevant internal policies and procedures developed, including those relevant to determining what matters most to the stakeholders, how the organization creates value, the external environment, strategy, approaches to putting members first, governance and reporting.
- Obtained an understanding of the description of the organization's strategy and how the organization creates value, what matters most to the stakeholders and enquiring the management as to whether the description in the Integrated Report accurately reflects their understanding.
- Checked the Board of Directors meeting minutes during the financial year to ensure consistency with the content of the Integrated Report.
- Tested the relevant supporting evidence related to qualitative & quantitative disclosures within the Integrated Report against identified material aspects.

- Read the Integrated Report in its entirety for consistency with our overall knowledge obtained during the assurance engagement

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Limitations and considerations

Social, Natural and Intellectual capital management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial performance as specified on pages 58 to 73 of the Report are properly derived from the audited financial statements for the year ended 31st December 2022.
- Nothing has come to our attention that causes us to believe that other information on stakeholder engagement, business model, organization overview & external environment and outlook presented in the Report are not fairly presented, in all material respects, in accordance with the Integrated Annual Reporting practices and policies which are derived from the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

Management of the Bank's responsibility for the Report

The management of the Bank is responsible for the preparation and presentation and self-declaration of the information and statement contained within the Report, and for maintaining adequate records and internal controls that are designed to support the Integrated Reporting process under the Integrated Reporting Framework (<IR> Framework).

Ernst & Young
Chartered Accountants

21 February 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manabunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajjewan FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MSc-IT, G B Goudan ACA, D L B Karunathilaka ACA, Ms. P S Paranavilane ACA ACMA LLB (Colombo), T P M Ruberu FCA FCCA

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INDEPENDENT ASSURANCE REPORT



Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONAL DEVELOPMENT BANK PLC

Introduction and scope of the engagement

The management of National Development Bank PLC ("the Bank") engaged us to provide an independent assurance on the following elements of its Integrated Annual Report for the year ended 31st December 2022 ("the Report").

- Reasonable assurance on the information on financial performance as specified on pages 221 and 59 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the GRI Standards.

Basis of our work and level of assurance

We perform our procedures to provide reasonable and limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000) (Revised): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'.

The criteria applied for this assurance engagement:

- The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website www.globalreporting.org.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ISAE-3000 (Revised) and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Management of the Bank's responsibility for the Report

The management of the Bank is responsible for selecting the criteria, and for the preparation and presentation and self-declaration of the information contained in the Report in accordance with the given criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the information, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the given criteria. This Report is made solely to the Bank in accordance with our engagement letter dated 23 February 2023. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by CA Sri Lanka,

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Key Assurance Procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our assurance conclusions. We performed such other procedures as we considered necessary in the circumstances. Key assurance procedures included:

- Agreed the information on financial performance as disclosed on pages 221 and 59 of the Report to audited financial statements
- Validated the information presented and checked the calculations performed by the organization through recalculation
- Performed a comparison of the content given in the Report against the criteria given in the selected sustainability standards/frameworks.
- Conducted interviews with relevant organization's personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected key management personnel and relevant staff
- Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.

- Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Limitations and considerations

Social, Natural and Intellectual capital management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial performance as specified on pages 221 and 59 of the Report are properly derived from the audited financial statements for the year ended 31st December 2022.
- Nothing has come to our attention that causes us to believe that the information presented in the Report are not fairly presented, in all material respects, in accordance with the relevant criteria.

Ernst & Young
Chartered Accountants

21 February 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N De Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manabunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

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MATERIAL MATTERS

Material topic and why it is material to us	Correspondent GRI topic and SASB topic
Profitable growth Sustainable and profitable growth is essential in driving shareholder value and serving the Bank's purpose.	
Brand positioning Enhancing brand positioning is vital given the Bank's recent efforts on penetrating new geographies and customer segments.	
Ensuring safety of employees and customers Health and safety gained centre stage in the outbreak of the COVID-19 pandemic with strategic importance being placed on minimising the risk of infection.	
Customer centricity This is key to the Group's V25 strategy in sharpening its competitive edge and emerging as the preferred Banking Group in Sri Lanka.	
Customer privacy As risks related to cybersecurity and information systems intensity, preserving confidential customer data is a key priority for most banks.	• Customer Privacy (GRI 418)
Operational efficiency Driving efficiencies and increased productivity through automation leads to effective cost management, transforming the experience of both internal and external customers.	
Market and liquidity management Given the operating conditions that prevailed during the year, managing market risks and liquidity emerged as a key priority.	
Talent attraction and retention Attracting employees with the right skills and attitudes and retaining them through a unique value proposition is critical to the continued creation of shared value.	• Employment (GRI: 401) • Labour management relations (GRI 402) • Training and education (GRI 404) • Diversity and equal opportunity (GRI 405)
Brain drain due to migration Key industries of the economy have seen a mass exodus of skilled workers from the country due to the economic crisis.	
Employee mental well-being Disruptions stemming from COVID-19, the cost of living crisis and uncertainty on the country's future outlook has led to increased anxiety and stress.	
Digital transformation Digital transformation to drive better customer experience and internal efficiencies is a key priority.	• FN-CB-230: Data Security
Embracing and leveraging technology and data Nurturing a data-driven culture to enable more effective decision making is a key priority over the short-to-medium term.	
Facilitating financial inclusion and literacy Providing access to affordable financing and literacy programmes across the country enables the Bank to meet both its financial and sustainability objective.	• FN-CB-230: Financial Inclusion and Capacity Building
Responsible lending We are committed to preserving the rights of our customers and ensuring compliance to all relevant product and marketing regulations whilst ensuring environmental and social responsibility.	• Marketing and labelling (GRI 417)

Material topic and why it is material to us	Correspondent GRI topic and SASB topic
Environmental, Social and Governance aspects Escalating implications of interconnected Social and Environmental risks continue to reshape organisation's risk landscapes.	• Materials (GRI 301) • Energy (GRI 302) • Emissions (GRI 305) • FN-CB-410: Incorporation of Environment, Social and Governance Factors in Credit Analysis
Managing macro-economic headwinds Sri Lanka's acute economic crisis and resultant socio-political headwinds have a significant impact on the Bank's value creation, risk landscape and outlook.	
Managing socio-political impacts Sri Lankan organisations faced a multitude of challenges stemming from political instability and social unrest following the wide-ranging consequences of the economic crisis.	• Economic Performance (GRI 201) • Market Presence (GRI 202) • Tax (GRI 207)
Impacts of sovereign rating changes The downgrade of Sri Lanka's sovereign credit rating has implications to the Bank through limiting access to foreign funding, impairments on foreign currency denominated Government securities, etc.	
Market and liquidity management Management of foreign currency liquidity emerged as a critical priority during the year, given Sri Lanka's precarious currency situation and resultant crisis.	
Power and energy shortages and fuel crisis The country experienced an acute power crisis, which impacted the Bank's operations and restricted mobility of customers and employees.	
Foreign currency shortages The country's foreign currency crisis had a sharp impact on its import clientele, liquidity risk management and growth aspirations.	
Elevated importance of risk management Pandemic-led disruptions and macro-economic stress have necessitated strengthening of our risk management frameworks.	
Community engagement The Bank's CSR initiatives are targeted towards driving meaningful change in the communities we operate. This facilitates our social license to operate while achieving the Bank's social objectives.	• Local Communities (GRI 413)
Regulatory developments The increased frequency and complexity of regulations have necessitated more emphasis on ensuring compliance to regulations.	
Adapting to post pandemic realities The pandemic has given rise to permanent changes in the way we work and interact with our customers and adapting to these changes is critical in ensuring long-term sustainability.	
Ecosystem partnerships The Bank is leveraging relationships across the ecosystem to deliver more holistic solutions for customers.	

The background of the entire page is a close-up photograph of numerous water droplets of varying sizes on a blue surface. The droplets are in sharp focus, showing their spherical shape and the way they reflect light. The blue color is a deep, vibrant shade.

RISK MANAGEMENT & CORPORATE GOVERNANCE

A COHESIVE STRUCTURE

Empowered by transparency and a strong internal structure, NDB continued to maintain its integrity and mitigate the impact of external risks during the year.

Water droplets possess a high surface tension. It exhibits strong cohesive properties or bonds, which enable it to resist external forces with ease.

RISK MANAGEMENT OVERVIEW

APPROACH TO RISK MANAGEMENT

The Group adopts an enterprise-wide approach to risk management and has implemented an Integrated Risk Management (IRM) Framework, clearly setting out the governance structures, policies, processes, and procedures for managing risks in a manner that balances profitability and financial stability. This framework has continued to serve the Group well amidst the unprecedented challenges of recent years, supporting strategic foresight and agility.

The Bank's Board of Directors holds apex responsibility for risk management and is supported by the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) in discharging its risk-related duties. Risk management is underpinned by the Three Lines of Defence Governance model, which drives accountability and ownership while facilitating an appropriate level of independence and segregation of duties.

RISK LANDSCAPE IN 2022

The operating landscape presented extraordinary and unprecedented challenges in 2022, resulting in a highly volatile and uncertain risk landscape for the Banking Sector. Economic implications of the pandemic, global headwinds and ill-timed policy decisions exacerbated long-standing structural imbalances to push the country into an unprecedented socio-economic crisis. In April 2022, Sri Lanka suspended the servicing of external debt obligations, resulting in the sovereign rating being downgraded to 'Restricted Default'. The risk landscape was characterised by an acute shortage of foreign currency liquidity, skyrocketing inflation and an unprecedented increase in interest rates.

PRINCIPLES OF OUR IRM FRAMEWORK

Risk Appetite and Strategy

Formulated in line with the nature, type and level of risk the Board is willing to take in achieving its strategic aspirations.



Capital Management

Driven by the Group's strategic agenda, regulatory requirements and stresses in the operating landscape.



Governance and Oversight

Clear and effective governance structures promoting judicious empowerment.



Risk Culture

Risk conscious culture that nurtures professional, responsible and ethical behaviour.



Risk Policies & Processes

Effective, robust and stringent framework of policies.



Infrastructure

Adequate resources and systems infrastructure.



KEY DEVELOPMENTS IN 2022

- Strengthened the risk appetite framework to reflect emerging stresses
- Proactive management and optimisation of foreign currency liquidity
- Enhanced stress testing to reflect economic developments
- Organisation-wide focus on preserving credit quality through deploying increased resources to the Remedial Management Unit
- Frequent cash flow projections to mitigate liquidity risk

TOP RISKS

Key risks	Developments and metrics	Response and mitigating action in 2022
Environmental, social and governance aspects	- Highly unpredictable and volatile economic environment in 2022 with broad-based implications on the Banking Sector - Pace of recovery dependent on political will, commitment to implement much-needed reforms and progress in government debt restructuring, which will facilitate receipt of the IMF Emergency Funding Facility - Potential implications on profitability stemming from impairment of investments in foreign-currency denominated Government securities	- Proactive monitoring of emerging developments in the socio-economic and political landscape - Optimising foreign currency liquidity to support essential imports - Ongoing assessment of impacted portfolios and stress testing
Credit risk	- Inevitable pressure on credit quality due to economic contraction, escalation in cost of living and sharp increase in interest rates - Impaired loans (Stage 3) ratio was 6.24% (2021: 4.55%)	- Segregation of the portfolio into 4 stressed segments based on a range of quantitative and qualitative factors - Stressed sectors reviewed on a quarterly basis and monitored accordingly - Repurpose lending portfolio with focus on the RORAC model - Co-ordinated and pre-emptive rehabilitation solutions through the Remedial Management Unit
Market risk	- Consolidated Foreign exchange position and the exposure held against the Bank's capital base was managed well within the regulatory limit of 30%. - Net interest margin widened to 4% supported by timely repricing of assets and liabilities - Limited exposure to equity risk	- Proactive real-time monitoring of foreign currency position including internal limits, daily cash flows and regulatory developments - Strengthened stress tests and scenario analysis - Daily sensitivity analysis of foreign currency net open positions - Timely re-pricing strategies
Liquidity risk	- Statutory liquid asset ratio: 27.24% - Liquidity coverage ratio: all currency- 232.68%	- Structural balance sheet management with close monitoring of maturity mismatches - Daily cashflow forecasting to optimise liquidity - Exposure to market liquidity, deposit mix, portfolio of marketable securities and movements in loans and receivables monitored on a daily basis - Negotiations with Foreign Direct Investors for possible funding
Operational risk	- Total operational losses amounted to 0.4% of the capital charge allocated for Operational Risk - Majority of losses during the year categorised as high frequency/ low impact risks	- Close monitoring of potential areas at risk by revisiting the vulnerable processes and introducing new /improved controls as appropriate - All department level business continuity plans were reviewed and approved including the Bank's BCP Plan
IT and cybersecurity risk	Zero instances of significant data breaches and disruptions to the system	- Stringent security measures to avoid cyber -attacks/security threats - Vulnerability assessments and penetration testing - Security solutions for prevention of data leakage and privileged account monitoring - Frequent awareness programmes on social engineering and other ongoing scams for customers and employees
Climate related risks	- Environmental risks continue to rank among the top global risks affecting humanity over the next decade (World Economic Forum) - Exposure to the agriculture sector is vulnerable to climate change - Possible disruptions to operations stemming from natural disasters and erratic weather patterns	- Further improved the Bank's Environmental and Social Risk Management (ESRM) Policy and ESRM Manual - Appointment of an Environmental and Social Management System (ESMS) coordinator to the Remedial Management Unit - Ongoing learning and development programmes on ESMS/ESRM to enhance the capacities of the staff members involved in lending and credit procedure of the Bank - Improved internal and external Environmental and Social Governance (ESG) related communication

CORPORATE GOVERNANCE

CHAIRMAN'S MESSAGE ON CORPORATE GOVERNANCE



Dear Shareholders,

The NDB Group's evolved and robust corporate governance practices served as a solid anchor in navigating the unprecedented challenges and volatility that prevailed for most part of 2022. As the foundation of our processes and decision-making, the Group's value-creating approach to corporate governance continued to be a business enabler, driving effective leadership, accountability, transparency in corporate reporting and shaping organisational culture amidst a multitude of challenges.

BOARD REFRESHMENT

We place continued emphasis on enhancing the Board's collective strength; Accordingly, the Board was refreshed during the year, with the appointment of Ms. Kasturi Wilson as an Independent, Non-Executive Director in October 2022. Ms. Wilson brings with her a wealth of corporate leadership experience across diverse industries and I am certain that her insights and capabilities will be invaluable in steering the Bank forward. Following her appointment the Board's gender diversity has also strengthened, with female Directors accounting for 1/3rd of the Board. I also take this opportunity to extend my appreciation and gratitude to the former Chairman Mr. Eshana De Silva who resigned from the Board in June 2022 for his able leadership and invaluable contributions over the years.

BOARD FOCUS

As operating conditions became increasingly challenging, the Board proactively monitored the evolving socio-economic and political developments, engaging closely and frequently with The Leadership Team (TLT) to assess potential implications on the Group. Special focus was placed on monitoring and managing foreign currency liquidity challenges and preserving portfolio quality in this context and the Board closely monitored the management's efforts to revive and support the commercial sustainability of our valued customers. Continued focus was also placed on the Group's digital transformation strategy including progress in the core banking upgrade. Significant time was also dedicated towards deliberating capital augmentation plans, recalibration of growth aspirations and aligning to regulatory developments in sustainable financing.

ENTRECHING ETHICS

The Board continued to provide direction and oversight in shaping the Group's culture through setting the right tone at the top. The Bank's internal Code of Corporate Governance which is applicable to Directors and Key Management Personnel and the Compliance Policy and Code of Conduct, which is applicable to all employees, clearly set out the Group's expectations on personal conduct when interacting with internal and external stakeholders. The Bank has a zero-tolerance policy for non-compliance, bribery, corruption. Regular engagement sessions are held to ensure employees are aware of the importance of mitigating risks related to compliance, bribery and corruption. During the year, the Bank also ranked as the 5th most transparent organisation in Sri Lanka based on the Transparency in Corporate Reporting Index published by Transparency International Sri Lanka (TISL).

COMPLIANCE

This Report details the "Factual Finding Report" submitted by the External Auditors in relation to the compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. Further as stipulated by the revised Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2017, I affirm that I am not aware of any material violations of any provisions of the internal Code of Corporate Governance for Directors and Key Management Personnel and the Bank's Compliance Policy and Code of conduct for employees. I also hereby confirm that the Bank's current state of affairs are not harmful to the business of the Bank in any form.

Mr. Sriyan Cooray
Chairman

Corporate Governance reporting:
The subsequent discussion provides a high-level overview of how the Board created value to the Organisation during the year, including its key area of focus, operations and deliverables during the year. Detailed information regarding the Bank's compliance to the disclosure requirements of the CBSL and Code of Best Practice on Corporate Governance are available from page 284 to 297 of this Report.

Corporate Governance Highlights 2022

BOARD CHANGES

- + Appointment of new Chairman Mr. Sriyan Cooray and new Independent Director Ms. Kasturi Wilson
- Resignation of former Chairman Mr. Eshana De Silva

BOARD COMPOSITION



33% female representation



8/9 Non-Executive Directors

Board Contribution to Value Creation in 2022

- 1 Strategy, performance and reporting
- 2 Oversight on risk management
- 3 Shaping organisational culture
- 4 Driving responsible corporate citizenship

Governance Standards which set us apart

- Internal Code of Corporate Governance applicable to Board and Key Management Personnel
- Complemented the Whistle Blowing Policy by establishing an external information mechanism, known as the "NDB Ombudsperson"
- 8/9 Directors are Non-Executive Directors
- Equal voting rights for all shareholders
- Unique organisational culture centering on sincerity, integrity and transparency
- Self-assessments of Board and Sub-Committees
- Proactive year-round stakeholder engagement programmes
- Commitment to integrate ESG considerations
- International best practices in financial and non-financial reporting

BOARD OF DIRECTORS 2022

The Board's diverse capabilities, skills and experience has underpinned the Group's ability to navigate the rapidly changing operating landscape over the past few years. The Board's commitment to sustainable value creation together with its appreciation for NDB's role as a responsible corporate citizen and a vital part of the country's financial system continued to drive responsible and ethical decision making amidst the multitude of challenges that prevailed during the year.



Mr. Sriyan Cooray

Chairman - Independent/Non-Executive Director

Appointed as Chairman in July 2022

Appointed to the Board in August 2018

Value added to Board:

Expertise in Banking, Finance, Risk Management and Management



Mr. Dimantha Seneviratne

CEO - Non-Independent/Executive Director

Appointed in January 2017

Value added to Board:

Strategic Leadership in Banking, Finance and Management



Mr. Bernard Sinniah

Non-Independent/Non-Executive Director

Appointed in March 2019

Value added to Board:

Banking, Sales/Retail, Management, Treasury, Entrepreneurship and IT



Mr. Sujeewa Mudalige

Independent/Non-Executive Director

Appointed in January 2020

Value added to Board:

Accounting, Auditing, Financial Analysis and Management



Mr. Hiran Perera

Non-Independent/ Non-Executive Director

Appointed in April 2020

Resigned in February 2023

Value added to Board:

Banking, Credit Review, Risk Management, Treasury and Corporate Finance



Mr. Kushan D'Alwis, PC

Independent/Non-Executive Director

Appointed in July 2020

Value added to Board:

Law (Litigation/Banking, Corporate, Commercial and Administrative Law)



Ms. (Fay) Piyachatr Chetnakarnkul

Non-Independent/Non-Executive Director

Appointed in May 2021

Value added to Board:

Economics, IT and Investments



Ms. Chandima Dilrukshi

Non-Independent/Non-Executive Director

Appointed in June 2021

Value added to Board:

Accounting, Financial Management, Public Policy and Public Administration



Ms. Kasturi Wilson

Independent/Non-Executive Director

Appointed in October 2022

Value added to Board:

Retail/Consumer Sector Experience, Accounting, Financial Analysis and Management

Nominations Committee

Board Audit Committee

Integrated Risk Management Committee

Strategic Issues Committee

Board Credit Committee

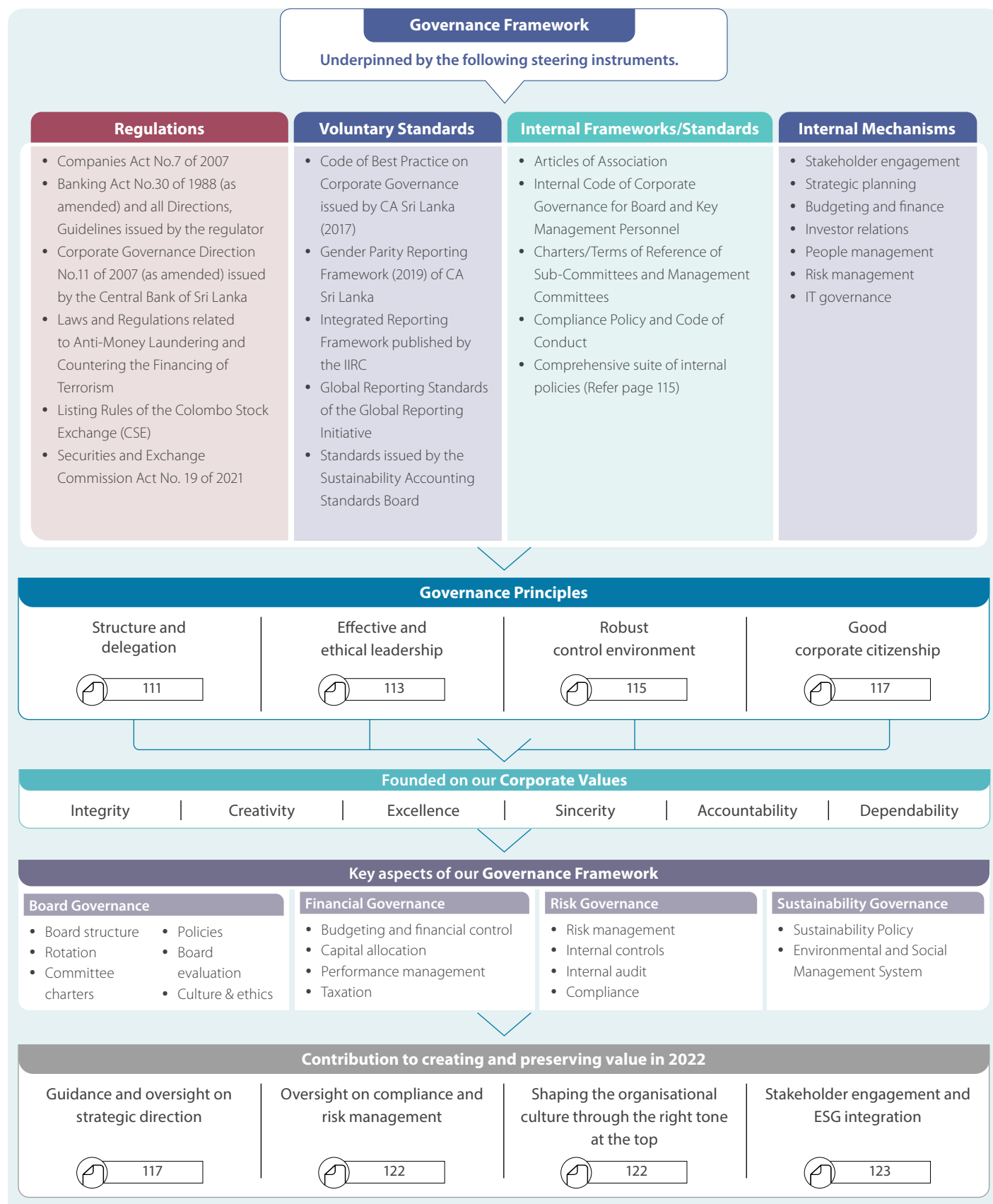
Digital Transformation Committee

Human Resources and Remuneration Committee

Related Party Transactions Review Committee

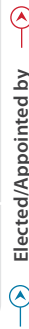
GOVERNANCE PHILOSOPHY

Sound corporate governance principles are entrenched to the Group's corporate culture, enabling us to execute our strategic aspirations with integrity, professionalism, responsibility, and ethics. In creating and sustaining value for our stakeholders, the Group has embraced corporate governance as an enabler, thereby delivering governance outcomes which strengthen resilience, preserve reputation and ensure responsible corporate citizenry.



➤ Corporate Governance

The Group's governance structure is set out below:



RESPONSIBILITIES OF THE BOARD

The Board of Directors serve as the custodian of the Group's corporate governance framework and practices. The Internal Code of Corporate Governance clearly sets on the responsibilities of the Directors, which has supported high-performance strategic leadership and ensured that greater value is derived from the Board and Sub-Committee activities.

Powers retained by the Board



- Determining the strategic objectives and policies of the NDB group to deliver long-term value and providing overall strategic direction within a framework of reward incentives and controls.
- Making decisions on matters that have significant strategic, financial or reputational implications to the NDB Group as a whole.
- Providing effective leadership within a framework of prudent and effective controls for the operations of the Bank which demonstrates and nurtures the collective vision of NDB's purpose, values, culture, and behaviour.
- Ensuring that management strikes an appropriate balance between promoting long term growth and delivering short term objectives.
- Ensuring that accurate, timely, clear and pertinent information is obtained, and clarification is sought where necessary.
- Presenting a balanced and understandable assessment of the Bank's position and satisfying itself on the integrity of the Bank's financial statements.
- Engaging with and considering the opinions of shareholders and other stakeholders.
- Assessing the Board's effectiveness through a comprehensive self-assessment as detailed on page 114.

MEASURES TAKEN TO IMPROVE STRUCTURES AND DELEGATION IN 2022

The Bank reviewed and approved Board and Board Sub-Committee deliberations and conducted self-assessments at both Board and Sub-Committee to level to ensure the required focus, oversight and guidance is provided to the management.

BALANCE OF POWER

Composition of the Board and clear segregation of responsibilities facilitate an appropriate balance of power, which is essential for good performance and effective control. We have therefore established clear delineations between the role of Directors and the Executive Management.

Chairman (Independent, Non-Executive Director)

Provides leadership to the Board and ensures its' integrity and effective functioning with good corporate governance.

CEO (Executive Director)

Leads the Bank towards the achievement of its strategic objectives and ensures the Board receives timely, accurate and clear information on the Group's performance and position.

Independent Director

Provides independent judgement through objectively and constructively challenging the Board and Management.

BOARD SUB-COMMITTEES

Eight sub-committees have been established by the Board to dedicate additional time and resources to specific areas of focus. This includes five mandatory sub-committees and three additional committees, aligned to the Group's strategic aspirations. Sub-committee Terms of Reference (TOR) define the responsibilities and scope of each Committee. Please refer to the Reports of the sub-committees from page 132 to page 144 of this Report for further information.

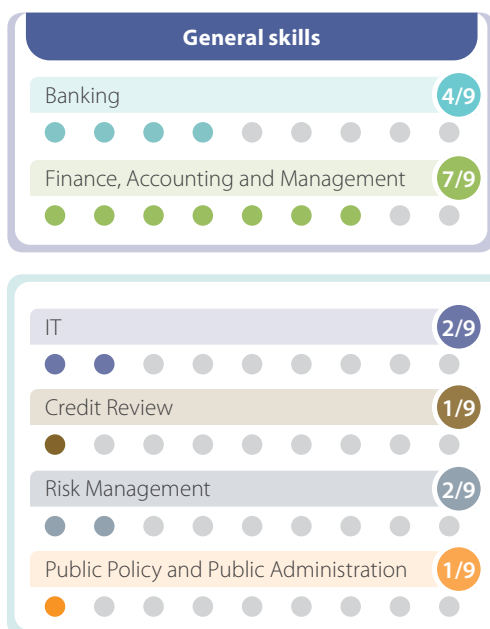
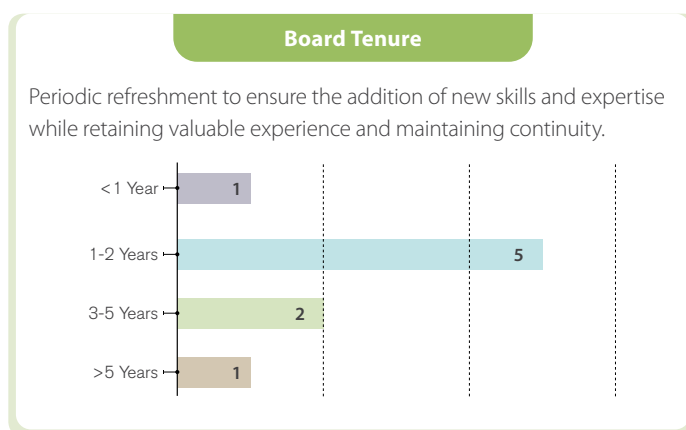
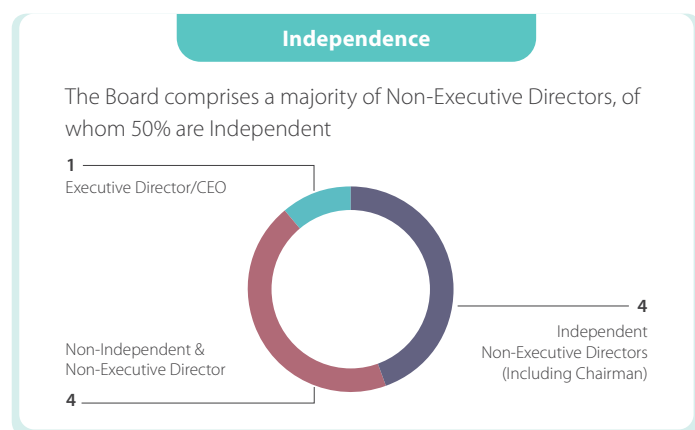
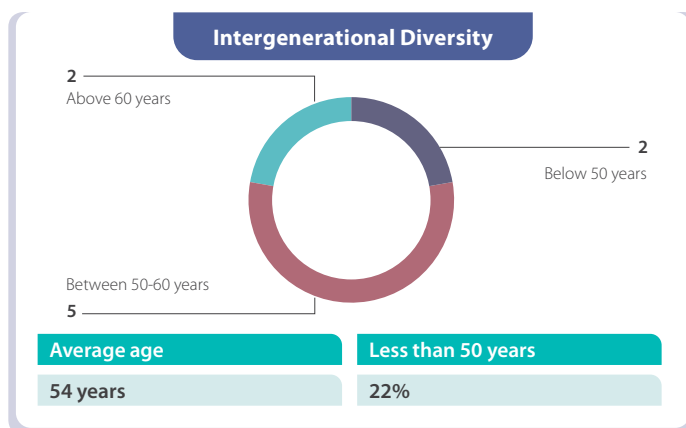
Board Sub-Committee	Link to Strategy	Link to Capital
Mandatory Committees		
Board Audit Committee	• Business Focus	
	• Customer Solutions	
Nominations Committee	• Empowered Staff	
	• Organisational Realignment	
Human Resources and Remuneration Committee	• Empowered Staff	
Integrated Risk Management Committee	• All Strategic Priorities	
Related Party Transactions Review Committee		
Discretionary Committees		
Strategic Issues Committee	• All Strategic Priorities	
Board Credit Committee	• Business Focus	
	• Customer Solutions	
Digital Transformation Committee	• Digital & Data as Transformers	

Please refer page 6 to 7 for Navigation icons.

EFFECTIVE AND ETHICAL LEADERSHIP

Skills and competencies

Corporate governance frameworks and best practices highlight the importance of the Board to comprise appropriate balance of skill, experience, diversity and independence to effectively discharge its governance roles and responsibilities. At NDB, diversity takes many forms in the Boardroom as illustrated below while Director's competencies and skills are also aligned to the Group's strategic aspirations. Following the appointment of another female Director during the year, Board diversity in terms of skill, gender and age representation improved further.



BOARD REFRESHMENT AND SUCCESSION

The Board focuses on balancing the need to maintain continuity and bringing in fresh perspectives through an enhanced succession framework. As per the Articles of Association, 1/3rd of the Directors (except the CEO, any Director appointed to fill a casual vacancy and any Nominee Director of the Ministry of Finance) should retire at each AGM and be subject to re-election. As Non-Executive Directors retire, the Nominations Committee identifies and recommends candidates who have the requisite skills, experience and values in line with the Group's strategic aspirations and future needs.

In recent years, the Board has undertaken number of initiatives to strengthen its skill profile to better align with the Group's strategic aspirations going forward through filling identified skill gaps.

Rotation guidelines as per the Articles

Retirement age

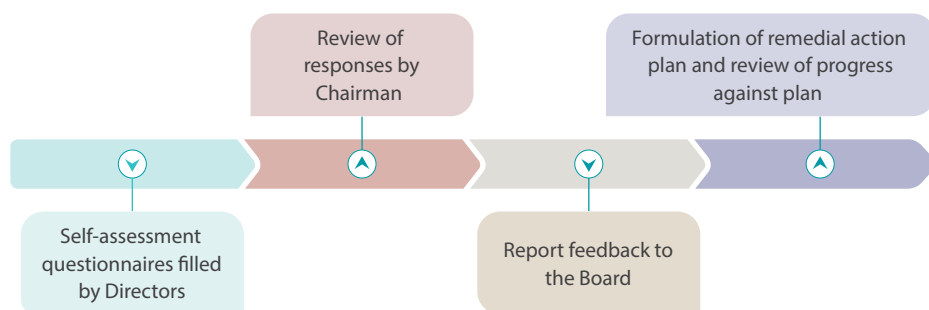
Board tenure

Board self-assessment

BOARD EFFECTIVENESS

- The Board and Sub-Committees engage in an annual self-assessment to identify the potential areas of improvement to board practices and performance. The evaluation findings focus on the Board as a whole and the performance of individual Directors.

Evaluation process



An overall improvement in Board functions and processes was noted upon reviewing the feedback provided by the Directors in the annual self-assessment carried out.

DIRECTOR INDUCTION AND TRAINING

We understand the importance of ensuring that our Directors have continued access to training and knowledge, which enables them to effectively discharge their duties. In addition to an induction programme/documentation upon joining the Board, Directors receive opportunities for upgrading their professional skills throughout their tenure, assisting them to keep abreast of economic, regulatory and industry trends. These training sessions are typically facilitated by the Company Secretary, with the cost borne by the Bank.

During the year Directors participated in the training programmes listed below:

- Three Directors participated in a webinar on the "Key Aspects of Anti-Money Laundering and Countering the Financing of Terrorism Obligations" for Board of Directors and Senior Management of Licensed Banks and Licensed Finance Companies.
- In addition Circulars, directions, and guidelines issued by the regulators are circulated to the Directors on a quarterly basis for their information.

Director induction

- Overview of the Bank's operations
- Provided a Board Pac containing comprehensive information on Board meetings of the last seven years

Board access to information

Directors also have unrestricted access to the management team, Group information as well as other resources required to effectively execute their responsibilities. Access to external professional advice is available to Directors at the Bank's expense.

COMPANY SECRETARY

The Bank has appointed the Company Secretary as prescribed by applicable laws and regulations and in accordance with the Bank's Articles of Association. The Company Secretary ensures that proper Board procedures are followed in line with applicable laws, rules, and regulations. All Directors have access to the advice and services of the Company Secretary, and she assists the Chairman and CEO in setting the agenda for the Board meetings and is responsible for maintaining sufficiently detailed Board minutes in consultation with the Chairman. Board minutes are circulated to the Board well before the next monthly meeting providing adequate time for consideration.

Board Minutes

- Summary of information used for Board deliberations
- Matters considered by the Board
- Fact finding discussions and issues of content or dissent
- Testimonies and confirmations from the Senior Management
- Board knowledge and understanding of risk to which the Bank is exposed
- Decisions and Board resolutions

INDEPENDENCE

All Directors are required to submit annual declarations of independence or non-independence in accordance with the stipulations of the Corporate Governance Direction No. 07 of 2007 (as amended), the Listing Rules of the CSE and the guidelines of the Code of Best Practice.

Criteria

Independence determined against the criteria set out in the Corporate Governance Direction and the Code of Best Practice on Corporate Governance (2017).

Directors submit annual declarations of independence with focus on directors' interests, position, association or relatives.

Assessment

Results

- 04 out of 09 deemed independent based on Corporate Governance Direction.
- 06 out of 09 deemed independent based on CA Sri Lanka Code.

CONTROL ENVIRONMENT

The Board ensures that risk management, compliance and controls are embedded across all key processes, which facilitates an appropriate balance between realising opportunities for gain and mitigating the potential negative impacts of risks. The Group's control environment comprises an enterprise-wide suite of internal controls and risk management framework, processes and activities that provide a solid foundation for navigating internal and external dynamics.

The Group's policy framework (set out below) provide reasonable assurance on the effective delivery of the Group's strategic aspirations. Policies are reviewed and revised annually to ensure applicability to evolving operating conditions.

Human Resources

HR manual including,

- Diversity and Inclusion Policy
- Harassment Policy and the Harassment Redressal Policy
- Health and Safety Policy
- Staff Account Operations and Monitoring Policy
- Consequence Management Framework and Risk Severity Matrix
- Grievance Redressal Policy



Technology & Digital

- Information Security Policy
- Information Security Compliance Policy
- Data Classification Policy
- Acceptable Usage Policy
- Electronic Data Retention and Destruction Policy



Communication

- Communication Policy
- Disclosure Policy
- Complaints Handling Policy

Risk Management

- Credit Risk Related Governance Policy
- Impairment Policy
- Market Risk Management Policy
- Operational Risk Management Policy
- Fraud Risk Management Policy
- Foreign Exchange Risk Management Policy
- Liquidity Risk Management Policy
- Stress Testing Policy and Framework
- Internal Capital Adequacy Assessment Process Document
- Risk Model Validation Policy
- Expenses Management Policy
- MIS Policy
- Environmental & Social Risk Management Policy & Manual



CONFLICTS OF INTEREST

The Bank's Internal Code of Corporate Governance, the Articles of Association and the Corporate Governance Direction No. 11 of 2007 (as amended) requires each Director to determine and disclose whether he/ she has a potential or actual conflict of interest. Multiple channels are in place to disclose potential conflicts of interest including during onboarding, annual update of the disclosures, during the quarterly update of the Bank's related parties and/or as and when such conflicts arise. The Company Secretary maintains a record of such details and when such matters are discussed, the relevant director refrains from participating in the discussion and abstains from voting.

Key mechanisms in place to mitigate the risk of such conflicts of interest arising include,

- Directors are required to maintain strict arm's length basis when initiating new business.
- Due consideration is given in assessing Directors' interests, position, association, or relatives in decision-making.

Ethics and Integrity

- Compliance Policy and Code of Conduct
- Group Securities Trading Policy
- Group Anti-Bribery and Corruption Policy
- Whistleblowing Policy
- Ombudsperson Policy
- Disclosure Policy
- HR Manual
- Fraud Risk Management Policy
- Procurement Policy
- Corporate Social Responsibility Policy
- Related Party Transactions Policy
- Codes of Ethics & Standard of Conduct for Treasury Front Office, Treasury Operations and Treasury Middle Office
- Anti-Money Laundering, Suppression of Terrorism Financing and Sanctions Policy and Procedures

Investment Policy

- Investment Policy
- Bank's Exposure to Stock Market Activities

Policies revised in 2022

Policy revisions during the year was necessitated due to increased exposure to credit and liquidity risks given the adverse operating conditions.

- Board Audit Committee Policy
- Whistle Blowing Policy
- Annual review of Policy Guidelines on Bank Counterparty Limit assessment/ Reverse Re-purchase Limits/ Haircut rules
- Asset Liability Management Policy/TOR
- Interest Rate Risk Management Policy
- Investment Policy
- Liquidity Risk Management Policy
- Liquidity Contingency Funding Plan
- Liquidity Contingency Funding TOR
- Advance to Deposit Ratio (ADR) Policy
- Deposit Concentration Policy
- Market Risk & ALM Governance Structure
- Foreign Exchange Risk Management Policy
- Medium Term Funding Policy
- Commitment Policy
- MRM/ALM Limit Excess and Approval Policy
- Wholesale Borrowing Policy
- Valuation Policy
- Bank's Indirect Exposure to Stock Market Activities
- Information Security Policy
- NDB Ombudsperson Policy
- Review of the Loan Review Mechanism Policy & Framework
- Anti-Money Laundering Suppression of Terrorist Financing & Sanctions Policy & Procedures
- Code of Ethics and standards for Treasury front office, Treasury operations and Treasury middle office
- Disclosure Policy
- Fraud Risk Management Policy
- Treasury Policy
- Business Line Mapping Policy
- Credit Policy
- Integrated Risk Management Framework
- ESRM Policy and the ESRM Manual

COMBINED ASSURANCE

The Group adopts a combined assurance framework, integrating the assurance obtained from both internal mechanisms and external providers. This approach has enhanced the integrity of internal controls and information used for reporting to both internal and external stakeholders.

Executive Management

Management functions

Risk & Compliance

Independent Risk Management and compliance functions

Internal Assurance

Internal Audit, Board Audit Committee

External Assurance

External Auditors

Internal Audit

- An Independent and objective assurance function.
- Serves as the third line of defence in the Group's risk management structure.
- The Head of Internal Audit reports directly to the Board Audit Committee.

Board Audit Committee

- Responsible for ensuring the integrity of the Company's financial statements as well as internal controls and compliance.
- Skill profile represents extensive experience in finance, accounting and auditing.
- The Terms of Reference of the Audit Committee complies with the recommendations of the Code of Best Practice on Board Audit Committees issued by ICASL and guidelines stipulated by the CSE. (Please refer to the Report of the Board Audit Committee on pages 138 to 139 of this Report for further information)

External Audit

- Measures in place to ensure the independence and objectivity of the External Auditors as discussed furthermore in the Board Audit Committee Report on pages 138 to 139.
- The Group's External Auditors are Messrs. Ernst and Young and the principal/consolidator auditor has not engaged in any services which are in the restricted category as stipulated by the CSE for external auditors.

CORPORATE CITIZENSHIP

ORGANISATIONAL ETHICS

The Board of Directors hold apex responsibility in driving ethical leadership and nurturing an organisational culture founded on commonly accepted set of values of Integrity, Excellence, Creativity, Accountability and Sincerity. The Group's ethical foundation is built on key policies including the Internal Code of Corporate Governance, Compliance Policy & Code of Conduct, Group Anti-Bribery and Corruption Policy and Whistleblowing Policy and Ombudsperson Policy among others.

APPROACH TO ANTI-BRIBERY AND CORRUPTION

Managing the risk of bribery and corruption is embedded into our compliance monitoring mechanisms. A suite of policies, tools and processes are in place to effectively govern related aspects including political contributions, donations, facilitation payments and solicitation among others. In line with regulatory requirements, the Bank has also rolled out an anti-money laundering, Suppression of Terrorism Financing and sanctions policy and process across the Group.

SUSTAINABILITY GOVERNANCE

The Board believes that integrating sustainability and ESG considerations into the Group's strategy and daily decision-making results in responsible corporate citizenry and sustainable development. The Group's Environmental and Social Risk Management Framework sets on triple bottom line aspirations and is driven by the Environmental and Social Risk Management Integrated committee and Corporate Sustainability committee which includes Leadership Team and multi-functional representation (refer page 55 for further information).

Meanwhile clearly defined and communicated grievance mechanisms are in place to address potential concerns of employees, business partners and communities. The Bank has also established an external informational mechanism, known as the NDB Ombudsperson to further strengthen the whistleblowing mechanism.

Ethics in Action

Personal Conduct

- Directors and KMPs are guided by the **Internal Code of Corporate Governance**.
- All other employees are bound by the **Compliance Policy and Code of Conduct** which provides a roadmap aligning the values to behavioural, ethical, and practical compliance aspects of our business.
- **The Whistleblowing policy and the Ombudsperson Policy** encourages employees to come forward and voice their concerns anonymously, thereby nurturing a culture of transparency. This is supported by an effective and secure process in place to facilitate communication between the Bank and the whistleblower.
- **The Gifts and Entertainment Policy** which is part of the Compliance Policy and Code of Conduct clearly articulates the Bank's stance on accepting and giving gifts. Further it provides threshold for seasonal gifts and the disclosure requirements applicable.

Market Conduct

- **The Group Anti-bribery and Corruption policy** sets out the minimum standards expected by all Directors, employees and third-party service providers engaged by the NDB Group.
- **Codes of Ethics & Standard of Conduct for Treasury Front, Treasury Operations and Treasury Middle Office** are in place with the prevailing regulations to strengthen market conduct and practices for treasury operations and to strengthen market risk management systems.

Societal Conduct

- **Environmental and Social Risk Management framework** provides guidance on contributing to the wider community through meaningful and impactful engagements.
- **Disclosure Policy** provides guidance and promotes good governance, transparency, and accountability by ensuring access to information, safeguarding the deliberative process, and providing clear guidelines on providing information to the public

CREATING AND PRESERVING VALUE IN 2022

The following section provides an overview of how the Board of Directors' contributed to creating and preserving value during the year. The persistent and evolving challenges that have prevailed in recent years have tested the robustness, strength and agility of the Group's governance mechanisms and practices, which served as an anchor in navigating the unprecedented operating conditions of 2022.

Strategy, Performance and Reporting

Oversight on Risk Management

Shaping organisational culture

Embedding Sustainability and ESG

STRATEGY, PERFORMANCE AND REPORTING

The Directors have unfettered access to The Leadership Team and have ongoing interactions across various functions and levels in the organisation, enabling a deep understanding of the business. Board oversight on strategic implementation is facilitated through engagement during strategy sessions and Board/Sub-Committee meetings where KMPs attend by invitation.

How the Board engaged with the business in 2022

- All nine Directors served on Board Sub-Committees enabling engagement with KMPs on specific matters
- Debate and approval of the Bank's strategic framework
- The Board has access to first-hand insights on the activities of the subsidiaries given common Directors
- Attendance at investor forums and roadshows
- Assessment of regular performance reports
- Digital engagement

How the Board spent its time in 2022



Risk management, governance and compliance

Stakeholder interests and external reporting

50%

20%

15%

10%

5%

Monitoring the evolving operating landscape and potential impact

Review strategy and digital developments

Employee well-being and people management

Areas of focus	Matters discussed
Monitoring the evolving operating landscape and potential impact	- Proactive monitoring of emerging economic developments and closely evaluating potential impact on the Bank and Group's performance and stability. - Assessing evolving regulatory requirements and impact on the Bank and its Group's operations.
Managing credit risk and portfolio quality	Restructuring and remedial management including timely policy changes given emerging repayment stress.
Monitoring performance and stability	- Detailed deliberations on the Bank's performance, financial position, cash flow forecasts and capital projections. - Closely monitoring the Bank's foreign exchange and rupee liquidity position and pursuing avenues to strengthen same. - Approval of the Annual Budget and proactive monitoring of performance with specific focus on the impact and management of external headwinds. - Cautiously monitoring the Bank's Treasury operations.
Capital and funding	- Strategic emphasis on funding, refunding, refinancing and securing funding from DFIs. - Evaluating the Bank's Capital Augmentation Plan 2022-2025. - Approval of the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
Strategy and innovations	- Reviewing and guide the Bank's business strategies / key new initiatives approving the way forward for implementation (e.g. Remittance Business Strategy). - Providing guidance on the Bank's brand repositioning 'The Future is Banking on us' and the digital marketing strategy.
Governance, compliance and policy frameworks	- Focus and deliberation on governance, regulatory compliance and in-depth review of and improvements to policies and procedures of the Bank. - Introducing new policies and reviewing existing policies to strengthen the governance and control environment.
People management	- Approving/reviewing employee talent infusion, management, retention and succession needs of the Bank with a view to strengthening the organisation structure. - Strategic emphasis on employee well-being given the prevalent socio-economic challenges.

BOARD MEETINGS

The Board strengthened engagement given the rapidly changing operating landscape and potential stresses on the Group's operations. The Board convened 15 times during the year, while 53 Sub-Committee meetings were also held. Clearly defined guidelines and processes ensure the effectiveness of Board meetings.

Beginning of the year	- Board meetings are scheduled and duly informed to the Board at the end of previous calendar year. - Meeting modes and venues are agreed upon.
Setting the agenda	- Directors are entitled to include matters and proposals in the agenda for discussion. - Chairman draws up the agenda with the assistance of the Company Secretary.
Circulation of Board papers	- Formal notice of meetings, the agenda and Board papers related to each Board meeting are circulated at least 7 days in advance of the Board meeting. - Documents are uploaded through a secure connection to the tablets of all directors in order to ensure that Board members have access to complete information prior to Board meetings. - Board members prepare in advance to ensure effective and robust discussions on key matters.
During Board meeting	- The Chairman encourages and facilitates constructive dialogue during Board meetings. - If a Director has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present. The relevant Director excuses himself from the meeting during such discussions. - Directors are also given the opportunity to participate by digital means.
After Board meeting	- Board minutes are prepared by the Company Secretary and circulated among Directors as soon as possible and no later than 14 days after the meeting. - The Board minutes contain adequate details appropriate to the matters dealt with during Board meeting including dissenting views.



THE STRUCTURE, COMPOSITION AND ATTENDANCE OF THE BOARD AS AT 31 DECEMBER 2022

Name of Director	Areas of Expertise	Independent/ Non-Independent under CBSL Direction	Independent/ Non-Independent under ICASL	Date of Appointment	Number of Board Meetings Eligible to Attend	Number of Meetings Attended
Mr. Sriyan Cooray (Appointed as the Chairman on 01.07.2022)	Banking, Finance, Risk Management and Management	Independent	Independent	10.08.2018	15	15
Mr. Dimantha Seneviratne (CEO)	Banking, Finance and Management	Non-Independent	Non-Independent	01.01.2017	15	15
Mr. Bernard Sinniah	Banking, Sales/Retail, Entrepreneurship/Treasury, Management and IT	Non-Independent	Independent	28.03.2019	15	15
Mr. Sujeewa Mudalige	Accounting, Auditing, Financial Analysis and Management	Independent	Independent	06.01.2020	15	15
Mr. Kushan D'Alwis, PC	Law (Litigation/Banking , Corporate, Commercial and Administrative Law)	Independent	Independent	06.07.2020	15	15
Ms. (Fay) Piyachatr Chetnakarnkul	Economics, Information Technology and Investment	Non-Independent	Non-Independent	25.05.2021	15	14
Ms. Chandima Dilrukshi	Accounting and Financial Management Public Policy and Public Administration	Non-Independent	Independent	21.06.2021	15	15
Ms. Kasturi Wilson (Appointed w.e.f. 03.10.2022)	Retail/Consumer Sector Experience, Accounting, Financial Analysis and Management	Independent	Independent	03.10.2022	4	4
Mr. Hiran Perera (Resigned w.e.f. 14.02.2023)	Banking, Credit Review, Risk Management, Treasury and Corporate Finance	Non-Independent	Non-Independent	23.04.2020	15	15
Mr. Eshana de Silva (Resigned w.e.f. 30.06.2022)	Business, Management and Administration	Independent	Independent	14.05.2020	8	8

DETAILS OF MEMBERS OF THE BOARD SUBCOMMITTEES AS AT 31 DECEMBER 2022

Name of Director	Board Nominations Committee		Board Human Resources and Remuneration Committee		Board Related Party Transactions Review Committee		Board Strategic Issues Committee		Board Audit Committee		Integrated Risk Management Committee		Board Credit Committee		Digital Transformation Committee	
	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
Mr. Sriyan Cooray	C	20.08.2021	C	20.08.2021	C	01.07.2022	C	01.05.2019	M	01.09.2018	C	01.09.2018				
Mr. Dimantha Seneviratne							M	23.07.2019			M	01.07.2017	M	01.06.2017	M	30.04.2021
Mr. Bernard Sinniah	M	19.02.2020	M	19.02.2020			M	19.02.2020					C	01.05.2019	C	30.04.2021
Mr. Sujeewa Mudalige	M	21.06.2022	M	22.03.2022	M	19.02.2020	M	19.02.2020	C	18.02.2020	M	19.02.2020			M	30.04.2021
Mr. Kushan D'Alwis, PC	M	21.06.2022			M	22.07.2020							M	22.07.2020		
Ms. (Fay) Piyachatr Chetnakarnkul							M	22.06.2021			M	22.06.2021			M	29.10.2021
Ms. Chandima Dilrukshi					M	20.08.2021			M	22.06.2021	M	22.06.2021	M	01.10.2022		
Ms. Kasturi Wilson (Appointed w.e.f. 03.10.2022)											M	25.10.2022				
Mr. Hiran Perera (Resigned w.e.f. 14.02.2023)											M	20.05.2020	M	01.05.2020	M	30.04.2021
Mr. Eshana de Silva (Resigned w.e.f. 30.06.2022)	C	20.05.2020	M	20.05.2020	C	14.05.2020	C	14.05.2020					C	20.05.2020		

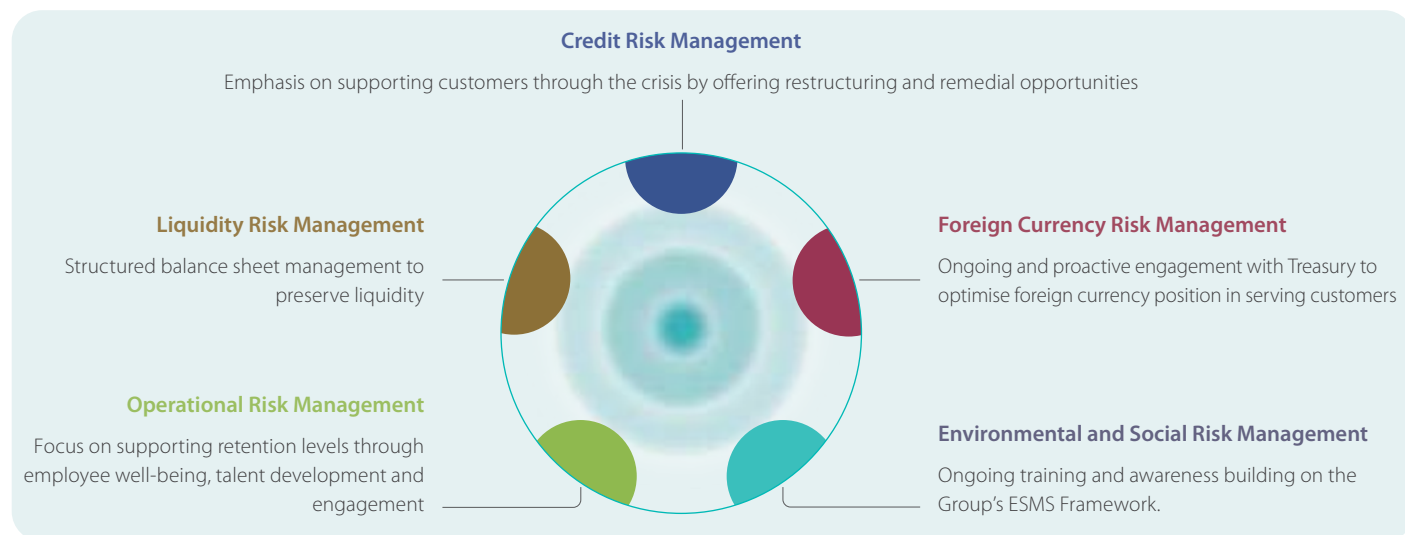
DOA - Date of Appointment Status - C - Chairman/ M - Member

NUMBER OF MEETINGS HELD AND ATTENDANCE OF THE BOARD SUBCOMMITTEES AS AT 31 DECEMBER 2022

Name of Director	Board Nominations Committee		Board Human Resources and Remuneration Committee		Board Related Party Transactions Review Committee		Board Strategic Issues Committee		Board Audit Committee		Integrated Risk Management Committee		Board Credit Committee		Digital Transformation Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr. Sriyan Cooray	9	9	9	9	2	2	4	4	8	8	5	5				
Mr. Dimantha Seneviratne	-	-	-	-	-	-	4	4			5	5	12	11	2	2
Mr. Bernard Sinniah	9	9	9	9	-	-	4	4					12	12	2	2
Mr. Sujeewa Mudalige	5	5	5	5	4	4	4	4	8	8	5	4			2	0
Mr. Kushan D'Alwis, PC	5	5	-	-	4	4	-	-					12	11		
Ms. (Fay) Piyachatr Chetnakarnkul	-	-	-	-	-	-	4	4			5	5			2	2
Ms. Chandima Dilrukshi	-	-	-	-	4	4	-	-	8	8	5	5	2	2		
Ms. Kasturi Wilson (Appointed w.e.f. 03.10.2022)	-	-	-	-	-	-	-	-			1	1				
Mr. Hiran Perera (Resigned w.e.f. 14.02.2023)	-	-	-	-	-	-	-	-			5	5	12	12	2	1
Mr. Eshana de Silva (Resigned w.e.f. 30.06.2022)	4	4	5	5	2	2	1	1					6	6		

OVERSIGHT ON RISK MANAGEMENT

Managing emerging risks emerged as a key priority during the year, reflecting increasing complexities of external headwinds and escalating macro-economic stress. The Board Audit Committee and the Board Integrated Risk Management Committee played a vital role in monitoring changes to the Group's risk landscape. Key areas of focus are summarised below while further details are provided in the Risk Management Review from pages 310 to 329 of this Annual Report.



MANAGING IT AND CYBER-SECURITY RISKS

The Group is cognisant of its increased exposure to IT and cybersecurity risks stemming from the thrust towards digitalisation. A framework of robust IT policies, clear demarcation of responsibilities through the three lines of defence governance model and a highly skilled IT team ensure that IT risks and vulnerabilities are managed in a holistic and a consistent manner. During the year, the Bank further strengthened its IT risk framework through successfully obtaining the ISO/IEC 27001 Information Security Standard and increasing investments in the data centre infrastructure, access controls, data loss prevention controls and firewalls among others.

SHAPING ORGANISATIONAL CULTURE

The Board of Directors set the right tone at the top aligned to NDB's corporate values. This culture has been a key factor in ensuring resilience and agility amidst the unprecedented challenges that have prevailed over the recent years. During 2022, Board oversight and monitoring of culture was supported by the following engagements:

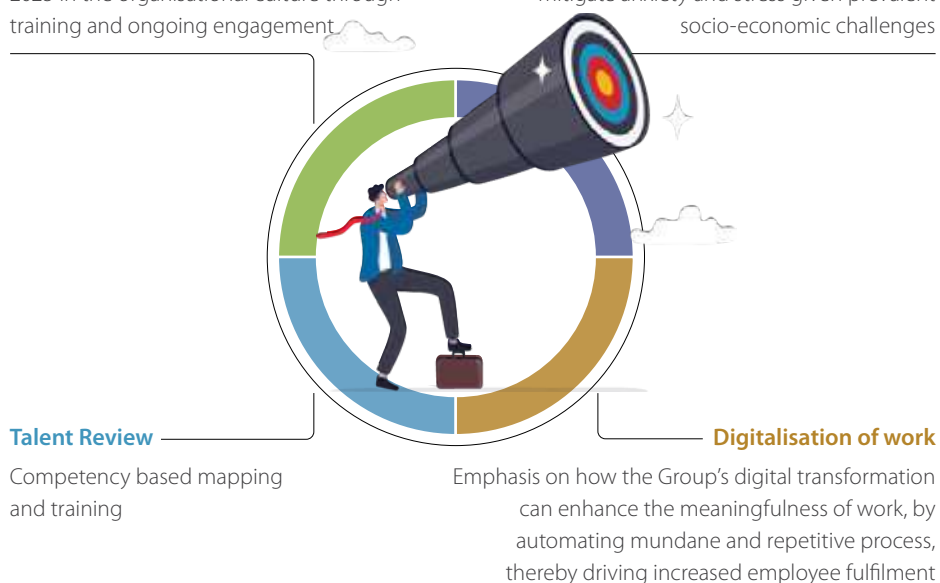
1. Reporting on Anti-Bribery Corruption Programmes,
2. Organisational Transparency
3. Domestic financial reporting
4. Reporting on Gender and Non Discrimination
5. Reporting on Procurement related to Government Contract/Tenders

Organisational change management

Embedding the aspirations of Voyage 2025 in the organisational culture through training and ongoing engagement

Employee well-being

Focus on employee mental well-being to mitigate anxiety and stress given prevalent socio-economic challenges



RESPONSIBLE CORPORATE CITIZENSHIP

Our organisational culture emphasises the importance of driving excellence in relationships, both with our internal and external stakeholders. This is nurtured in the way we engage with, respond to and drive meaningful value creation to our stakeholders. As described on page 42, the Group maps its material stakeholders based on their level of influence, tailors the engagement strategy and delivers it through formal and informal platforms. The frameworks which govern the communication with stakeholders is set out alongside.

SHAREHOLDER ENGAGEMENT

We are committed to preserving the rights of our shareholders and ensure that all ordinary shareholders of the same class of shares issued by the Bank are treated equitably. The Group confirms to the principle of one share, one vote and one dividend and currently there are no non-voting shares in issue. We also adopt an array of measures to ensure that shareholder views are heard and fully considered.

- **Annual General Meeting:** The AGM provides shareholders the opportunity to contribute their views and engage with the Board of Directors, including the Chairpersons of Sub-Committees and members of senior management. The Bank's AGMs are generally well attended, and we encourage shareholders to participate in fostering a constructive dialog. Resolutions requiring shareholder approval are tabled separately for adoption at the AGM. Given restrictions on physical gatherings in 2022, the Bank held its AGM virtually on the 30 March 2022 with shareholders representing approximately 51% of the share holding of NDB participating.
- **Dissemination of information:** The Bank provides shareholders with timely information on performance and any other material developments. Numerous platforms are in place to disseminate information amongst shareholders and analysts; these include investor presentations, press releases, email notifications, online investor webinars, road shows and the investor relations webpage within the Bank's corporate website.

Disclosure Policy

- Supports the dissemination of timely, accurate and balanced regulatory disclosures based on applicable laws and regulations

Communication Policy

- Ensures the effective and consistent communication of internal and external communication of corporate information

Grievance Mechanisms

- **Customer complaints handling:** Outlines the complaints handling policy of the Bank and governs the procedure through which complaints are tracked, monitored and resolved
- **Employee grievance handling:** Transparent mechanism encouraging employees to bring forward any grievances

- **Investor Relations:** A dedicated Investor Relation function ensures that shareholders are kept aware of emerging developments.

Treatment of minority shareholders

The rights of the Group's minority shareholders are preserved through the following mechanisms:

- All shareholders have equal voting and transfer rights
- Efficient voting mechanisms to protect minority shareholders
- Process for engaging with minority shareholders; All shareholders have direct access to the Company Secretary
- All avenues available to minority shareholders in line with the laws and regulations and facilitated

Disclosure and transparency

The Group has embraced international best practices in both financial and non-financial reporting. Our key publication to stakeholders is the Group's Integrated Annual Report, which adheres to several voluntary reporting frameworks such as the Global Reporting Initiative and the SASB guidelines (refer to page 7 for full list). The financial and non-financial information included in the Report as well as the Integrated Reporting process, has been externally assured. The content included in the Annual Report is determined through a comprehensive materiality assessment and all relevant developments pertaining to these material topics are disclosed in a full and transparent manner.

ESG INTEGRATION

Shifting risk landscapes and evolving stakeholder needs have compelled organisations to view ESG considerations strategically, integrating social and environmental considerations into the business. The Group's sustainability strategy is set out on page 54 of this Report, along with the progress made in each of the Group's priority areas.

Key measures taken to support implementation of the Group's ESG strategy during the year are listed below:

Reporting

- Approval of the Group's Integrated Annual Report in 2022
- Verification of the Group's carbon footprint through engagement with Climate Fund Sri Lanka

Implementation of ESMS Framework

- Policy framework updated and approved at Board Level to drive Sustainable Finance
- Revision of credit formats in capturing criteria for sustainable finance
- Evaluation of E&S risks through ESMS Framework

Capacity building

- Capacity building through training propositions

REMUNERATION REVIEW

OUR APPROACH TO REMUNERATION

The Group's approach to Remuneration aims to attract, motivate, and retain employees of high-calibre, with the right mix of experience, skills and knowledge to deliver strategy and drive business performance. Our framework also reinforces a culture of ethical behaviour, by linking rewards to individual and collective value creation objectives. The Bank's Compensation Policy is structured based on job evaluation using the compensable factors such as knowhow/job complexity, communication and coordination/customer interaction, supervision exercised and risk impact/ consequences. Key principles of our Remuneration Framework are,

- Recognising sustainable financial performance and business results
- As an equal opportunity employer, we do not discriminate between ethnicity, gender or other form of diversity when determining remuneration
- Balance between fixed and variable components
- Performance appraisals enable the identification of talent at all levels thereby resulting in fair remuneration

ROLE OF THE HRRC

The Bank's Human Resources and Remuneration Committee plays a pivotal role in determining the Human Resource and Remuneration policies (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank. The committee comprises exclusively of Non-Executive Directors, a majority of whom are Independent Directors, and processes are in place to ensure that no Director is involved in determining his or her own remuneration.

The Committee's responsibilities include,

- Determining the remuneration policy relating to the Directors, CEO and KMPs of the Bank
- Evaluating the performance of the CEO and KMPs against the set goals and targets periodically and determining the basis for revising remuneration, benefits and other payments of performance-based incentives.

- Discussing and assessing with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank.

(Please refer pages 133 to 134 for HRR Committee Report)

SUMMARY OF COMPENSATION SCHEMES

Total employee remuneration includes salaries and bonus, terminal benefit charges, share-based payments, and other related expenses. Despite the conditions that prevailed during the year, the Group maintained full remuneration for all employees, even paying bonus rewards earlier. Further details on each of these elements is available on pages 182 to 183 - Notes 12 and 14 to the Financial Statements.

A summary of the Bank and Group's remuneration/personnel expenses during the year are given below;

	2022	
	Bank LKR' 000	Group LKR' 000
Directors' emoluments	31,276	44,660
Personnel expenses		
Salary and bonus	4,622,583	5,141,266
Contribution to EPF and ETF	536,846	583,356
Contribution to defined benefit plan	144,754	164,795
Others	432,339	473,957

COMPLIANCE DISCLOSURES

Further to the Annual Report of Board of Directors presented on page 16, and as required by Section 168 of the Companies Act No. 7 of 2007, the following information is disclosed in this Annual Report prepared for the year ended 31 December 2022.

	Information required to be mandatorily disclosed as per Section 168 of the Companies Act No. 07 of 2007	Reference to the Companies Act	Disclosure reference for compliance closure reference	Pages
1	The nature of the business of the Bank and the Group together with any change thereof during the accounting period.	Section 168 (1) (a)	Note 01 to the Financial Statements – Corporate Information.	164
			Nature of businesses of the Company and its subsidiaries / the classes of business in which the Bank has an interest.	38 and 71
			Confirmation that the state of affairs of the Bank will not be harmful to the business of the Bank.	108
2	Signed Financial Statements of the Bank and the Group for the accounting period completed.	Section 168 (1) (b)	The Financial Statements of the Bank and the Group for the year ended 31 December 2022.	154 to 163
3	Auditor's Report on Financial Statements of the Bank and the Group.	Section 168 (1) (c)	Independent Auditor's Report.	154 to 156
4	Accounting Policies and any changes therein (Group also included).	Section 168 (1) (d)	Notes to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Bank and the Group.	164 to 276
5	Particulars of the entries made in the Interest Registers of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (e)	All Directors have made declarations as required by Section 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interest Register during the year under review.	
			Directors' Dealing in shares and Debentures.	344 and 349
			The Interest Register is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.	
			Note 52 to the Financial Statements - Related Party Disclosures.	239 to 243
6	Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Note 14 to the Financial Statements - Other Expenses.	183
			Corporate Governance report - Director's and Executive remuneration.	303
7	Total amount of donations made by the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (g)	Note 14 to the Financial Statements – Other Expenses.	183
8	Names of persons holding office as directors as at the end of accounting period and names of persons who ceased to hold office.	Section 168 (1) (h)	List of Board of Directors of the Bank.	23 to 27 and 120
			New Appointments and Resignations.	120
			List of Directors of Subsidiaries of the Bank.	375
9	Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries.	Section 168 (1) (i)	Note 14 to the Financial Statements – Other Expenses.	183
10	Auditor's relationship or any interest with the Bank and its Subsidiaries.	Section 168 (1) (j)	The Financial Statements of the Bank for the year ended 31 December 2022 have been audited by Messrs Ernst & Young, Chartered Accountants. They also function as the auditors of the Bank's subsidiary companies namely, NDB Capital Holdings Limited, NDB Wealth Management Limited, NDB Securities (Private) Limited, NDB Investment Bank Limited, Development Holdings (Private) Limited, and NDB Zephyr Partners Lanka (Private) Limited.	139

	Information required to be mandatorily disclosed as per Section 168 of the Companies Act No. 07 of 2007	Reference to the Companies Act	Disclosure reference for compliance closure reference	Pages
10	Auditor's relationship or any interest with the Bank and its Subsidiaries. (Contd.)		Based on the declaration provided by Messrs Ernst & Young, Chartered Accountants, and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Bank that in our judgement may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report. The Auditors have indicated their willingness to offer themselves for reappointment. The Board Audit Committee and the Board of Directors have recommended the reappointment of the Auditors. A resolution appointing Messrs Ernst & Young as Auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.	373
11	Acknowledgement of the Contents of this Report / Signatures on behalf of the Board	Section 168 (1) (k)	Complied as stipulated in the Annual Report of the Board of Directors.	16

Other Disclosures as required by the Central Bank of Sri Lanka Directions, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance 2017 (ICASL Code) issued by the Institute of Chartered Accountants of Sri Lanka, Other Laws and Regulations and Good Governance Disclosures as followed by the Bank.

	Other Disclosures	Reference to the relevant statute/ rule	Disclosure reference for compliance	Pages
Central Bank of Sri Lanka Directions (CBSL Direction)				
12	Disclosures required to be made by the Board in terms of the Corporate Governance Directions	CBSL Direction No 11 of 2007 (as amended)	The Board has ensured that the required disclosures have been made. The classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2022 is provided.	284 to 309 120
13	Annual Corporate Governance Reports	3 (1) (xvi)	An annual Corporate Governance report setting out the compliance with Direction 3 of these Directions.	284 to 309
14	Audited Financial Statements	3 (8) (ii) (a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	145
15	Internal Control Mechanisms	3 (8) (ii) (b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	146 and 147
16	Factual Findings Report	3 (8) (ii) (g)	A confirmation that all the findings of the 'Factual Findings Reports' of Auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the Annual Corporate Governance Report.	108
17	Compliance with Laws	3 (8) (ii) (h)	A report setting out the details of compliance with prudential requirements, regulations, laws and internal controls that affected the Bank.	297
18	Regulatory Supervisory Process	3 (8) (ii) (i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of the CBSL.	297

	Other Disclosures	Reference to the relevant statute/ rule	Disclosure reference for compliance	Pages
Listing Rules (LR) of the Colombo Stock Exchange				
19	Contents of the Annual Report as required under the Listing Rules of the Colombo Stock Exchange	LR 7.5	Disclosed as required in the Annual Report.	145
		LR 7.6		356 and 357
20	Statement confirming compliance with Corporate Governance Rules in terms of the Listing Rules of the Colombo Stock Exchange	LR 7.10a	The Board has ensured that the required Corporate Governance disclosures have been made. In terms of an approval received from the Board of Directors of the Colombo Stock Exchange on 30 March 2010, Licensed Commercial Banks have been granted a total exemption from the requirement to comply with Section 7.10 (Corporate Governance) of the Continuing Listing Requirements under the CSE Listing Rules with effect from 01 January 2010.	
21	Disclosure on Related Party Transactions in terms of the Listing Rules of the Colombo Stock Exchange	LR 9.32	Required disclosures have been made by the Related Party Transaction Review Committee.	133 and 134
			Also see Note 52 to the Financial Statements : Related Party Disclosures.	239 and 243
Code of Best Practice on Corporate Governance 2017 (ICASL Code)				
22	Statement of Compliance with the Code of best Practise on Corporate Governance 2017	ICASL Code	All required disclosures have been made and status of compliance has been detailed.	284 to 309
			The classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2022 is provided for purposes of good governance, however, the Bank mandatorily adheres to Direction No. 11 of 2007 on Corporate Governance in this regard.	120
23	Compliance with Laws	ICASL Code D.1.4	Statement of compliance with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations.	146 and 147
24	Material Interests in contracts	ICASL Code D.1.4	Declaration of all material interests by Directors in contracts involving the Bank and refrained from voting on matters in which they were materially interested.	130 and 131
25	Internal Controls	ICASL Code D.1.4	A confirmation that the Board has conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.	146 and 147
26	Financial Statements	ICASL Code D.1.5	A statement of responsibility for the preparation and presentation of financial statement have been made together with the external auditors confirmation on their reporting responsibility.	145
27	Plant and Property	ICASL Code D.1.4	The Bank has reported Property Plant and Equipment at fair value, and where it differs from fair value, adequate disclosures are made.	209
28	Related Party Transactions	ICASL Code D.1.8	The Board should disclose the related parties and related party transactions as specified by SEC/ Sri Lanka. Accounting Standards/Sri Lanka Auditing Standards and similar regulations.	239 to 243
			Required disclosures have been made by the Related Party Transaction Review Committee.	140 and 141
29	Cyber Security	ICASL Code G. 5	The Board should disclose in the Annual Report the process to identify and manage cyber security risks.	309
30	Equitable treatment to shareholders	ICASL Code D.1.4	Shareholder Engagement	123
31	Going Concern	ICASL Code D.1.4	The Board of Directors is satisfied that the Bank has adequate resources to continue the business activities in the foreseeable future. Therefore, the Bank has adopted a ‘going concern’ basis in preparing these Financial Statements.	145 and 167

	Other Disclosures	Reference to the relevant statute/ rule	Disclosure reference for compliance	Pages
Other Laws and Regulations				
32	Duty of the Board of Directors to prepare the Financial Statements of the Bank and the Group	S 150 - 153 of the Companies Act (CA) No. 7 of 2007	Board of Directors acknowledges its responsibility to prepare the Financial Statements of the Bank and the Group, which reflect a true and fair view of the financial position and performance of the Bank and the Group. In this regard, the Board of Directors wishes to confirm that the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Significant Accounting Policies and Notes thereto have been prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007 and amendments thereto.	145
33	Dividends on Ordinary Shares	S 56 of the CA No. 7 of 2007	Note 19 to the Financial Statements – Dividends and Events after the Reporting period.	187
			Item 8 of the Section on “Investor Relations”.	347
34	Appointment of Auditor, Auditor’s fees, duty to avoid conflict of interest etc	S 154, 155, 162 & 163 of the CA No. 7 of 2007	The Bank’s External Auditors, Messrs Ernst & Young, who were appointed in accordance with a resolution passed at the 17th Annual General Meeting held on 30th March 2022 have expressed their opinion in this Annual Report. The details on the remuneration of External Auditors have been disclosed in this Annual Report. As far as the Directors are aware, the Auditors do not have any other relationship with the Bank, or any of its subsidiaries and its associate. The External Auditors do not have any interest in contracts with the Bank, or any of its subsidiaries and its associates.	154 to 157 183 138 to 139
35	Insurance and Indemnity	S 218 of the CA No. 7 of 2007	Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors’ liability. The Bank has accordingly paid an insurance premium in respect of the said insurance policy for the benefit of the Bank and the Directors and certain employees of the Bank and related body corporates as defined in the insurance policy.	300
36	Own share purchases	CA s.64	The Bank has not purchased its own shares.	308
37	Taxation	Laws related to taxation	Note 15 and Note 17 to the Financial Statements.	183 to 184
38	Statutory payments	Laws and regulations related to all statutory payments	The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government of Sri Lanka and the employees have been made up to date.	145
Good Governance Disclosures as followed by the Bank (GGD)				
39	Vision, Mission and Corporate Conduct	GGD	The Bank and the Group practices high ethical standards in carrying out their business activities in line with the vision of the Bank. All employees of the Bank abide by the Bank’s Code of Conduct and the Directors and the Key Management Personnel of the Bank additionally abide by the Internal Code of Corporate Governance of the Bank.	40
40	Review on Operations of the Group and the Bank and future developments	GGD	A review of the operations of the Bank and the Group are discussed in the Chairman’s Message, Chief Executive Officer’s Review and the Management Discussion and Analysis. Note 51 to the Financial Statements: Segmental Analysis - Group	17 19 57 and 73 237 to 238
41	Changes to the Group structure	GGD	There were no changes to the group structure during the year.	
42	Gross Income	GGD	Note 04 to the Financial Statements – Gross Income.	172
43	Performance of the Bank and the Group	GGD	Statement of Profit and Loss.	157

	Other Disclosures	Reference to the relevant statute/ rule	Disclosure reference for compliance	Pages
44	Reserves & appropriations	GGD	Statement of Changes in Equity.	160 to 161
			Note 44 to 46 of the Financial Statements –Statutory Reserves, Retained Earnings and Other reserves.	228 to 231
45	Investment Property	GGD	Note 31 to the Financial Statements - Investment Property.	208
46	Capital commitments	GGD	Note 48.2 to the Financial Statements - Capital Commitments.	233
47	Issue of Shares and Debentures by the Subsidiaries and Associates during the year	GGD	Note 29 and 30 to the Financial Statements.	206 to 207
48	Disclosure of Director's Dealing in shares and Debentures	GGD	Number 6 and Number 13 of the Section on "Investor Relations".	344 and 349
49	Environmental Protection	GGD	The Bank and the Group have not engaged in any activity that is detrimental to the environment, and have complied with the environmental laws and regulations at all times. Specific activities carried out during the year to protect the environment are detailed in the Management Discussion and Analysis.	54 to 56 and 95 to 99
50	Events Occurring after the Date of the Statement of Financial Position	GGD	There have been no events that require adjustment to the Financial Statements or disclosure in the Financial Statements that has occurred subsequent to the date of the Statement of the Financial Position of the Bank. Note 53 to the Financial Statements.	244
51	Human Resources	GGD	The Human Resources activities carried out during the year to focus on the strategic objectives are detailed in the Human Resources and Remuneration Committee report and Management Discussion and Analysis.	80 to 85
52	Operational Excellence	GGD	Operational Excellence is also a key strategic objective of the Bank and focusses on increasing efficiency and managing operational costs. The Bank has on going initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.	76 and 77
53	Outstanding Litigations	GGD	In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in the Financial Statements will not have a material impact on the financial position of the Bank or its future operations. Note 48 to the Financial Statements.	231
54	Corporate Social Responsibility (CSR)	GGD	CSR Initiatives 2022.	88 to 99
55	Sustainability	GGD	All Business strategies are formulated considering the sustainability aspects of the Bank including Sustainability practices and reporting.	13 and 42 to 44 and 54 to 55
56	Technology	GGD	All processes of the Bank are improved focusing superior customer services through imbedding state-of-the-art technology to all its processes and products.	76 to 77

DIRECTORS' INTERESTS IN CONTRACTS WITH THE NATIONAL DEVELOPMENT BANK PLC

The Bank in its ordinary course of business, conducts transactions on an arm's length basis with entities, where the Chairman or any Director of the Bank maintain a relationship with such entities as listed below.

	Relationship	Company	Accommodation Granted, Deposits & Investments	Balance Outstanding as at 31 December 2022 LKR '000	Balance Outstanding as at 31 December 2021 LKR '000
Mr. Sriyan Cooray					
	Director	Orient Finance PLC	Deposits & Investments	5,091	22,488
			Loans & Receivables	416,700	400,000
Mr. Dimantha Seneviratne					
	Chairman	Development Holdings (Pvt) Limited	Deposits & Investments	343,330	331,990
			Loans & Receivables	1	1
	Director	The American Chamber of Commerce in Sri Lanka	Deposits & Investments	22,773	20,433
	Director	NDB Capital Holdings Limited	Deposits & Investments	218,282	170,030
			Off -Balance Sheet Accommodations	45,951	45,951
	Director	NDB Wealth Management Limited	Deposits & Investments	8,943	162
	Director	NDB Investment Bank Limited	Deposits & Investments	10,186	5,429
			Loans & Receivables	11	2
	Director	NDB Securities (Private) Limited	Deposits & Investments	8,381	247,262
			Loans & Receivables	4,542	234,300
			Off -Balance Sheet Accommodations	100,000	100,000
	Director	NDB Zephyr Partners Lanka (Pvt) Limited	Deposits & Investments	9,296	28,324
	Director	NDB Zephyr Partners Limited, Mauritius	Deposits & Investments	2,268	43,745
	Director	Credit Information Bureau of Sri Lanka (resigned w.e.f 28 January 2022)	Deposits & Investments	820,643	820,648
Mr. Bernard Sinniah					
	Director	Codevus, Sri Lanka	Deposits & Investments	644	5,293
			Off -Balance Sheet Accommodations		30
	Director	NDB Capital Holdings Limited	Deposits & Investments	218,282	170,030
			Off -Balance Sheet Accommodations	45,951	45,951
	Director	NDB Securities (Pvt) Limited	Deposits & Investments	8,381	247,262
			Loans & Receivables	4,542	234,300
			Off -Balance Sheet Accommodations	100,000	100,000
	Director	NDB Wealth Management Limited	Deposits & Investments	8,943	162
	Director	NDB Investment Bank Limited	Deposits & Investments	10,186	5,429
			Loans & Receivables	11	2
	Director	NDB Zephyr Partners Lanka (Pvt) Limited	Deposits & Investments	9,296	28,324

	Relationship	Company	Accommodation Granted, Deposits & Investments	Balance Outstanding as at 31 December 2022 LKR '000	Balance Outstanding as at 31 December 2021 LKR '000
Mr. Sujeewa Mudalige					
	Director	PwC (Pvt) Limited	Deposits & Investments	1,800	65
	Managing Partner	PwC Partnership	Deposits & Investments	120	121
	Chairman of the Committee	Mercantile Services Provident Society (MSPS)	Deposits & Investments	1,090,304	979,605
	Director	CIC Holdings PLC	Deposits & Investments	116,144	68,557
	Director	Link Natural Products Limited	Deposits & Investments	28	10
	Committee Member	The Ceylon Chamber of Commerce	Deposits & Investments	2,322,208	2,405,364
Mr. Hiran Perera (resigned w.e.f. 14th February 2023)					
	Director (Non-Board)	Softlogic Holdings PLC	Deposits & Investments	226	7,698
			Loans & Receivables	1,000,000	-
Mr. Kushan D'Alwis					
	Director	Ceylon Tobacco Company	Deposits & Investments	18,750	18,750
Ms. Kasturi Wilson					
	Director	Atlas Axillia Co. (Pvt) Limited	Deposits & Investments	10,717	N/A
	Director	Far Shipping Agency Lanka (Pvt) Limited	Deposits & Investments	211,595	N/A
			Loans & Receivables	102,436	N/A
	Director	Forbes Air Services (Pvt) Limited	Deposits & Investments	452,097	N/A
	Director	Hemas Capital Hospital(Pvt) Limited	Deposits & Investments	794,896	N/A
	Group CEO	Hemas Holdings PLC	Deposits & Investments	2,712	N/A
	Director	Hemas Hospitals (Pvt) Limited	Deposits & Investments	467,046	N/A
			Loans & Receivables	-	N/A
	Director	Hemas Manufacturing (Pvt) Limited	Deposits & Investments	1,884,197	N/A
	Managing Director	Hemas Pharmaceuticals (Pvt) Limited	Deposits & Investments	97,193	N/A
	Executive Director	Hemas Transportation (Pvt) Limited	Deposits & Investments	292,673	N/A
	Trustee	Hemas Wellness Trust	Deposits & Investments	47,168	N/A
	Director	Morison Limited	Deposits & Investments	209	N/A
	Committee Member	The Ceylon Chamber of Commerce	Deposits & Investments	2,322,208	N/A

For Related Party Disclosures as per the Sri Lanka Accounting Standard – LKAS 24: Related Party Disclosures, please refer Note 52 to the Financial Statements on page 239 of this Annual Report.

NOMINATIONS COMMITTEE REPORT



Mr. Sriyan Cooray
Chairman

COMPOSITION OF THE NOMINATIONS COMMITTEE

The Board appointed Nominations Committee comprised four Non-Executive Directors inclusive of the Chairman who is an Independent Director as set out below.

As at 31 December 2022 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sriyan Cooray	Independent	Chairman
Mr. Bernard Sinniah	Non-Independent	Member
Mr. Sujeewa Mudalige	Independent	Member
Mr. Kushan D'Alwis, PC	Independent	Member
Secretary to the Committee		
Ms. Shehani Ranasinghe – Vice President - Company Secretary		

CHARTER OF THE NOMINATIONS COMMITTEE

The Nominations Committee was formed in compliance with the Section 3 (6) of Direction No. 11 of 2007, "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction. The Charter of the Nominations Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Charter in October 2022. The Committee carries out the following duties and responsibilities.

- Implements procedures to select/ appoint new Directors, CEO and Key Management Personnel (KMPs).
- Considers and recommends the re-election of current Directors, taking into account the performance and contribution made by the Director/s concerned towards the overall discharge of the Board's responsibilities.
- Sets out the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and KMPs.
- Ensures that Directors, CEO and KMPs are fit and proper persons to hold office as specified in the criteria given in Direction

3(3) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks and applicable laws and regulations.

- Sets the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment to select/appoint fit and proper persons as the Nominee Directors to the Boards of the Bank's group companies.
- Considers and recommends from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and KMPs.

COMMITTEE MEETINGS

The Committee held nine meetings during the year under review. The attendance of committee members at meetings is stated in the table on refer page 121. The quorum for a meeting is three members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

The Chief Executive Officer (CEO) and other Directors have been present at meetings only if invited by the Committee.

METHODOLOGY USED BY THE COMMITTEE

- The Committee meets as and when necessary in order to assess the suitability of individuals for appointment as Directors and KMPs in the

manner aforementioned as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

SUMMARY OF ACTIVITIES IN 2022

During the year, the Committee considered the suitability of several candidates and recommended the appointment of Directors to the Board of Directors of the Bank and further reviewed and recommended the appointment and continuation of Directors to the boards of subsidiary companies of the Bank. In the process, the Committee assessed the qualifications, experience, skills and competencies of the Directors vis à vis the gaps and needs of the boards in line with any applicable regulatory requirements. The Committee was conscious of the overall composition of the boards and striking the ideal balance in terms of expertise and experience on the boards.

The Committee also assessed the fitness and propriety of the continuing Directors of the Bank and affidavits and declarations submitted by Directors were forwarded to the Regulator for approval as required by the regulations. The Committee further recommended to the Board the re-election of Directors retiring by rotation and offering themselves for re-election at the Annual General Meeting in line with the Articles of Association of the Bank and applicable regulations, having reviewed the fitness and propriety of the Directors.

The Committee, with a view to strengthening the organisational structure of the Bank, also reviewed the expertise, skills and talents of potential candidates both internally and externally in line with internal policies and applicable rules and regulations, in order to fill existing as well as new senior managerial positions of the Bank in line with the strategic vision and direction of the Bank. The Committee further deliberated and recommended regarding appointments/extensions and role/designation changes of several key management personnel of the Bank during the year.

APPRECIATION

The Committee wishes to convey its gratitude to former Chairman Mr. Eshana de Silva for his valuable contribution to the Committee.

Mr. Sriyan Cooray
Chairman
Nominations Committee

21 February 2023
Colombo

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT



Mr. Sriyan Cooray
Chairman

COMPOSITION OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

The Board appointed Human Resources & Remuneration Committee comprised three Non-Executive Directors inclusive of the Chairman who is an Independent Director as set out below.

As at 31 December 2022 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sriyan Cooray	Independent	Chairman
Mr. Bernard Sinniah	Non-Independent	Member
Mr. Sujeewa Mudalige	Independent	Member
Secretary to the Committee		
Ms. Shehani Ranasinghe – Vice President - Company Secretary		

CHARTER OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

The Human Resources & Remuneration Committee was formed in compliance with Section 3 (6) of Direction No. 11 of 2007, on the subject “Corporate Governance for Licensed Commercial Banks in Sri Lanka”, issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction. The Charter of the Human Resources & Remuneration Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Charter in October 2022. As per the Charter, the scope of work includes the following;

- Determining and periodically reviewing the Remuneration Policy (salaries, allowances and other financial payments and perquisites) and remuneration payable relating to executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMP/s) of the Bank in terms of the Remuneration Policy/ Bank's Articles etc.
- Recommending to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors including the Chairman out of the total sum determined for the purpose by the shareholders in terms of the Bank's articles.
- Reviewing and recommending to the Board in consultation with the Nomination Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.
- Responsibility of setting and reviewing goals and targets for Directors, CEO and KMPs and determining their periodic revision.
- Evaluating the performance of the CEO and KMPs against the set goals and targets periodically and determining the basis for revising remuneration, benefits and other payments of performance based incentives.
- Considering the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and making necessary recommendations for the approval of the Board.
- Discussing and assessing with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank.
- Receiving information on the role and activities of the Human Resources Department and making recommendations for the strengthening of the role of the said department if necessary.
- Reviewing the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs, including the review/ recommendation of share option schemes for employees of the Bank.
- Reviewing and recommending to the Board any termination payments that are proposed to be paid to Directors, the CEO and/or KMPs in the event the same are deemed necessary and ensuring that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.
- Reviewing and approving the scope and any changes proposed to the Terms of Reference of the Management Human Resources Committee as may be recommended by the Management from time to time.

COMMITTEE MEETINGS

The Committee held nine meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 121. The quorum for a meeting is three members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

The Chief Executive Officer (CEO) has been present at meetings subsequent to being invited by the Committee, other than in instances where matters relating to the CEO have been discussed.

METHODOLOGY USED BY THE COMMITTEE

The Committee acknowledges rewards as one of the essential components in influencing employee behaviour, thus impacting business results. Therefore, the reward programmes are designed to attract, retain and to motivate employees to deliver results by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the CEO and KMPs against the pre-agreed targets and goals that balance short and long term financial and strategic objectives.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the overall performance of the Bank, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets. In this regard and as and when needed, the Committee can seek external independent professional advice on matters falling within its purview.

The Committee has as a practice ensured that the Bank organises and takes part in compensation surveys every two to three years and has utilised such feedback to ascertain that compensation practices are benchmarked to the "best practices" and are relevant and current as far as possible.

SUMMARY OF ACTIVITIES IN 2022

During the year, the Committee comprehensively reviewed the performance of the KMPs of the Bank for the year 2021 against the set goals and targets, using the Balanced Scorecard methodology and recommended to the Board of Directors of the Bank, the increments, bonuses and promotions for the staff members in general and individually, for the KMPs in 2022 in line with current strategy and direction of the Bank. Staff benefits and schemes were also reviewed during the year with a view of improving staff satisfaction in line with market standards with focus on the Bank's strategic journey and the prevailing environment, whilst ensuring compliance with applicable rules and regulations.

The Committee also advised and set goals and targets for the Directors for 2022 in line with the strategic vision and direction of the Bank in 2022.

The Committee was further called upon to consider the qualifications, experience and suitability of several persons to fill some KMP positions that fell vacant during the year and recommended regarding appointments, extensions and role/designation changes of several KMPs of the Bank in line with and to support the Bank's strategic direction and also reviewed the progress of disciplinary processes of certain management staff in line with internal policies.

The Committee also received information on the role and activities of the Human Resources Department and made recommendations to strengthen governance and management practices.

APPRECIATION

The Committee wishes to convey its gratitude to former Chairman Mr. Eshana de Silva for his valuable contribution to the Committee.



Mr. Sriyan Cooray

Chairman
Human Resources and Remuneration Committee

21 February 2023
Colombo

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



Mr. Sriyan Cooray
Chairman

COMPOSITION OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Board appointed Integrated Risk Management Committee (IRMC) comprised six Non-Executive Directors of which three are independent Directors which includes the Chairman of the Committee.

As at 31 December 2022 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sriyan Cooray	Independent	Chairman
Mr. Sujeewa Mudalige	Independent	Member
Mr. Hiran Perera (resigned w.e.f. 14.02.2023)	Non-Independent	Member
Ms. K V Chandima Dilrukshi	Non-Independent	Member
Ms. (Fay) Piyachatr Chetnakarnkul	Non-Independent	Member
Ms. Kasturi Wilson (appointed w.e.f. 25.10.2022)	Independent	Member
Mr. Dimantha Seneviratne (Chief Executive Officer)	Non-Independent	Member
Ms. Melody Wikramanayake (Vice President - Legal)	Non-Director	Member
Mr. Chandima Kannangara (Compliance Officer)	Non-Director	Member
Secretary to the Committee		
Mr. Nilanga Gajaba - Assistant Vice President - Centralised Recoveries/Acting Vice President - Risk Management		

CHARTER OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007 (as amended), on the subject "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the IRMC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee last reviewed the charter in February 2022. As per the Charter, the scope of work includes the following:

- Work closely with Key Management Personnel (as defined by the Management from time to time) and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.
- Assess all risks of the Bank and Group on a monthly basis through appropriate risk indicators and management information.
- Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- Review the adequacy and effectiveness of all management level committees such as the Credit Committees, Credit and Market Risk Policy Committee, Operational Risk Policy Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee/ Board.
- Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee/ Board on the basis of the Bank's policies and regulatory and supervisory requirements.
- Inform the Human Resources Department to take appropriate action against the officers who fail to identify specific risks, and/ or take prompt corrective actions as recommended by the Committee, and/ or as directed by the Director of Bank Supervision. The course of action to be taken against staff would be governed by the HR disciplinary action procedure in force.
- Review and discuss the scope of work of the Risk Management Division.
- Receive copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.
- Ensure staff are trained adequately on compliance related laws, regulations, policies and procedures as a tool in mitigating the bank's compliance risk by educating employees and maintaining their ongoing awareness. The programmes include both formal training courses and ongoing communications.

COMMITTEE MEETINGS

The Committee held four meetings, during the year under review to discuss the normal scope of work and one special IRLC meeting held in June 2022, to review the ICAAP & Stress Testing Framework of the Bank. The attendance of committee members at meetings is stated in the table on page 121. Key members of the staff participate at the meetings as appropriate. The quorum for a meeting is four members of which two shall be non-executive Directors.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

SUMMARY OF ACTIVITIES IN 2022

In 2022, the Country encountered one of its most challenging years in its history in the aftermath of the Easter Sunday attacks of 2019, Covid-19 outbreak from 2020 onwards and resultant prolonged lockdowns. The macroeconomic issues, social unrest and the political crisis in 2022 together with the severe balance of payment crisis along with unprecedented policy measures in its wake have created a significant impact on business activities causing unprecedented hardships to individuals and businesses. The Committee, thus, in addition to carrying out its duties under the normal scope of work devoted special attention to reviewing the risks and mitigants associated with the impact on portfolios affected and the factors that are within the control of the Bank to mitigate the risks with a view of arresting deterioration of credit quality. Further, given the FCY crisis, a separate board level subcommittee consisting of four Board members was set up and weekly meetings were held to ensure that the FCY crisis was properly managed.

The key areas of focus in this regard are detailed under each category below:

➤ Credit Risk

- Reviewed and approved policies and operating guidelines related to Credit Policy Manual, Impairment Policy, Policy on Bank's Indirect Exposure to Stock Market Activities, Cross Border Exposure Limits, Policy on Loan Review Mechanism and Delegated Lending Authority for credit related approvals for the Wholesale Banking, Project Finance & Credit Control and Branch Network.
- Reviewed the portfolio quality of the Bank.
- Reviewed industries/ sectors based on current country situation/ economic conditions/ sector performance and identified elevated risk industries/ stressed sectors.
- Reviewed Bank's internal sectors and segmented into stress categories based on the ability to revert to normal operations based on the current stresses, response to the

prevailing economic conditions, recovery from post pandemic situation and estimated time of recovery.

- Reviewed detailed analysis on the impact of regulatory relief measures such as loan moratorium schemes and measures taken by the Bank to mitigate risk of future defaults.
- Reviewed the update on Collections & Recoveries.
- Reviewed the update on the Loan Review Mechanism.
- Reviewed work carried out by the Credit Committees, Credit and Market Risk Policy Committee by reviewing the decisions taken by each committee.

➤ Operational Risk

- Reviewed Operational Risk reports, including but not limited to:
 - Significant Operational Risks, Incidents and Losses.
 - Key Risk Indicator breaches related to Human Resources, Information Technology, Finance, Compliance and Business lines.
 - Reviewed and approved the Fraud Risk Management Policy
- Reviewed the proceedings of the Operational Risk Policy Committee including the decisions taken by the Committee.

➤ Market and Liquidity Risk

- Reviewed and approved the Bank's policy framework, procedure guidelines, terms of references (TORs) for the management of Market and Liquidity Risk, to ensure the same is designed to facilitate the identification and assessment of the above risks and adequacy of controls.
- Reviewed and approved the Market and Liquidity Risk limit framework based on the Strategic Initiatives, Balance sheet structure and the risk profile of the Bank to optimise business potential, particularly focusing on liquidity risk forecasts in view of the financial crisis faced by the country.
- Reviewed exposures/ Information and monitored the effectiveness of the management of Market and Asset Liability Risk Management, including:
 - Strategies and other relevant issues related to financial market activities and business environment.
 - Financial position, forecasts and business performance.
 - Market/ Liquidity risk analysis and stress testing.

- Analysis of Asset Liability Committee (ALCO) reports and decisions taken by each committee and assessment of the effectiveness of the committees in line with TOR.
- Review of Treasury Dealing Room, Market and Liquidity exposures/ compliance and exceptions.
- Reviewed and forecasted the Bank's liquidity position taking in to account the Central Bank's tight monetary policy stance and its effects under different scenarios for LCY & FCY.
- Reviewed market liquidity, key economic indicators including the liquidity trends at the current FCY crisis & foreseeable challenges faced by the Bank.
- Reviewed the foreign currency Net Open Position and the impact of exchange rate movement under stress scenarios. Discussed in detail on the management of foreign currency position of the Bank.
- Reviewed the Impact of sovereign downgrading on managing foreign currency liquidity position with regard to contraction of money market lines with foreign counterparts, funding lines and the impact on International Sovereign Bond (ISB)/ Sri Lanka Development Bond (SLDB) portfolio of the Bank.

➤ Compliance

- Compliance function ensures that the compliance framework, policies and processes are designed to identify, manage, monitor and report non-compliances and to minimise potential for breaches, fines or penalties and to ensure that appropriate remedial action is taken to address instances of non-compliance.
- Keeps abreast of any emerging regulatory developments and assessed the implications of the new regulations.
- Assessed the Bank's compliance with laws, regulations and regulatory obligations based on the quarterly Compliance Report submitted to the Committee.
- Reviewed and approved the Compliance Risk Management Policy and Framework which enables the Bank to identify, prioritise, and assign accountability for managing existing or potential compliance risks that could lead to fines, penalties or reputational damage.
- Ensured effective implementation of governance related policies at the Bank. Reviewed and approved the three governance related policies namely, Compliance Policy and Code of Conduct, Group Securities Trading Policy and the Group Anti-Bribery and Corruption Policy.
- Reviewed and approved the Annual Compliance Programme work carried out.

- Tracked the progress of action to be taken for supervisory concerns identified by CBSL and ensure timely completion of same.
- Support the compliance and governance framework of the NDB subsidiaries by ensuring that policies, processes and procedures of the subsidiaries are aligned to that of the Bank and that compliance risks of the subsidiaries are effectively being managed.
- A quarterly report on the compliance status is submitted to Board through the Committee.
- Ensured adequate training programs are conducted on regulatory requirements and the staff are well conversant with the regulations.
- Bank is aware of the new risks that emerged amidst the global pandemic. The Regulatory Compliance program of the Bank has aligned itself to staying on top of key regulatory changes that have taken place during these unprecedented times. In the area of anti-money laundering compliance the Bank has intensified vigilance against new risks that emerged with the increase in non face-to-face activity and the use of digital banking channels.
- Bank deployed professional, experienced and qualified staff to manage the compliance function and resourced adequately to ensure the implementation of a robust compliance program.

➤ Legal Affairs (Litigation)

- Reviewed and monitored in detail the cases filed against the Bank in order to assess the risk. A detailed update of the cases filed against the Bank and other cases were discussed with the IRMC committee whilst updating the Committee on the probable outcome of such cases.
- Reviewed and monitored the court cases filed by the Bank.
- Reviewed and monitored other cases where the Bank is made a party such as partition, testamentary and winding up, etc.
- Reviewed and monitored the progress on court cases below LKR 10 Mn outsourced to three instructing law firms namely Shiranthi Gunawardene Associates, Sudath Perera Associates and Elite Law Firm. It may be noted that the outsourced cases do not include the cases handled by the Recoveries and Collection Department which are cases on Personal Loans, Credit Cards, Pawning and Housing loan cases below LKR 10 Mn.
- Reviewed and monitored the progress on parole actions and any issues faced

- Reviewed and monitored any other matters pertaining to the Legal Policy such as the Title Policy of the Bank.
- Reviewed, discussed and updated on the latest laws relevant to Legal field.
- Appraised the IRMC of the latest cases in the industry which may have an adverse effect on Bank's recovery process including the Sunpack Engineering case on third party mortgages.

➤ Environment & Social Risk Management (ESRM)

- The ESRM Policy and the ESRM Manual of the Bank were reviewed and further strengthened in line with the international ESG practices.
- The function is not limited to the Bank but also covers the entire Group.
- Reviewed overall Environment & Social assessments carried out by Project Finance, Wholesale Banking and Business Banking at portfolio level and submitted quarterly updates to the IRMC.
- Continuously implemented capacity building programs to the staff members involved in lending, credit process and ESRM related process of the Bank.
- The Bank continued to allocate dedicated resources to operationalise ESRM across the Group.

➤ Others

- The Committee reviewed the Key Risk Indicators of the Bank and group companies on a monthly basis through the monthly KRI statements and quarterly Risk Assessment Reports.
- Reviewed and approved Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2022 based on the revised budget and strategy numbers and also taking into consideration of the impact on the operating environment of the Bank due to the prevailing economic condition of the country. The Risk Appetite framework and Risk Tolerance limits were reviewed and adjusted by Committee considering the challenges in operating environment. The risk levels of each material risk of the Bank and the mitigants in place were critically reviewed as part of the ICAAP review.
- Reviewed and approved the Stress Testing Policy and Framework. Considering the changes in operating environment, a comprehensive review of the stress testing policy and framework was carried out where the adequacy of stress tests, frequency, shock levels and assumptions were critically reviewed and changes were incorporated to policy and framework as required. Reverse stress testing was also carried out to overcome a false

sense of security that might arise from regular stress testing in which Bank may identify manageable impacts.

- Reviewed and approved the Integrated Risk Management Framework, Policy on Valuation of Immovable Properties and the Authorised Signatories for and on behalf of the Bank.
- Reviewed update on Technology Risk Resilience and Cyber Risk/ IT Security.
- Reviewed and recommended the Revision to the Policy on Payment Related Mobile Applications relating to Digital Financial Services Unit.



Mr. Sriyan Cooray

Chairman
Integrated Risk Management Committee

21 February 2023
Colombo

AUDIT COMMITTEE REPORT



Mr. Sujeewa Mudalige
Chairman

COMPOSITION OF THE AUDIT COMMITTEE

The Board appointed Audit Committee comprised three Non-Executive Directors inclusive of the Chairman who is an Independent Director as set out below.

As at 31 December 2022 the Committee comprised the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sujeewa Mudalige	Independent	Chairman
Mr. Sriyan Cooray	Independent	Member
Ms. Chandima Dilrukshi	Non-Independent	Member
Secretary to the Committee		
Ms. Ruwani de Silva – Vice President – Audit		

CHARTER OF THE AUDIT COMMITTEE

The Charter of the Committee approved by the Board, clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments relating to the Committee's functions and concerns are adequately addressed. The Audit Committee Charter is reviewed and approved by the Board of Directors every two years or within this period where necessary.

Audit Committee assists the Board in the discharge of its responsibilities by exercising oversight over the Bank's financial reporting, internal controls, internal audit and external audit practices.

COMMITTEE MEETINGS

The Committee held eight meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 121. The quorum for a meeting is three members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Vice President Audit, Chief Executive Officer (CEO), Vice President/ Chief Financial Officer and the Bank's External Auditors attended all meetings on invitation. The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time on a need basis.

METHODOLOGY USED BY THE COMMITTEE

The Committee functions are structured and regulated in accordance with the guidelines issued in the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments (hereinafter referred to as the Direction), "Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange" and "Code of Best

Practice on Corporate Governance" issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The committee is empowered by the Board to:

- Review the Interim Financial Statements and the Bank's annual Financial Statements in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors.
- Examine any matter relating to the financial and other connected affairs of the Bank.
- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and Other Stakeholders.
- Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practice.
- Review the quality and the appropriateness of Accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Review the outcome of the annual Risk Assessment Process and Internal audit plan assessing independence and performance of the Internal Audit function.
- Review internal audit reports and liaising with Management in taking precautionary measures to minimise control weaknesses, procedure violations, frauds and errors.

- Review External Audit Management Letter and Statutory inspection reports in relation to matters under Audit Committee purview and follow up on their findings and recommendations.

SUMMARY OF ACTIVITIES IN 2022

Reporting of Financial Position and Performance

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that evidence a true and fair view on the financial position and performance in accordance with the Bank's accounting records and as per the stipulated requirements of the Sri Lanka Accounting Standards and other regulatory requirements. In fulfilling its oversight responsibilities, the Committee reviews;

- The adequacy and effectiveness of the Internal Controls, Systems and Procedures over Financial Reporting.
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- The Bank's Financial Statements, Accounting Policies and practices and reasonableness of the underlying assumptions for estimates and judgments made in preparing the Financial Statements.
- The Tax Assessments outstanding and action initiated for resolution through regular reports submitted by Vice President/ Chief Financial Officer.
- The processes by which compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Report and Accounts, and the Interim Financial Statements prepared for publication together with the press releases prior to submission to the Board.

COMPLIANCE WITH THE REVISED SRI LANKA ACCOUNTING STANDARDS

During the year, the Audit Committee placed 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, to address the potential implications of the COVID-19 pandemic and the moratorium schemes introduced to support the recovery of the economy.

Further a separate team from our External Audit Firm conducted an awareness session in the third quarter on the important industry updates in accounting standards and regulations to keep the Committee members abreast of the new developments.

MECHANISM OF INTERNAL CONTROLS

During the year, the Committee reviewed the effectiveness of the Bank's Internal Control System and the CEO's quarterly confirmation on the internal control environment, derived through the Operational Risk process which supports strengthening the Second Line of Defence of the Bank.

Additionally, the Committee assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2022, as required by the Banking Act Direction No. 11 of 2007 (as amended), Corporate Governance for Licensed Commercial Banks in Sri Lanka, Subsection 3(8) (ii) (b), based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by The Institute of Chartered Accountants of Sri Lanka. The result of the assessment is given on page 146 to 147, in the "Directors' Statement on Internal Control" in the Annual Report. The External Auditors have also issued an Assurance Report on the Directors' Statement on Internal Controls. The report is given on page 149 of the Annual Report.

The Committee also regularly reviews the Internal Control Procedures in place to ensure that necessary control and mitigating measures are available in respect of newly identified risks.

INTERNAL AUDIT FUNCTION

The Committee ensures that the Internal Audit Function is independent of the activities it audits and that the audits are performed with impartiality, proficiency and due professional care.

The Vice President Audit reports directly to the Board Audit Committee.

The Bank has adopted a risk-based audit methodology and audit approach. The audit universe consists of all auditable areas/processes of the banking group, which are audited annually based on a risk based audit plan approved by the BAC.

A risk grading matrix has been adopted for assessing and measuring the risks identified during audit assignments carried out by the Internal Audit Department.

The Audit Committee reviewed the findings along with the Management action plans of the audits completed and their evaluation of the Bank's internal control systems. The Committee also reviewed the coverage including the action plans given to address the issues and the implementation status.

Major findings of internal investigations with recommendations of the Management were discussed by the Committee in detail.

The Committee also met with the Vice President Audit in the absence of the Management to ensure independence of the Audits operations.

The Audit Committee reviewed the independence, objectivity & performance of the Internal Audit function and the adequacy of its resources. The Audit Committee also evaluated the performance of Vice President Audit and reviewed the performance of the senior staff members of the Internal Audit function.

AUDIT CHARTER AND AUDIT MANUAL

The Internal Audit function is governed by the Audit Charter which defines the mission, authority, responsibility, independence, reporting, commitment and access in order to assist Audit to discharge its function independently. The Audit Charter and the Audit Manual were revised and approved in May 2022, by the Board.

EXTERNAL AUDIT

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.

During the audit, the External Auditor presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence.

The Committee reviewed the audited Financial Statements with the External Auditor responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards and discussed in detail the action taken by the Management with regard to the Key Audit Matters raised by the Auditors.

The Committee also reviewed the Management Letter issued by the External Auditor and the Management responses thereto.

The Audit Committee met the External Auditors twice during the year, without the presence of CEO and the Corporate Management, to ensure that the Auditors had the independence to discuss any concerns and express their opinions on any matter and also for the Committee to have the assurance that the Management provided all information and explanations requested by the Auditors.

The Audit Committee was of the view that the Non-Audit Services provided by the External Auditor were not within the category of services identified as prohibited 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 amendments thereto.

- The guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

In carrying out the overseeing responsibilities, the Committee adopted the overview principles of the Basel Committee on Banking Supervision on External Audits of the Banks, issued in March 2014.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Audit Committee performed an evaluation of the External Auditor based on certain defined criteria and recommended to the Board of Directors that Messrs. Ernst and Young, Chartered Accountants, to be re-appointed for the financial year ending 31 December 2023 subject to the approval of the shareholders at the next Annual General Meeting.

OVERSIGHT ON REGULATORY COMPLIANCE

The Internal Audit Department performed verifications covering mandatory banking and other statutory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

GOOD GOVERNANCE AND WHISTLE BLOWING

The Bank's Whistle blowing Policy was reviewed and amended in April 2022 in order to further strengthen the policy. The Policy is intended to serve as a channel of corporate fraud risk management. The policy will educate and encourage any team member who has a legitimate concern on an existing or potential "wrong doing", done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. All appropriate procedures were in place to conduct independent investigations into incidents reported through whistle-blowing. The Whistle Blowing Policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

The Bank also has an established external informational mechanism, known as the "NDB Ombudsman" further strengthening the whistle blowing mechanism where the Bank introduced a feature of reporting through the staff intranet for added convenience and security. This Policy was also reviewed in April 2022 in line with the Whistle Blowing Policy.

EVALUATION OF THE AUDIT COMMITTEE

The Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee for the year 2022 and reported the results of the same to the other members of the Board. The Board concurred that the Committee had carried out its responsibilities in an effective and satisfactory manner.



Mr. Sujeewa Mudalige
Chairman
Audit Committee

21 February 2023
Colombo

RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT



Mr. Sriyan Cooray
Chairman

COMPOSITION OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

The Board appointed Related Party Transaction Review Committee comprised Four Non-Executive Directors inclusive of the Chairman who is an Independent Director as set out below.

As at 31 December 2022 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sriyan Cooray	Independent	Chairman
Mr. Sujeewa Mudalige	Independent	Member
Mr. Kushan D'Alwis, PC	Independent	Member
Ms. Chandima Dilrukshi	Non-Independent	Member
Secretary to the Committee		
Ms. Shehani Ranasinghe – Vice President - Company Secretary		

CHARTER OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

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

The Terms of Reference (TOR) of the Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the TOR in November 2022 recommending certain changes to better align the TOR with the relevant provisions Listing Rules of the CSE, other related rules and regulations and to clear ambiguities in same.

The primary objective of the Committee is to assess and consider all transactions with related parties of the Bank in line with the Listing Rules on Related Party Transactions of

the CSE, in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

The Committee carries out the following duties and responsibilities:

- Reviewing to evaluate and to determine the advisability of any Related Party Transaction except for transactions set out in Rule 9.5 of the CSE Listing Rules, that require consideration by the Committee under the Related Party Policy of the Bank;
- Approving or rejecting Related Party Transactions upon the required internal approvals being obtained.
- Determining whether the relevant Related Party Transaction is fair to, and in the best interests of, the Bank and its stakeholders; and
- Recommending to the full Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.
- Recommending to the full Board where necessary that the approval of the shareholders of the Bank be obtained by way of a Special Resolution prior to the concerned transaction being entered into as specified in Section 9.1 and 9.4 of the Listing Rules, where necessary.

COMMITTEE MEETINGS

The Committee held four meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 121. The quorum for a meeting is three members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors. The Board of Directors take due consideration of the comments/observations made by the Committee and the approvals granted by the Committee for Related Party Transactions.

The Chief Executive Officer (CEO) has been present at meetings only if invited by the Committee.

METHODOLOGY USED BY THE COMMITTEE

The Committee is guided by the Listing Rules of the CSE pertaining to Related Party Transactions and by/as reflected in the TOR of the Committee. It also takes into consideration the Board approved Related Party Transaction Policy when reviewing the transactions and takes into consideration the Related Party's relationship to the Bank and interest in the

transaction, the material facts of the proposed transaction including the aggregate value of the same, the benefits to the Bank of the proposed transaction, the availability of other sources of comparable products or services and further carries out an assessment of whether the proposed Related Party Transaction is on terms generally available to an unaffiliated third party under the same or similar circumstances.

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

SUMMARY OF ACTIVITIES IN 2022

During the year the Committee approved/ratified transactions relating to the procurement of services for the Bank as well as the provision of services by the Bank to various related parties on an 'arms-length' basis. This included in depth deliberations to ensure that where transactions with related parties were approved, same did not take place on more favourable terms. Some of the transactions reviewed included obtaining and providing expert services from/to group companies and other related parties of the Bank on an arm's length basis. Recommendations were also made to improve/strengthen processes when transactions with related parties are contemplated and to monitor disclosures.

The Committee reviewed Related Party Transactions of the Bank during the period of 1 January 2022 to 31 December 2022 and has thus complied with the rules pertaining to Related Party Transactions as set out in Section 9 of the Listing Rules of the CSE. The Bank has not entered into any transactions as contemplated in Section 9.1.1 and 9.1.2 of the Listing Rules of the CSE and accordingly there are no disclosures to be made in this regard in accordance with Section 9.3.2 (a) and 9.3.2 (b) of the Listing Rules of the CSE.

APPRECIATION

The Committee wishes to convey its gratitude to former Chairman Mr. Eshana de Silva for his valuable contribution to the Committee.



Mr. Sriyan Cooray

Chairman

Related Party Transactions Review Committee

21 February 2023
Colombo

STRATEGIC ISSUES COMMITTEE REPORT



Mr. Sriyan Cooray
Chairman

COMPOSITION OF THE STRATEGIC ISSUES COMMITTEE

The Board appointed Strategic Issues Committee comprised Five Non-Executive Directors inclusive of the Chairman who is a Non-Independent Director and the Chief Executive Officer (CEO).

As at 31 December 2022 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sriyan Cooray	Independent	Chairman
Mr. Bernard Sinniah	Non-Independent	Member
Mr. Sujeewa Mudalige	Independent	Member
Ms. (Fay) Piyachatr Chetnakarnkul	Non-Independent	Member
Mr. Dimantha Seneviratne	Non-independent	Member

Secretary to the Committee

Ms. Shehani Ranasinghe – Vice President - Company Secretary

CHARTER OF THE STRATEGIC ISSUES COMMITTEE REPORT

With the formation of the Strategic Issues Committee as a Board sub-committee, its Charter has been approved by the Board and is reviewed annually. Accordingly, the Committee reviewed the Charter in August 2022 with minor amendments being made with regard to strategic processes and duties and responsibilities of the Committee.

The Committee carries out the following duties and responsibilities:

- Providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan.
- Developing the Bank's strategy and its implementation together with the management.
- Reviewing and assessing the formulation and implementation of strategic plans developed by the management and approved by the Board.
- Guiding and assisting the management in implementing strategic decisions taken by the Board.
- Making recommendations regarding strategic capital allocation and reviewing proposals for raising of funds as submitted by the management and making recommendations/suggestions in that respect to the Board.
- Reviewing and evaluating strategic issues and plans of subsidiary companies of the NDB Group to ensure that the same are in line with the strategic initiatives and strategic direction of the Bank with a view to optimising the NDB Group's operational effectiveness.

The Committee is responsible for determining the following decisions:

- Approving of all strategic investments and divestments and recommending the same to the Board (i.e. - assess new business proposals including acquisitions/joint ventures and make appropriate recommendations).
- Approving the periodical Strategic Plan (covering three to five years or more) and recommending the same to the Board.
- Approving any significant amendments to the existing Strategic Plan and recommending the same to the Board.
- Reviewing and recommending the annual business plan/budget and capital structure of the Bank before onward submission to the Board for approval.
- Reviewing of NDB Bank's strategic investments including its investments in subsidiaries in relation to performance and returns on such investments, ideally on an annual basis with a view to recommending to the Board any necessary action related to such investments.

COMMITTEE MEETINGS

Despite the pandemic situation in the Country, the Committee held four meetings during the year under review. The attendance of committee members at meetings is stated in the table on refer page 121. The quorum for a meeting is three members.

The proceedings of the Committee meetings and of the subcommittee meetings have been regularly reported to the Board of Directors.

Other Directors and Members of the Management Team attend meetings upon invitation by the Committee.

METHODOLOGY USED BY THE COMMITTEE

The Committee meets as and when necessary in order to, inter alia; deliberate in detail on matters of strategic importance to the Bank and the NDB Group so as to advise the Board in a timely manner. The Committee meets to examine and evaluate any strategic issues that may arise and further to evaluate any changes to strategic plans/decisions already in place, as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

SUMMARY OF ACTIVITIES IN 2022

The Committee deliberated in detail and reviewed and recommended revisions to the Budget 2022 for the Financial Year ended 31 December 2022, revisions to the Strategy 2022-2025 for ICAAP and the Capital Plan 2022-2025 taking into consideration the evolving macro-economic conditions, the unprecedented challenges faced by the Bank, the industry and the country etc. The Committee with the concurrence of the Board, assigned directors to deliberate in greater detail on specific issues and challenges faced by the Bank during the year to advise, support and guide the senior management of the Bank in the interest of all the stakeholders of the Bank with a view to ensuring statutory and regulatory compliance and good governance. The review of strategies, performance and targets of specific Business lines was also carried out by the Committee during the year. The Committee reviewed capital adequacy, liquidity and foreign exchange challenges occurring during the year to make suitable recommendations to the Board and to oversee and guide the senior management of the Bank. It deliberated upon the economic challenges facing the country following independent expert advice and views presented, based on which recommendations were made on strategy and the way forward in the short to long term for the Bank.

The Committee also considered the Budget for the year 2023 in line with the revised Strategic plan of the Bank for the period 2022-2025, the current economic landscape including the unprecedented challenges faced by the country and recommended the Budget 2023 to the Board for approval. The Committee also took steps to be apprised on the challenges, strategies, Business plans and way forward of the NDB group companies.

APPRECIATION

The Committee wishes to convey its gratitude to former Chairman Mr. Eshana de Silva for his valuable contribution to the Committee.

Mr. Sriyan Cooray
Chairman
Strategic Issues Committee

21 February 2023
Colombo

CREDIT COMMITTEE REPORT



Mr. Bernard Sinniah
Chairman

COMPOSITION OF THE CREDIT COMMITTEE

The Board appointed Credit Committee comprised Four Non-Executive Directors inclusive of the Chairman who is a Non-Independent Director and the Chief Executive Officer (CEO) as set out below.

As at 31 December 2022 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Bernard Sinniah (appointed as Chairman w.e.f. 12.07.2022)	Non-Independent	Chairman
Mr. Hiran Perera (resigned w.e.f. 14.02.2023)	Non-Independent	Member
Mr. Kushan D'Alwis, PC	Independent	Member
Ms. Chandima Dilrukshi (appointed w.e.f. 25.10.2022)	Non-Independent	Member
Mr. Dimantha Seneviratne (Chief Executive Officer)	Non-Independent	Member
Secretary to the Committee		
Ms. Shareen Jayasuriya – Assistant Vice President - Credit		

CHARTER OF THE CREDIT COMMITTEE

The Board Credit Committee (BCC) was formed in June 2017 and the Charter of the Committee was approved by the Board of Directors. The Charter of the Committee is reviewed annually and the last review was carried out in July 2022. As per the Charter, the Committee is empowered to:

- Review and approve or recommend to the Board of Directors credit proposals including excess ratifications in line with the Board approved Delegated Lending Authority Limits (DLA) and determine the appropriate course of action in the event that there are any cases of exceptional unresolved Environmental & Social issues or non-compliance associated with a facility or investment.
- Review and approve facilities of Retail Banking (under PPG) which require Board approval.
- Review and approve any material changes in respect of credits approved by the Committee.
- Pre-clearances of proposals of any Board level approvals, if deemed necessary.
- Approve all Counterparty bank limits falling within the policy guidelines approved by the Board of Directors.
- Review a summary of the clients classified under "Stage 3" on a quarterly basis and/or when required.
- Review summary of Overdue Annual Reviews on a quarterly basis.

- Review Covenant compliance status of Corporate Clients on a quarterly basis.
- Review Summary details of DA Violations on a quarterly basis.
- Review and recommend to IRMC on any changes to be incorporated to the credit policy.

COMMITTEE MEETINGS

The Committee held twelve meetings during the year under review and eleven were conducted virtually. The attendance of committee members at meetings is stated in the table on page 121. The quorum for a meeting is three members inclusive of two Non-Executive Director Members. Presence of CEO or his designate is mandatory.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee reviews the Credit Proposals submitted by the Business Line, its risks and adequacy of pricing or covenants to mitigate the identified risks. Proposals are recommended to the Committee by CEO and the Corporate Credit Committee. Key staff members are required to present the proposals and answer any queries as and when required.

SUMMARY OF ACTIVITIES IN 2022

During the meetings held in 2022 the Committee carried out the following activities

- Reviewed and agreed on the revised Terms of Reference of the Committee and proposed same for approval of the Board of Directors.
- Reviewed and recommended seventy-six credit proposals for the approval of the Board of Directors and thirty two credit proposals comprising of new facilities, annual review of revolving facilities, ratification requests, reschedule proposals, changes to terms and conditions of facilities already approved and pre clearance proposals, were reviewed and approved by Committee.
- Reviewed and approved the renewal of Bank Counter Party limits.
- Reviewed status of facility annual reviews, covenant compliance and account strategies of "Worry/ Stage 3" accounts.
- Reviewed Bank's exposure to Government of Sri Lanka, Construction and renewable energy sectors, loans under moratorium concessions and discussed on account strategies and way forward.

APPRECIATION

The Committee wishes to convey its gratitude to former Chairman Mr. Eshana de Silva for his valuable contribution to the Committee.

Mr. Bernard Sinniah
Chairman
Credit Committee

21 February 2023
Colombo

DIGITAL TRANSFORMATION COMMITTEE REPORT



Mr. Bernard Sinniah
Chairperson

COMPOSITION OF THE DIGITAL TRANSFORMATION COMMITTEE

The Board appointed Digital Transformation Committee (DTC) comprised Four Non-Executive Directors which includes the Chairman of the committee who is a Non-Independent Director.

As at 31 December 2022 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Bernard Sinniah	Non-Independent	Chairman
Mr. Sujeewa Mudalige	Independent	Member
Mr. Hiran Perera (resigned w.e.f. 14.02.2023)	Non-Independent	Member
Ms. (Fay) Piyachatr Chetnakarnkul	Non-Independent	Member
Mr. Dimantha Seneviratne (Chief Executive Officer)	Non-Independent	Member
Mr. Deepal Akuretiyagama (Chief Operating Officer)	Non-Director	Member
Mr. Sanjaya Perera (Senior Vice President – Personal Banking and Customer Experience)	Non-Director	Member
Mr. Niran Mahawatte (Vice President – Treasury)	Non-Director	Member
Mr. Indika Ranweera (Vice President – SME, Middle Market and Business Banking)	Non-Director	Member
Mr. K V Vinoj (Vice President – Wholesale Banking)	Non-Director	Member
Mr. Indika Gunawardena (Vice President/Chief Information Officer)	Non-Director	Member
Mr. Damitha Silva (Assistant Vice President – Digital Financial Services)	Non-Director	Member
Mr. Deepa Edirisooriya (Chief Manager – Digital Financial Services)	Non-Director	Member

Secretary to the Committee

Mr. Deepa Edirisooriya – Chief Manager – Digital Financial Services

CHARTER OF THE DIGITAL TRANSFORMATION COMMITTEE

The objective of the DTC is to formulate and provide oversight on the Bank's digitalisation strategy, ensuring its alignment to Bank's business strategy – Voyage 2025, in driving customer centricity, enhancing the customer experience and generating operational efficiencies across business verticals.

COMMITTEE MEETINGS

The Committee held two meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 121. Both meetings were focused on the status review of the core upgrade project, which after completion would enable the Bank

to harness the full potential of new age core banking features to craft innovative digital journeys.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Vice President Branch Network Management & Product Development and the Chief Executive Officer of NDB Capital Holdings Limited participate in the meetings from time to time on a needs basis.

SUMMARY OF ACTIVITIES IN 2022

The main focus of the Committee during 2022 was to monitor the core banking upgrade project. The Committee obtained frequent updates on the progress of the project and provided guidance where necessary to the project leads.

The Committee finalised its official charter during the year.

WAY FORWARD

Upon completion of the core banking upgrade the Committee will be able to strategise on efficiently utilising the new digital layer to reap the best benefits of the upgraded system. With the renewed services of the upgraded core banking system, the Committee can coordinate initiatives to deliver better client experience aligned to customer centricity, better operational efficiency with better data analytics and intelligence while providing futuristic banking solutions.

Mr. Bernard Sinniah

Chairman
Digital Transformation Committee

21 February 2023
Colombo

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

This statement sets out the responsibility of the Directors in relation to the Financial Statements of National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group). The Directors are required by relevant statutory provisions to prepare and table at a General Meeting of the Bank, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of the Bank and the Group.

It is also the responsibility of the Directors to ensure that the Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS), the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Changes in the Accounting Policies where applicable and the rationale for the changes have been disclosed in the 'Notes to the Financial Statements'.

Accordingly the Directors confirm that the 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 the reporting date; and
- the financial performance of the Bank and the Group for the financial year ended on the reporting date.

The Financial Statements of the Bank and the Group have been certified by the Vice President/ Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by the Companies Act. In addition, the Financial Statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on 21 February 2023 as required by the Companies Act and other regulatory requirements. The Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's transactions are maintained and that the Bank's financial position, with reasonable accuracy, at any point of time is determined by the Bank, enabling preparation of the Financial Statements, in accordance with the Companies Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2022, prepared and presented in this Annual Report have been prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act No. 07 of 2007 (as amended), Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, 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

(CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC). The Bank and Group has also complied with the Directions/Guidelines issued by the Central Bank of Sri Lanka in the preparation of the Financial Statements including the Direction No. 13 of 2021 and Direction No. 14 of 2021 which were effective from 1 January 2022.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Board Audit Committee and External Auditors.

In addition, these Financial Statements comply with the prescribed formats issued by the Central Bank of Sri Lanka, Direction No. 02 of 2019 for publication of annual and quarterly Financial Statements and other disclosures by the licensed banks.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them.

The Directors' Statement on Internal Control over Financial Reporting is given on pages 146 and 147 of this Annual Report. The Board has been provided additional assurance on the reliability of the Financial Statements through a process of independent and objective review performed by the Board Audit Committee. Please refer the Board Audit Committee Report on pages 138 to 139 of this Report.

Messrs Ernst & Young, Chartered Accountants, who were appointed in terms of the Companies Act No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting, have been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate, all of which they have examined and have expressed their opinion which appears as reported by them on page 138 of this Report.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 154 to 156 including, appropriate Accounting policies have been applied on a consistent basis, and where necessary changes to accounting policies have been made with adequate disclosures while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

The Board of Directors wishes to confirm that, as required by the Section 56 (2) of the Companies Act No. 07 of 2007 (as amended), they have authorised distribution of the dividends paid upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance

with the Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividends paid, necessary certificates of solvency from the External Auditors.

The Board of Directors also wishes to confirm that, as required by Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every Shareholder and Debenture holder of the Bank, who have expressed desire to receive a printed copy or to other Shareholders and Debenture holders a soft copy each shared by way of a link containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) of Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all Shareholders have been treated equitably in accordance with the original terms of issue.

Further, the Board of Directors wishes to confirm that the Bank has met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange and other regulations, laws and internal controls and there were no material non-compliances.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Bank and the Group, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group, and all other known statutory dues as were due and payable by the Bank and the Group as at the reporting date have been paid or, where relevant, provided for, except as specified in Note 48.3 to the Financial Statements on 'Litigation Against the Bank' on page 233. The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC), the Directors have a reasonable expectation that the Bank and the Group possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the Financial Statements. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board



Ms. Shehani Ranasinghe
Company Secretary

21 February 2023
Colombo

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007 (as amended), Section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

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

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

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

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

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

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- Policies/Procedures are developed covering all areas, which are approved by the relevant Board Sub Committees and the Board. These Policies/Procedures are reviewed periodically and the Compliance department follows up on the review of Policies to ensure that they are reviewed in a timely manner.
- Internal Audit department checks compliance with policies and procedures and the effectiveness of internal control systems on an ongoing basis during their process audits. The Internal Audit department uses a top down risk based auditing approach enhancing the Risk Based Auditing Process. The entire audit universe is audited annually, at determined intensities based on the risk assessment covering the entire Group. The Audit Committee reviews the findings of the internal audits completed and their evaluation of the Bank's internal control systems. The Committee also reviews updates on audit activities and the scope and adequacy of coverage of the approved audit plan and any improvements thereto, and has detailed discussions on any audits that are rated below Satisfactory, reviewing the action plans to address these areas and the implementation status.
- The Board Audit Committee of the Bank also reviews internal control issues identified by the External Auditor, regulatory authorities and the management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The

Committee also reviews the internal audit functions with particular emphasis on risk assessment, scope of audits and quality of internal audit. The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the 'Board Audit Committee Report' on pages 138 to 139.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit department for suitability of design and effectiveness on an ongoing basis. The comments/recommendations made by the External Auditors in connection with the internal control systems over financial reporting during the year was taken into consideration to further strengthen the internal control systems over financial reporting process.
- The Integrated Risk Management Committee (IRMC) is established to assist the Board to oversee the overall management of principal areas of risk of the Bank. The committee reviews the adequacy and effectiveness of all management level committees such as the Credit Committees, Credit and Market Risk Policy Committee etc. Further IRMC works closely with Key Management Personnel (as defined by the Management from time to time) and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.
- The Bank took necessary steps to further improve the models used for Impairment computations under the Sri Lanka Accounting Standard – SLFRS 9 on 'Financial Instruments' in consultation with the External Auditors. The required processes and controls have been designed to be in line with SLFRS - 9 and regulatory requirements. Also adequate training and awareness sessions have been conducted for all stakeholders. The Credit Review Department independently reviews the Individually Significant Loan impairment

process at each reporting date. The Board will continuously strengthen the processes and controls around management information systems and reports required for validation and compliance in line with SLFRS 9; and financial statement disclosures related to risk management.

- During the year, the existing models were further refined to incorporate the potential implications of COVID-19 pandemic and the 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.
- The Bank also engaged an External Consultant to support the automation of the Impairment Models in line with SLFRS 9 - Financial Instruments, with the upgrade of the Core Banking system which is in the process of being implemented currently.

CONFIRMATION

The Board of Directors and the Management re-evaluated financial and other operational risks and assessed the impact of any noted changes on internal controls.

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs. Ernst & Young have reviewed the above Directors' Statement on internal control over financial reporting included in the Annual Report of the Bank for the year ended 31 December 2022 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank.

Their independent assurance report on the Directors' Statement on Internal Control is given on the page 149 of this Annual Report.

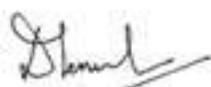
By order of the Board,



Mr. Sriyan Cooray
Chairman



Mr. Sujeewa Mudalige
Chairman Audit Committee



Mr. Dimantha Seneviratne
Chief Executive Officer

21 February 2023
Colombo

RESPONSIBILITY STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND VICE PRESIDENT/ CHIEF FINANCIAL OFFICER

The Financial Statements of the National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Group Companies (the Group) as at 31 December 2022 are prepared and presented in compliance with the following regulatory requirements:

- i. Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
- ii. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- iii. Statements of Alternative Treatments (SoAT) on Accounting issued by The Institute of Chartered Accountants of SL
- iv. Companies Act No. 7 of 2007
- v. Banking Act No. 30 of 1988 and amendments thereto
- vi. Directions, circulars and guidelines issued to licensed commercial banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka on corporate governance
- vii. Directions/Guidelines issued by the Central Bank of Sri Lanka for COVID-19 impact
- viii. Listing Rules of the Colombo Stock Exchange
- ix. 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 (2017)

These Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka.

The Accounting Policies of the Bank and the Group are in compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka. Direction No. 2 of 2019, Direction No. 13 of 2021 and Direction No. 14 of 2021 for publication of annual and quarterly Financial Statements and other disclosures by the licensed banks.

Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Board

Audit Committee and the External Auditors. Comparative information has been reclassified wherever necessary to comply with the current year's presentation. All significant items have been disclosed and explained by way of Notes to the Financial Statements. We confirm to the best of our knowledge, that the Financial Statements presented herewith give a true and fair view of the financial position, Statement of Profit or Loss and the cash flows of the Bank and the Group for the year. We also believe that the Bank and the Group have adequate resources to continue its operations in the foreseeable future and accordingly adopt the going concern basis for the preparation of the Financial Statements.

The Board of Directors and the Management of the Bank and the Group accept responsibility for the integrity and the objectivity of the Financial Statements. The estimates and judgments relating to the Financial Statements were made on a reasonable and prudent basis; in order that the Financial Statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Bank and the Group is reasonably presented. To ensure this, the Bank and the Group have taken proper and sufficient care in implementing internal control systems, with the use of a comprehensive core banking system, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Internal Auditor of the Bank and the Group has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank and the Group are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its Group Companies were audited by Messrs Ernst & Young, Chartered Accountants. The Report issued by them is available on page 154 of Annual Report. The audit and non-audit services provided by Messrs Ernst & Young are approved by the Board Audit Committee in line with the relevant audit policy, to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka or impair Messrs Ernst & Young's independence.

The Board Audit Committee reviews the adequacy and the effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with Sri Lanka Accounting Standards (SLFRS/ LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 138 to 139. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

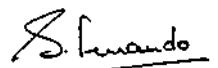
We confirm to the best of our knowledge that

- The Bank and the Group have complied with all applicable laws, rules, regulations and guidelines;
- There is no material non-compliance;
- There is no material litigation against the Bank and the Group other than those disclosed in Note 48.3 on page 233 of the Financial Statements section of Annual Report;
- All taxes, duties, levies and all statutory payments by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at the reporting date have been paid, or where relevant provided for.



Mr. Dimantha Seneviratne

Director/Chief Executive Officer



Ms. Suvendrini Muthukumarana

Vice President/ Chief Financial Officer

21 February 2023
Colombo

INDEPENDENT ASSURANCE REPORT



Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

TO THE BOARD OF DIRECTORS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of National Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2022.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8) (ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

21 February 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R I Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manabunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudan ACA, D L B Karunathilaka ACA, Ms. P S Paranavilane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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FINANCIAL
STATEMENTS

THE ASSURANCE OF GROWTH

**Ours is the promise of renewed growth and positivity,
even amid challenging conditions.**

Rain often holds negative connotations; yet it also symbolises a new
beginning and a future of abundance after the storm has passed.

FINANCIAL CALENDAR 2022/2023

Annual General Meetings	Date
18th Annual General Meeting	30 March 2023
17th Annual General Meeting	30 March 2022

Dividends	Amount – LKR	Date dividends announced	Date dividends paid
Dividends for 2021	1.00 (Cash)	23 March 2022	26 April 2022
	4.50 (Scrip)	23 March 2022	26 April 2022

FINANCIAL STATEMENTS

Interim Financial Statements	Dated released to CSE	Date published in newspapers		
		English	Sinhala	Tamil
Q4/ For the twelve months ended 31.12.2022	21 February 2023	17 March 2023	17 March 2023	17 March 2023
Q3/For the nine months ended 30.09.2022	14 November 2022	25 November 2022	29 November 2022	29 November 2022
Q2/ For the six months ended 30.06.2022	15 August 2022	26 August 2022	31 August 2022	31 August 2022
Q1/ For the three months ended 31.03.2022	13 May 2022	25 May 2022	27 May 2022	27 May 2022
Q4/ For the twelve months ended 31.12.2021	22 February 2022	16 March 2022	18 March 2022	18 March 2022

Annual Financial Statements	Dated released to CSE	Date published in newspapers		
		English	Sinhala	Tamil
Annual Financial Statements for 2022	07 March 2023	17 March 2023	17 March 2023	17 March 2023
Annual Financial Statements for 2021	07 March 2022	16 March 2022	18 March 2022	18 March 2022

Investor engagements on quarterly financial results	Online Webinar
Q4 2022	16 March 2023
Q3 2022	22 November 2022
Q2 2022	25 August 2022
Q1 2022	27 May 2022
Q4 2021	24 February 2022

PROPOSED FINANCIAL CALENDAR 2023 (TENTATIVE)

Interim Financial Statements

Interim financial statements will be released to the Colombo Stock Exchange (CSE) and published in newspapers in all three languages of Sinhala, Tamil and English within the regulator stipulated deadlines. Investor Webinars will be held per each quarter, within a maximum of five working days from releasing the financial statements to the CSE.

Annual Financial Statements

Annual financial statements for 2023 will be released to CSE in March 2024

Annual General Meeting

19th Annual General Meeting will take place in March 2024

As per Rule 7.4 of the Listing Rules of the Colombo Stock Exchange (CSE), quarterly Financial Statements (un-audited) for the first three quarters should be released to the CSE as soon as the said statements are approved by the Board of Directors and in any event not later than 45 days from the end of each quarter and in respect of the final quarter, within two months from the end of the final quarter. According to Rule 7.5 of the Listing Rules of the CSE, the audited Financial Statements should be published in accordance with the Sri Lanka Accounting Standards and audited in accordance with Sri Lanka Auditing Standards and shall comply with any other applicable regulatory requirements and the Annual Report should be sent to the shareholders and the CSE within five months from the close of the financial year.

As per the Banking Act Direction No 11 of 2007 - Corporate Governance for Licensed Commercial Banks, the annual audited Financial Statements and quarterly Financial Statements should be prepared and published in accordance with the requirements of supervisory and regulatory authorities and applicable accounting standards and such statements must be published in the newspapers in an abridged form in Sinhala, Tamil and English.

All of the dates above are/ will be updated in the Events Calendar in the Events section of the Investor Relations page of the Bank's corporate web site on www.ndbbank.com

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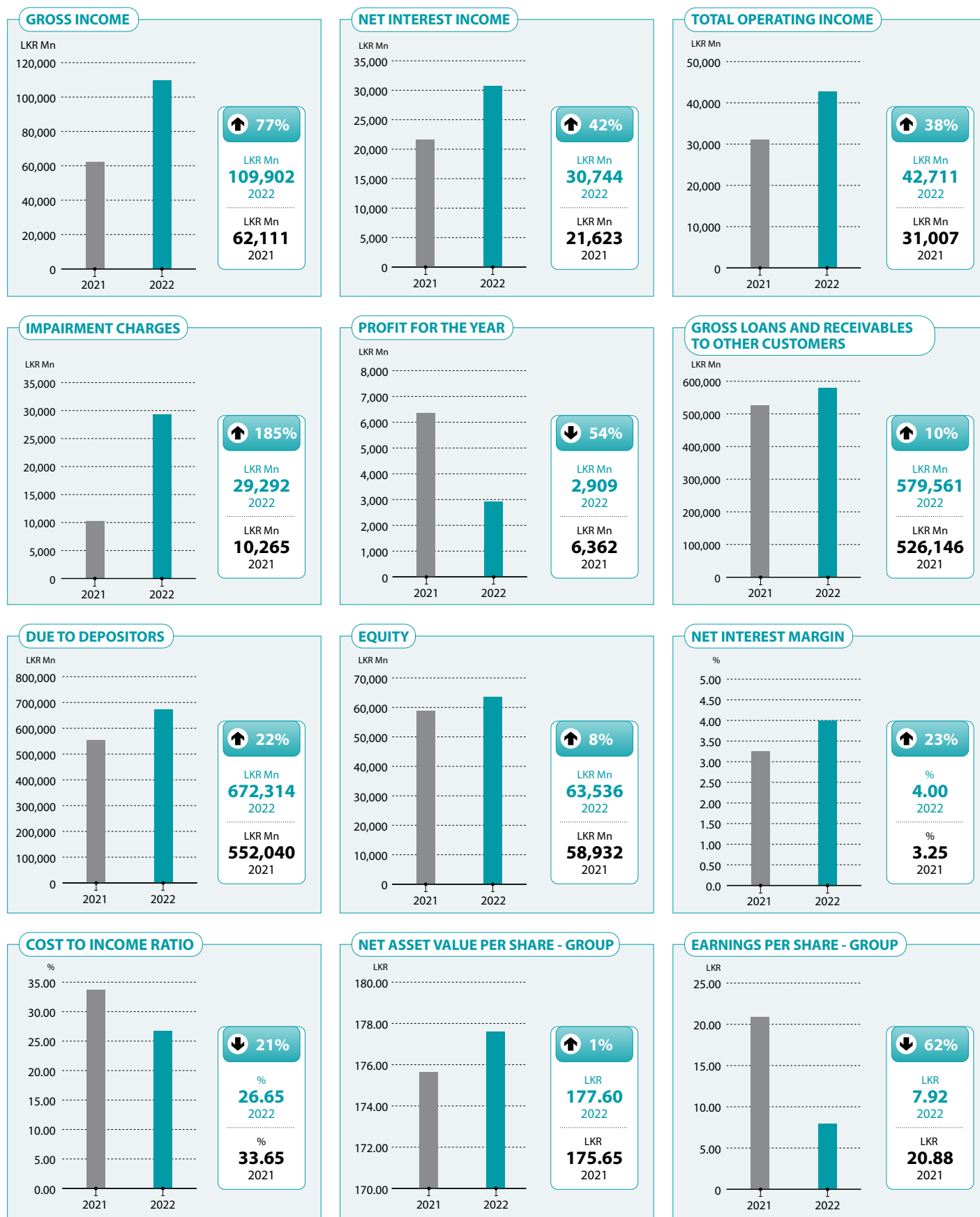
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FINANCIAL PERFORMANCE

For the purpose of reporting financial performance, the Bank represents National Development Bank PLC, separate financial statements and the Group represents the Bank and the subsidiary companies.



INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of National Development Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2022, statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2022, 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 Auditor's 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") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision for credit impairment on financial assets carried at amortised cost and debt instruments carried at fair value through other comprehensive income Provision for credit impairment on financial assets carried at amortised cost as stated in Notes 26, 27, & 28 respectively is determined by management in accordance with the accounting policies described in Notes 11. This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; - Management overlays to incorporate the current economic contraction. - The incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios.	In addressing the adequacy of the provision for credit impairment on financial assets carried at amortised cost, our audit procedures included the following key procedures. - We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report. - We evaluated the internal controls over estimation of credit impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management. - We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Bank. - In addition to the above, the following procedures were performed

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Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudan ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCA FCMA

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Key audit matter	How our audit addressed the key audit matter
	For loans and advances assessed on an individual basis for impairment: • We evaluated the reasonableness of credit quality assessments assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances. • We checked the arithmetical accuracy of the underlying individual impairment calculations. • We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on current economic contraction. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals For financial assets assessed on a collective basis for impairment: • We tested the key inputs and the calculations used in the provision for credit impairment. • We assessed whether judgements, assumptions and estimates used by the Management when estimating future cashflows, in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used based on available market data, economic scenarios considered, and probability weighting assigned to each of those scenarios. • We assessed the adequacy of the related financial statement disclosures set out in Notes 11, 26, 27, 28 & 56.3.
Information Technology (IT) systems and controls over financial reporting Bank's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.	Our audit procedures included the following, • We obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures. • We identified and test checked relevant controls of IT systems related to the Bank's financial reporting process. • We involved our internal specialised resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management • We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the bank and the actions taken to address these risks. • We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

Other information included in the Group's 2022 Annual Report

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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 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 judgement and maintain professional skepticism throughout the audit. We also:

1. 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.
2. 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 internal controls of the Bank and the Group
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. 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.
6. 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2097.



21 February 2023
Colombo

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2022 LKR '000	2021 LKR '000	%	2022 LKR '000	2021 LKR '000	%
Gross income	4	172	109,902,478	62,110,531	77	111,551,511	64,082,873	74
Interest income	5.1	172	97,917,822	52,692,866	86	98,217,310	52,794,763	86
Less: Interest expenses	5.2	173	67,174,164	31,070,098	116	67,086,940	31,053,468	116
Net interest income	5	172	30,743,658	21,622,768	42	31,130,370	21,741,295	43
Fee and commission income	6.1	175	6,274,698	5,634,797	11	7,438,752	7,384,660	1
Less: Fee and commission expenses	6.2	175	16,929	33,260	(49)	16,929	33,260	(49)
Net Fee and commission income	6	174	6,257,769	5,601,537	12	7,421,823	7,351,400	1
Net gains/(losses) from trading	7	175	(340,346)	2,096,455	(116)	(340,346)	2,096,455	(116)
Net gains/(losses) from financial assets at fair value through profit or loss	8	176	(389,767)	433,106	(190)	(340,388)	560,482	(161)
Net gains/(losses) from derecognition of financial assets	9	176	15,127	186,248	(92)	15,127	186,248	(92)
Other operating income	10	176	6,424,944	1,067,059	502	6,561,056	1,060,265	519
Total operating income			42,711,385	31,007,173	38	44,447,642	32,996,145	35
Less: Impairment charges	11	177	29,291,660	10,264,662	185	29,276,538	10,252,695	186
Net operating income			13,419,725	20,742,511	(35)	15,171,104	22,743,450	(33)
Less: Operating expenses								
Personnel expenses	12	181	5,736,522	5,672,007	1	6,363,374	6,322,751	1
Depreciation and amortisation expenses	13	182	846,634	831,643	2	926,034	914,111	1
Other expenses	14	183	4,800,490	3,930,728	22	5,209,757	4,277,910	22
Total operating expenses			11,383,646	10,434,378	9	12,499,165	11,514,772	9
Operating profit before Tax on financial services			2,036,079	10,308,133	(80)	2,671,939	11,228,678	(76)
Less: Tax on financial services	15	183	1,203,092	2,014,671	(40)	1,203,092	2,014,671	(40)
Operating profit after Tax on financial services			832,987	8,293,462	(90)	1,468,847	9,214,007	(84)
Share of associate companies' profits/(losses)	16	184	-	-	-	-	-	-
Profit before taxation			832,987	8,293,462	(90)	1,468,847	9,214,007	(84)
Less: Income tax expenses/(reversals)	17	184	(2,076,058)	1,930,986	(208)	(1,606,957)	2,151,277	(175)
Profit for the year			2,909,045	6,362,476	(54)	3,075,804	7,062,730	(56)
Profit attributable to equity holders of the parent			2,909,045	6,362,476	(54)	3,008,737	6,904,263	(56)
Non-controlling interests			-	-	-	67,067	158,467	(58)
Profit for the year			2,909,045	6,362,476	(54)	3,075,804	7,062,730	(56)
Basic/Diluted Earnings per share (LKR)	18	186	7.65	19.24	(60)	7.92	20.88	(62)
Dividend per share (LKR)	19	187	-	5.50				

The Notes to the Financial Statements disclosed on pages 164 to 276 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2022 LKR '000	2021 LKR '000	%	2022 LKR '000	2021 LKR '000	%
Profit for the year			2,909,045	6,362,476	(54)	3,075,804	7,062,730	(56)
Other comprehensive income items that will be reclassified to the Statement of Profit or Loss								
Exchange differences on translation of foreign operations			-	-	-	191,168	22,916	734
Gains/(losses) on investments in debt instruments - fair value through other comprehensive income								
Net change in fair value during the year	46.2	230	2,420,880	(2,353,240)	203	2,421,371	(2,367,024)	202
Changes in allowance for expected credit losses	28.1 (c)	205	(181,155)	135,574	(234)	(181,155)	135,574	(234)
Deferred tax effect on gains/ (losses) in above financial instruments			(675,432)	593,038	(214)	(675,432)	589,819	(215)
Net gains/(losses) on investments			1,564,293	(1,624,628)	196	1,564,784	(1,641,631)	195
Gains/(losses) on cash flow hedge reserve			4,385,238	-	100	4,385,238	-	100
Deferred tax effect on gains/ (losses) of cash flow hedge reserve			(1,315,571)	-	(100)	(1,315,571)	-	(100)
Net gains/(losses) on cash flow hedge reserve	24.1(b)	193	3,069,667	-	100	3,069,667	-	100
Net other comprehensive income that will be reclassified to the Statement of Profit or Loss (a)			4,633,960	(1,624,628)	385	4,825,619	(1,618,715)	398
Items that will not be reclassified to the Statement of Profit or Loss								
Net gains/(losses) on investments in equity instruments - fair value through other comprehensive income	28.2	205	(304,245)	(49,407)	(516)	(304,245)	(49,407)	(516)
Revaluation of freehold land and buildings	46.1	230	249,651	22,794	995	316,789	54,102	486
Deferred tax effect on revaluation gains/(losses)			(185,581)	67,409	(375)	(217,679)	66,614	(427)
Net gains/(losses) on revaluation of freehold land and buildings			64,070	90,203	(29)	99,110	120,716	(18)
Actuarial gains/(losses) on defined benefit plans	41.2 (g)	226	68,094	316,361	(78)	58,168	350,150	(83)
Deferred tax effect on actuarial gains/(losses)			42,044	(25,547)	265	45,022	(33,833)	233
Net actuarial gains/(losses) on defined benefit plans			110,138	290,814	(62)	103,190	316,317	(67)
Deferred tax effect on tax rate change on day one adjustment of impairment allowance			-	(93,536)	100	-	(93,536)	100
Net other comprehensive income that will not be reclassified to the Statement of Profit or Loss (b)			(130,037)	238,074	(155)	(101,945)	294,090	(135)
Total other comprehensive income for the year, net of taxes (a+b)			4,503,923	(1,386,554)	425	4,723,674	(1,324,625)	457
Total comprehensive income for the year			7,412,968	4,975,922	49	7,799,478	5,738,105	36
Attributable to:								
Equity holders of the parent			7,412,968	4,975,922	49	7,685,035	5,575,671	38
Non-controlling interests			-	-	-	114,443	162,434	(30)
Total comprehensive income for the year			7,412,968	4,975,922	49	7,799,478	5,738,105	36

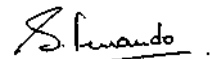
The Notes to the Financial Statements disclosed on pages 164 to 276 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2022	2021	%	2022	2021	%
			LKR '000	LKR '000		LKR '000	LKR '000	
Assets								
Cash and cash equivalents	21	190	34,849,521	13,411,819	160	35,727,665	13,765,270	160
Balances with the Central Bank of Sri Lanka	22	191	18,187,547	16,403,362	11	18,187,547	16,403,362	11
Placements with banks	23	191	4,108,989	8,299,403	(50)	4,108,989	8,299,403	(50)
Derivative financial instruments	24	192	7,909,252	1,338,204	491	7,909,252	1,338,204	491
Financial assets recognised through profit or loss - measured at fair value	25	194	19,318,483	2,441,833	691	20,788,523	4,784,124	335
Financial assets at amortised cost - loans and receivables to other customers	26	194	545,873,027	504,538,968	8	545,919,824	504,374,296	8
Financial assets at amortised cost - debt and other instruments	27	201	135,047,886	54,262,976	149	135,047,886	54,262,976	149
Financial assets measured at fair value through other comprehensive income	28	203	44,685,230	89,552,196	(50)	45,454,490	89,696,611	(49)
Investments in subsidiary companies	29	206	1,115,794	1,130,916	(1)	-	-	-
Investments in associate companies	30	207	-	-	-	-	-	-
Investment property	31	208	-	-	-	2,879,091	2,528,228	14
Property, plant & equipment	32	209	3,261,362	3,143,829	4	3,907,994	3,735,298	5
Right of use assets	33	212	1,170,763	1,094,607	7	1,323,368	1,285,385	3
Intangible assets	34	213	1,804,321	1,203,940	50	1,813,213	1,217,111	49
Current tax receivables	39	219	-	-	-	43,488	27,701	57
Deferred tax assets	40	219	9,004,747	3,417,315	164	9,048,896	3,443,207	163
Other assets	35	215	6,435,328	4,693,249	37	7,037,671	5,670,716	24
Total assets			832,772,250	704,932,617	18	839,197,897	710,831,892	18
Liabilities								
Due to banks	36	215	20,251,657	24,770,644	(18)	20,298,844	24,821,158	(18)
Derivative financial instruments	24	192	96,246	1,048,644	(91)	96,246	1,048,644	(91)
Financial liabilities at amortised cost								
Due to depositors	37.1	216	672,314,023	552,039,792	22	671,713,337	551,256,595	22
Due to debt securities holders	37.2	217	130,541	1,341,060	(90)	130,541	1,341,060	(90)
Due to other borrowers	37.3	218	32,372,265	25,228,865	28	32,372,265	25,228,865	28
Debt securities issued	38	218	27,979,631	27,960,731	-	27,979,631	27,960,731	-
Current tax liabilities	39	219	6,470,353	2,407,243	169	6,635,188	2,585,975	157
Deferred tax liabilities	40	219	-	-	-	873,280	569,213	53
Retirement benefit obligations	41.1	222	916,007	735,666	25	1,019,294	829,873	23
Other liabilities	42	226	8,705,664	10,467,766	(17)	9,183,115	11,123,236	(17)
Total liabilities			769,236,387	646,000,411	19	770,301,741	646,765,350	19
Equity								
Stated capital	43	228	19,870,665	18,263,609	9	19,870,665	18,263,609	9
Statutory reserve fund	44	228	2,746,479	2,571,479	7	2,746,479	2,571,479	7
Retained earnings	45	229	37,381,043	39,134,382	(4)	41,116,154	42,730,952	(4)
Other reserves	46	229	3,537,676	(1,037,264)	441	3,771,599	(838,871)	550
Total equity to equity holders of the Bank			63,535,863	58,932,206	8	67,504,897	62,727,169	8
Non-controlling interests	47	231	-	-	-	1,391,259	1,339,373	4
Total equity			63,535,863	58,932,206	8	68,896,156	64,066,542	8
Total liabilities and equity			832,772,250	704,932,617	18	839,197,897	710,831,892	18
Contingent liabilities and commitments	48	231	293,609,756	312,072,435	(6)	294,376,707	311,978,390	(6)
Net asset value per share (LKR)	49	234	167.16	165.02	1	177.60	175.65	1

The Notes to the Financial Statements disclosed on pages 164 to 276 form an integral part of these Financial Statements.

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 7 of 2007.



Mrs. Suvendrini Muthukumarana

Vice President/Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board.



Mr. Sriyan Cooray

Director/Chairman

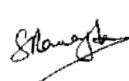
21 February 2023

Colombo



Mr. Dimantha Seneviratne

Director/Chief Executive Officer



Mrs. Shehani Ranasinghe

Company Secretary

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December	BANK							
	Stated Capital LKR '000	Statutory Reserve Fund LKR '000	Share Based Payment Reserve LKR '000	Fair Value through Other Comprehensive Income Reserve LKR '000	Revaluation Reserve LKR '000	Cash Flow Hedge Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
BANK								
Balance as at 01 January 2021	8,794,333	2,196,479	-	(648,360)	1,311,992	-	33,126,579	44,781,023
Total comprehensive income for the year								-
Profit for the year	-	-	-	-	-	-	6,362,476	6,362,476
Other comprehensive income before tax	-	-	-	(2,402,647)	22,794	-	451,935	(1,927,918)
Tax on other comprehensive income	-	-	-	567,069	67,409	-	(93,114)	541,364
Total comprehensive income for the year	-	-	-	(1,835,578)	90,203	-	6,721,297	4,975,922
Transactions with equity holders, recognised directly in equity								
Issue of Shares	9,469,276	-	-	-	-	-	-	9,469,276
Additions to share based payment reserves	-	-	44,479	-	-	-	-	44,479
Transfer to the statutory reserve fund (Note 44)	-	375,000	-	-	-	-	(375,000)	-
Interim dividend for 2020: Cash (Note 19)	-	-	-	-	-	-	(338,494)	(338,494)
Balance as at 31 December 2021	18,263,609	2,571,479	44,479	(2,483,938)	1,402,195	-	39,134,382	58,932,206
Balance as at 01 January 2022	18,263,609	2,571,479	44,479	(2,483,938)	1,402,195	-	39,134,382	58,932,206
Surcharge Tax (Note 45.1)	-	-	-	-	-	-	(2,456,403)	(2,456,403)
Adjusted Balance as at 1 January 2022	18,263,609	2,571,479	44,479	(2,483,938)	1,402,195	-	36,677,979	56,475,803
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	2,909,045	2,909,045
Other comprehensive income before tax	-	-	-	2,116,635	249,651	4,385,238	(113,060)	6,638,464
Tax on other comprehensive income	-	-	-	(675,432)	(185,581)	(1,315,571)	42,044	(2,134,540)
Total comprehensive income for the year	-	-	-	1,441,203	64,070	3,069,667	2,838,029	7,412,968
Transactions with equity holders, recognised directly in equity								
Transfer to the statutory reserve fund (Note 44)	-	175,000	-	-	-	-	(175,000)	-
Final dividend for 2021: Scrip (Note 19)	1,607,056	-	-	-	-	-	(1,607,056)	-
Final dividend for 2021: Cash (Note 19)	-	-	-	-	-	-	(357,124)	(357,124)
Reversal of dividends paid in prior years	-	-	-	-	-	-	4,215	4,215
Balance as at 31 December 2022	19,870,665	2,746,479	44,479	(1,042,735)	1,466,265	3,069,667	37,381,043	63,535,863

For the year ended 31 December	GROUP									
	Stated Capital	Statutory Reserve Fund	Share Based Payment Reserve	Fair Value through Other Comprehensive Income Reserve	Revaluation Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total	Non - Controlling Interests	Total Equity
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
GROUP										
Balance as at 01 January 2021	8,794,333	2,196,479	-	(621,038)	1,463,115	-	36,143,348	47,976,237	1,227,155	49,203,392
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	6,904,263	6,904,263	158,467	7,062,730
Other comprehensive income before tax	-	-	-	(2,416,431)	54,102	-	504,673	(1,857,656)	3,967	(1,853,689)
Tax on other comprehensive income	-	-	-	570,288	66,614	-	(107,838)	529,064	-	529,064
Total comprehensive income for the year	-	-	-	(1,846,143)	120,716	-	7,301,098	5,575,671	162,434	5,738,105
Transactions with equity holders, recognised directly in equity										
Issue of Shares	9,469,276	-	-	-	-	-	-	9,469,276	-	9,469,276
Additions to share based payment reserves	-	-	44,479	-	-	-	-	44,479	-	44,479
Transfer to the statutory reserve fund (Note 44)	-	375,000	-	-	-	-	(375,000)	-	-	-
Dividend attributable to non controlling interests	-	-	-	-	-	-	-	-	(50,216)	(50,216)
Interim dividend for 2020: Cash (Note 19)	-	-	-	-	-	-	(338,494)	(338,494)	-	(338,494)
Balance as at 31 December 2021	18,263,609	2,571,479	44,479	(2,467,181)	1,583,831	-	42,730,952	62,727,169	1,339,373	64,066,542
Balance as at 01 January 2022										
Surcharge Tax (Note 45.1)	-	-	-	-	-	-	(2,554,396)	(2,554,396)	(21,780)	(2,576,176)
Adjusted Balance as at 1 January 2022	18,263,609	2,571,479	44,479	(2,467,181)	1,583,831	-	40,176,556	60,172,773	1,317,593	61,490,366
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	3,008,737	3,008,737	67,067	3,075,804
Other comprehensive income before tax	-	-	-	2,117,126	316,789	4,385,238	20,804	6,839,957	47,377	6,887,334
Tax on other comprehensive income	-	-	-	(675,432)	(217,680)	(1,315,571)	45,022	(2,163,661)	-	(2,163,661)
Total comprehensive income for the year	-	-	-	1,441,694	99,109	3,069,667	3,074,563	7,685,033	114,444	7,799,478
Transactions with equity holders, recognised directly in equity										
Transfer to the statutory reserve fund (Note 44)	-	175,000	-	-	-	-	(175,000)	-	-	-
Dividend attributable to non controlling interests	-	-	-	-	-	-	-	-	(40,778)	(40,778)
Final dividend for 2021: Scrip (Note 19)	1,607,056	-	-	-	-	-	(1,607,056)	-	-	-
Final dividend for 2021: Cash (Note 19)	-	-	-	-	-	-	(357,124)	(357,124)	-	(357,124)
Reversal of dividends paid in prior years	-	-	-	-	-	-	4,215	4,215	-	4,215
Balance as at 31 December 2022	19,870,665	2,746,479	44,479	(1,025,487)	1,682,940	3,069,667	41,116,154	67,504,897	1,391,259	68,896,156

STATEMENT OF CASH FLOWS

ACCOUNTING POLICY

The Statement of Cash Flows has been prepared by using 'The Direct Method' in accordance with Sri Lanka accounting standard LKAS 7 on "Statement of Cash Flows", whereby gross cash receipts and gross cash payments of operating, investing and financing activities have been recognised. For the purpose of the preparation of the Statement of Cash Flows, cash and cash equivalents include cash in hand, balances with banks and placements with banks, as presented in the Statement of Financial Position.

For the year ended 31 December	Note	Page No.	BANK		GROUP	
			2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash flows from operating activities						
Interest received			92,732,700	53,092,776	92,930,324	53,119,744
Fee and commission income received			6,350,791	5,619,088	7,715,104	7,239,763
Dividend income received			345,679	279,634	56,010	88,036
Other operating income received			5,575,291	2,859,551	5,771,691	3,340,113
Interest paid			(51,885,500)	(30,571,312)	(51,895,768)	(30,587,546)
Personnel costs paid			(5,591,768)	(5,515,441)	(6,124,495)	(5,938,969)
Other expenses paid			(4,625,884)	(3,686,369)	(5,003,505)	(4,281,674)
Operating profit before changes in operating assets and liabilities (a)			42,901,309	22,077,927	43,449,361	22,979,467
Increase/decrease in operating assets						
Deposits held for regulatory or monetary control purposes			(1,784,185)	(9,591,263)	(1,784,185)	(9,591,263)
Financial assets at amortised cost - loans and receivables to other customers			(49,031,658)	(85,091,814)	(49,266,112)	(85,319,264)
Net (increase)/decrease in operating assets			(3,667,367)	(998,290)	(2,656,530)	(1,936,083)
Increase/decrease in operating liabilities						
Financial liabilities at amortised cost - due to depositors			106,277,952	61,744,822	106,460,463	61,744,822
Financial liabilities at amortised cost - due to debt securities holders			(1,210,519)	(158,947)	(1,210,519)	(158,947)
Financial liabilities at amortised cost - due to banks/other borrowers			4,699,078	(6,463,987)	4,699,078	(6,463,987)
Repayment of principal portion of lease liabilities	42.1.2	227	(420,768)	(417,479)	(485,967)	(478,738)
Net increase/(decrease) in other liabilities			(2,697,938)	547,569	(3,611,245)	1,360,858
Net cash (outflow)/inflow from operating activities before taxation			95,065,904	(18,351,462)	95,594,344	(17,863,135)
Tax on financial services paid			(1,357,619)	(2,220,632)	(1,357,619)	(2,220,632)
Income taxes paid	39.2	219	(1,582,804)	(2,821,270)	(1,824,899)	(3,106,562)
Surcharge tax paid	45.1	229	(2,456,403)	-	(2,576,177)	-
Net cash (used in)/from operating activities			89,669,078	(23,393,364)	89,835,649	(23,190,329)
Cash flows from investing activities						
Net changes in financial investments			(67,569,963)	8,510,963	(67,146,633)	8,844,779
Purchase of intangible assets			(830,787)	(432,197)	(832,700)	(437,758)
Purchase of property, plant and equipment			(323,417)	(610,610)	(346,237)	(637,749)
Proceeds from disposal of property, plant and equipment			1,714	8,503	1,788	16,338
Net cash from/(used in) investing activities			(68,722,453)	7,476,659	(68,323,782)	7,385,610
Cash flows from financing activities						
Proceeds from debt securities issued			-	8,000,000	-	8,000,000
Proceeds from issue of ordinary shares	43	228	-	9,469,276	-	9,469,276
Interest paid on debt securities issued			(3,348,149)	(2,396,032)	(3,348,149)	(2,396,032)
Dividends paid to non-controlling interests			-	-	(40,549)	(49,875)
Dividends paid to shareholders of the Bank	42.1.1	226	(345,731)	(333,025)	(345,731)	(333,025)
Net cash from/(used in) financing activities			(3,693,880)	14,740,219	(3,734,429)	14,690,344

For the year ended 31 December	Note	Page No.	BANK		GROUP	
			2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Net (decrease)/increase in cash and cash equivalents			17,252,745	(1,176,487)	17,777,438	(1,114,375)
Cash and cash equivalents at the beginning of the year			21,713,982	22,890,469	22,067,433	23,181,808
Cash and cash equivalents at the end of the year			38,966,727	21,713,982	39,844,871	22,067,433
Reconciliation of cash and cash equivalents						
Cash and cash equivalents	21	190	34,857,500	13,412,488	35,735,644	13,765,939
Placements with banks	23	191	4,109,227	8,301,494	4,109,227	8,301,494
Cash and cash equivalents at the end of the year (Gross)			38,966,727	21,713,982	39,844,871	22,067,433
Less : Impairment allowance			8,217	2,760	8,217	2,760
Cash and cash equivalents at the end of the year (Net)			38,958,510	21,711,222	39,836,654	22,064,673

(a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

For the year ended 31 December	Note	Page No.	BANK		GROUP	
			2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Operating profit before tax on financial services			2,036,079	10,308,133	2,671,939	11,228,678
Gains on disposal of property, plant & equipment			(1,436)	(6,778)	(3,830)	(14,213)
Accruals for interest/other income			(5,185,122)	399,910	(5,241,668)	383,044
Accruals for interest expenses			15,288,665	498,786	15,310,779	498,786
Accruals for general expenses			352,291	341,813	459,739	515,089
Unrealised revaluation gains/(losses) from investments			374,640	(619,354)	320,201	(704,831)
Contribution made to the pension fund			(32,931)	14,633	(32,931)	14,633
Depreciation of property, plant & equipment	13	182	397,748	408,247	433,647	446,850
Amortisation of intangible assets	13	182	135,787	114,270	141,118	120,007
Depreciation of Right of use assets	13	182	313,099	309,126	351,269	347,254
Impairment charges for financial assets and investments in subsidiaries	11.1	180	29,291,660	10,264,662	29,276,538	10,252,695
Scrip dividend received from investments			(69,171)	-	(69,171)	-
Fair value adjustments on investment property			-	-	(168,269)	(153,004)
Share based payments			-	44,479	-	44,479
Operating profit before changes in operating assets and liabilities			42,901,309	22,077,927	43,449,361	22,979,467

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

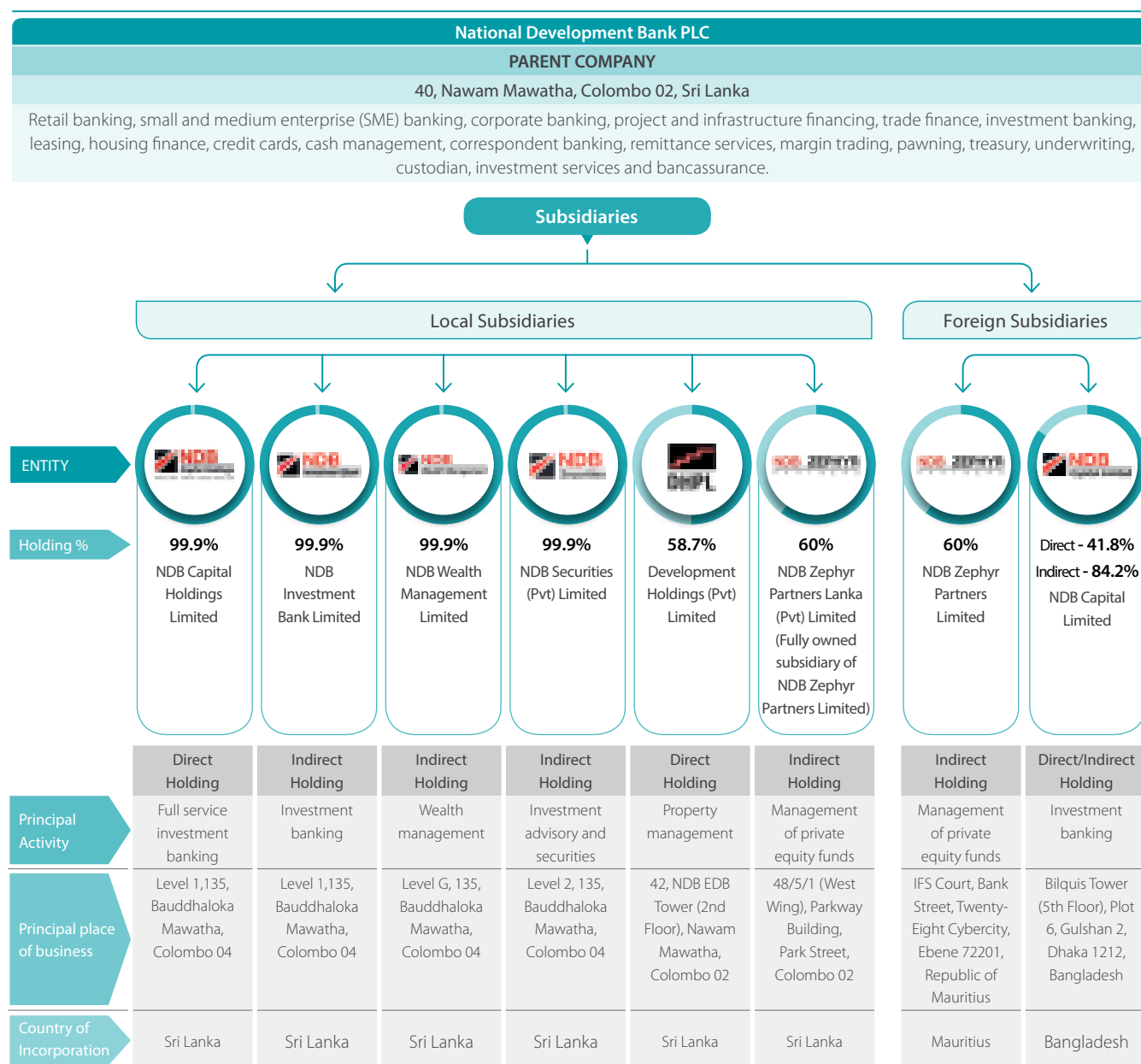
1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No.1 of 2005, a company by the name of 'National Development Bank Limited' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Limited was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 7 of 2007, the name of the Bank was changed as 'National Development Bank PLC' ('The Bank'). The Bank was re-registered in terms of the new Companies Act, on 04 July 2007 and was assigned with PQ 27 as the new Registration Number. The Bank is listed on the Colombo Stock Exchange. The Registered Office of the Bank and its principle place of business are situated at No.40, Nawam Mawatha, Colombo 02. The number of branches of the Bank as at 31 December 2022 was 113 (2021 - 113) and the number of staff employed as at 31 December 2022 was 2,929 (2021 - 2,949).

1.2 Principle Activities of the Bank and the Group

The principal activities of the Bank and its Group companies are summarised below:



The Bank also holds 50% shareholding in Ayojana Fund (Pvt) Limited (an Investment in Associate) which is under liquidation.

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2022 comprise of the Bank (parent company) and the subsidiaries and associate companies, together referred as the Group.

The Bank does not have an identifiable parent company and is the ultimate parent of the NDB Group.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2022 comprises of –

- The Statement of Profit or Loss and Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 157 and 158).
- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 159).
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year under review for the Bank and the Group (Refer pages 160 and 161).
- Statement of Cash Flow providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilise those cash flows (Refer pages 162 and 163);

- Notes to the Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 164 to 276).

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange. The Group has also complied with directions/guidelines issued by the Central Bank of Sri Lanka including the Direction No 13 of 2021 and the Direction No. 14 of 2021 which were effective from the 1 January 2022.

These Financial Statements, except for information on cash flows, have been prepared following the accrual basis of accounting. The Group did not adopt any inappropriate accounting treatment, which are not in compliance with the requirements of the SLFRSs and LKASs and regulations governing the preparation and presentation of the Financial Statements.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in the Circular No.02 of 2019 dated 18 January 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

2.2 Functional and Presentation Currency

The Financial Statements of the Bank and the Group are presented in Sri Lanka Rupees (LKR) which is the currency of the primary economic environment in which the Bank and the Group operates. Financial information presented in Sri Lanka Rupees (LKR) has been rounded to the nearest thousand unless indicated otherwise.

2.3 Responsibility for the Financial Statements

The Board of Directors is responsible for these Financial Statements of the Group, in compliance with the Sri Lanka Accounting Standards (SLFRS and LKAS) and provisions of the Companies Act No. 7 of 2007 and listing rules of the Colombo Stock Exchange. The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors' on the affairs of the Bank, 'Statement of Directors Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 16, 145 and 159 respectively.

2.4 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2022 (including the comparative figures) have been approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 21 February 2023.

2.5 Basis of measurement

The Financial Statements of the Group have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Item	Basis of Measurement	Note	Pages
Derivative financial instruments	Fair value	24	192
Financial assets recognised through profit or loss - measured at fair value	Fair value	25	194
Financial assets measured at fair value through other comprehensive income	Fair value	28	203
Investment property	Fair value	31	208
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently measured at revalued amounts, which represented the fair value at the date of revaluation.	32	209
Retirement benefit obligations	Recognised at the present value of the defined benefit obligations less the fair value of the assets of the plan.	41	221
Employee Share Option Scheme	Fair value	46.3	230

2.6 Presentation of Financial Statements

The Group presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding the recoveries and settlements within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 50 to the Financial Statements.

2.6.1 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousand, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 1 on "Presentation of Financial Statements".

2.6.2 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when it is permitted under SLFRSs, or for gains and losses arising from a group or similar transactions such as in the Group's trading activity.

2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards - LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's presentation and the details of which are given in Note 54 to the Financial Statements.

2.9 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December 2022. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent Accounting Policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

"Subsidiaries are fully-consolidated from the date on which, control is transferred to the Bank. Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank."

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position, but separate from the Parent shareholders' equity.

2.10 Foreign Currency Translation

(a) All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the exchange rates prevailing at the dates, the transactions were affected. Monetary assets and liabilities denominated in foreign currencies are retranslated at the middle exchange rate of the functional currency ruling, at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Statement of Profit or Loss.

(b) Accordingly, transactions of the Foreign Currency Banking Unit have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Statement of Profit or Loss.

(c) Non-monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(d) Forward exchange contracts are valued at the forward market rates prevailing at the date of the Statement of Financial Position. Profits or losses on such transactions are dealt within the Statement of Profit or Loss.

(e) As at the reporting date, the assets and liabilities of overseas subsidiaries/ associates are translated into the Bank's presentation currency at the rate of exchange ruling at the date of the Statement of Financial Position and its profits and losses are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

(f) On disposal of a foreign subsidiary/ associate, the deferred cumulative amount recognised in equity relating to that particular foreign subsidiary/associate is recognised in the Statement of Profit or Loss in 'other operating expenses' or 'other operating income', respectively.

2.11 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Group, the Management is required to make judgments, which may have significant effects on the amounts recognised in the Financial Statements. Further, the Management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are presented along with the notes to the Financial Statements.

The following table includes the items that involve significant accounting judgements, estimates and assumptions in the preparations of the Financial Statements of the Group.

Notes to the Financial Statements	Note	Pages
Impairment charges	11	177
Income tax expense	17	184
Derivative financial instruments	24	192
Financial assets recognised through profit or loss - measured at fair value	25	194
Financial assets at amortised cost - debt and other instruments	27	201
Financial assets measured at fair value through other comprehensive income	28	203
Investment property	31	208
Property, plant & equipment	32	209
Right of use assets	33	212
Intangible assets	34	213
Retirement benefit obligations	41.1	222
Pension fund	41.2	223
Fair value of financial instruments and non financial instruments	55	244

2.11.1 Going Concern-basis of accounting

The Board of Directors of the Bank and its group companies have made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Group to continue as a going concern.

The Bank and its group companies are fully conscious and have evaluated the impacts of the deteriorated economic environment, followed with a sovereign default by the country and the volatility in interest rates and the exchange rates during the year 2022 and beyond and have assessed the impacts on capital, profitability and liquidity. In addition, the Bank and its group companies have assessed the continuous impacts of COVID-19 on the operating environment and resulting effects on the Bank and the group companies. Accordingly, during the year 2022, the Bank and its Group companies evaluated each customer segment of its businesses considering a wide range of factors under multiple stress tested scenarios, such as expected losses on moratoriums including the impact on Non-Performing Loans (NPL), which indicates increase stresses compared to 2021 and expected revenue streams, cost management, profitability, the ability to defer non-essential capital expenditure and the ability to continue providing services to ensure business is continued as least impacted as possible.

In determining the above significant management judgements, estimates and assumptions, the continuous impacts of the COVID-19 pandemic has been considered as of the reporting date and specific considerations have been disclosed under the relevant Notes.

Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

3. ACCOUNTING POLICIES

The Group has consistently applied the accounting policies for all periods presented in the financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

Apart from the general accounting policies set out below, the specific accounting policies pertaining to each item in the financial statements have been presented within the respective notes to the Financial Statements. These significant accounting policies have been applied consistently to all periods presented within the respective notes to the Financial Statements of the Group. The accounting policies have been consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly.

Accounting policy	Note	Pages
Significant accounting policies - General		
Financial instruments	3.1	168
Significant accounting policies - Recognition of income and expenses		
Gross income	4	172
Net interest income	5	172
Net fee and commission income	6	174
Net gains/(losses) from trading	7	175
Net gains/(losses) from financial assets at fair value through profit or loss	8	176
Net gains/(losses) from derecognition of financial assets	9	176
Other operating income	10	176
Impairment charges	11	177
Personnel expenses	12	181
Depreciation and amortisation expenses	13	182
Other expenses	14	183
Tax on financial services	15	183
Income tax expenses	17	184
Significant accounting policies - Recognition of assets and liabilities		
Basic/Diluted EPS	18	186
Dividend Per Share	19	187
Cash and cash equivalents	21	190
Placements with banks	23	191
Derivative financial instruments	24	192
Financial assets recognised through profit or loss - measured at fair value	25	194
Financial assets at amortised cost - loans and receivables to other customers	26	194
Financial assets at amortised cost - debt and other instruments	27	201
Financial assets measured at fair value through other comprehensive income	28	203
Investments in subsidiary companies	29	206
Investments in associate companies	30	207
Investment property	31	208
Property, plant & equipment	32	209
Right of use assets	33	212
Intangible assets	34	213
Current tax receivables/liabilities	39	219
Deferred tax assets/liabilities	40	219
Other assets	35	215
Due to banks	36	215
Financial liabilities at amortised cost - Due to depositors	37.1	216
Financial liabilities at amortised cost - Due to debt securities holders	37.2	217
Financial liabilities at amortised cost - Due to other borrowers	37.3	218
Debt securities issued	38	218
Retirement benefit obligations	41	221

3.1 Financial Instruments - SLFRS 9

The Group applies the requirements under SLFRS 9 - Financial Instruments in classifying, measuring, re-classifying and de-recognition of financial instruments.

3.1.1 Date of recognition

Financial assets and financial liabilities, with the exception of loans and receivables to other customers and balances due to depositors, are initially recognised on the trade date.

The trade date means the date that the Bank becomes a party to the contractual provisions of the instruments. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and receivables to other customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to depositors when funds are transferred to the Bank.

3.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 3.1.4.(a) and (b). Financial instruments are initially measured at their fair value (as defined in Note 55), except in the case of financial assets and financial liabilities recorded at Fair Value through Profit or Loss, transaction costs are added to, or subtracted from, this amount. Trade receivables of subsidiaries are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below in Note 3.1.3.

3.1.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the Statement of Profit or Loss over the tenor of the financial instrument using Effective Interest Rate method. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in the Statement of Profit or Loss when the inputs become observable, or when the instrument is derecognised.

3.1.4 Classification and subsequent measurement of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measures at either:

- Fair Value through profit or loss (FVPL) as explained in Note 25.
- Amortised cost, as explained in Note 3.1.4.1. and in Note 27.
- Fair Value through Other Comprehensive Income (FVOCI), as explained in Note 28.

The Bank measures its derivative portfolio at FVPL as explained in Notes 24.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and financial liabilities designated upon initial recognition as at FVPL.

The subsequent measurement of financial assets/liabilities depends on their classification.

3.1.4(a) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The business model of the Group is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

If cash flows after initial recognition are realised in a way that is different from the original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.1.4(b) Assessment of whether contractual cash flows are Solely Payments of Principle and Interests (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

An entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

For the purpose of this assessment, principle is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period of which the interest rate is set.

3.1.4.1 Measurement of financial assets at amortised cost

Cash and cash equivalents, balances with the Central Bank of Sri Lanka, placements with banks, loans and receivables to other customers, financial assets at amortised cost - debts and other instruments are measured at amortised cost by the Group.

The Group only measures financial assets at amortised cost if both of the following conditions are met and is not designated as at FVPL:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely based on SPPI.

3.1.5 Reclassification of financial assets and liabilities

As per SLFRS 9, financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.1.6 Derecognition of financial assets and financial liabilities other than for substantial modification

3.1.6(a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

3.1.6(b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

3.2 Borrowing costs

As per the Sri Lanka Accounting Standard –LKAS 23 on “Borrowing Costs”, the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

3.3 Taxation

3.3.1 Current Tax and Deferred Tax

Details of “Income tax expense” and “Deferred tax assets and liabilities” are given in Note 17.

3.3.2 Tax on Financial Services

Details of “Value Added Tax (VAT) on financial services” and “Social Security Contribution Levy (SSCL) on financial services” are given in Note 15.

3.3.3 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 01 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.3.4 Surcharge Tax

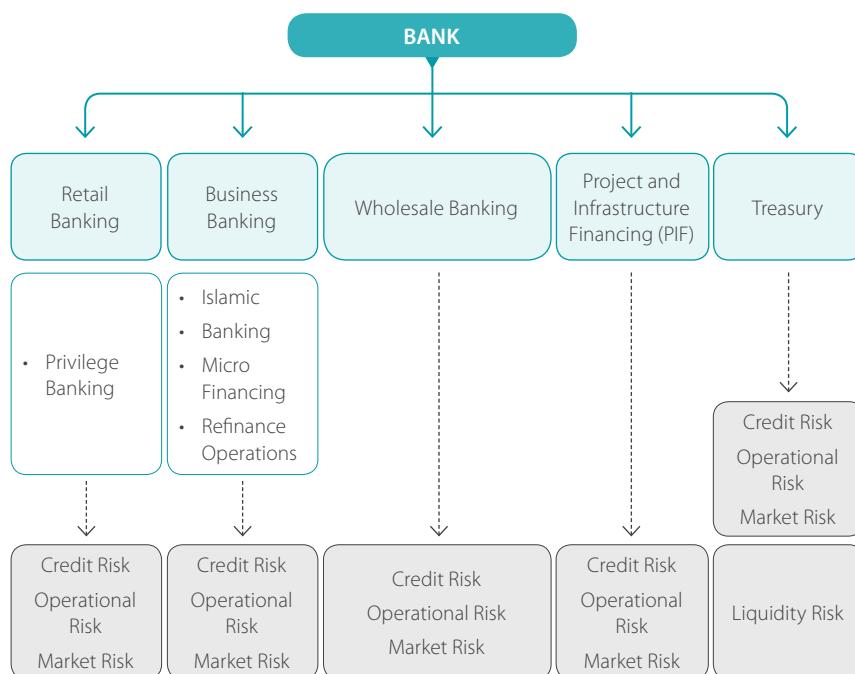
As per the Provisions of the Surcharge Tax Act No. 14 of 2022 if the aggregate of the taxable income of the holding company and all subsidiaries in a group of companies, for the Year of Assessment 2020/21, exceed LKR 2,000 Mn, each company in the group of companies is liable to pay Surcharge Tax calculated at 25% on the taxable income (after deducting profit from dividends received from subsidiaries included in the taxable income). Details of “Surcharge Tax” are given in Note 45.1.

3.4 Bank's Risk management framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Risk Management Policy of the Bank translates overall risk appetite on business activities in

a holistic approach to provide the guidance required for convergence of strategic and risk perspectives of the Bank. The Board Integrated Risk Management Committee (IRMC) meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

A detailed disclosure on how the risk management is carried out within the Bank's Risk Management Framework with due consideration given to Credit risk, Market risk and Liquidity risk are given in the Notes to the Financial Statements Section on “Risk Management disclosures” on pages 255 to 264.



3.5 Changes in Accounting Policies

3.5.1 New and Amended accounting standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Certain prior year figures and phrases have been rearranged in order to compatible with the presentation requirements of the Central Bank of Sri Lanka.

The other accounting policies adopted by the Group are consistent with those of the previous financial year.

3.5.2 Amendments to SLFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021

In December 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Covid-19-Related Rent Concessions - amendment to SLFRS -16 Leases. The amendments provide relief to lessees from applying SLFRS -16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical

expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

3.5.3 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

IBOR reform Phase 1

On 15 January 2021, 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). A summary of Phase 1 amendments are as follows:

- **Highly Probable Requirement:** According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cashflows are based is not altered as a result of the reform.
- **Prospective assessments:** A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

- **LKAS 39 retrospective assessment:** To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment'. By the Phase 1 amendments, an entity is not required to undertake the LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.
- **Separately identifiable risk components:** While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships."

IBOR reform Phase 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients.

- A practical expedient require, contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2022 in the Sri Lankan context.

The requirements under phase 1 amendments have to be applied retrospectively. However, the reliefs only apply to hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements. It follows that it is not possible to apply the reliefs retrospectively to hedge relationships that were not previously designated as such.

The requirements under phase 2 amendments have to be applied retrospectively. Hedge relationships are not designated retrospectively. However, discontinued hedging relationships must be reinstated if, and only if,

- The hedging relationship was discontinued solely due to changes required by the Reform, and, therefore, the entity would not have been required to discontinue that hedging relationship if the Phase 2 Amendments had been applied at that time and
- At the date of initial application of the Phase 2 Amendments, that discontinued hedge relationship continues to meet all the qualifying criteria for hedge accounting, after taking account of the Phase 2 Amendment.

As of 31 December 2022, the Group does not have any material impact from the IBOR Reform.

3.6 Standards issued but not yet effective

The new and amended standards and interpretations that are issued up to the date of issuance of the Group's financial statements but are not effective for the current annual reporting period, are

disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to LKAS 12

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Amendments to LKAS 1 and IFRS Practice Statement 2

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Classification of Liabilities as Current or Non current - Amendments to LKAS 1

The amendment specifies the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification and disclosures.

All of the above amendments are effective for annual reporting periods beginning on or after 1 January 2023.

SLFRS 17 - Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025. The Bank/Group expects that the implementation of this standard may not have a material impact on the financial statements of the group.

4. GROSS INCOME

ACCOUNTING POLICY

The Gross Income represents the Interest Income and the Non-Interest Income earned by the Group during the year.

Gross Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of Gross Income are given under the respective notes.

For the year ended 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest income	5.1	97,917,822	52,692,866	98,217,310	52,794,763
Fee and commission income	6.1	6,274,698	5,634,797	7,438,752	7,384,660
Net gains/(losses) from trading	7	(340,346)	2,096,455	(340,346)	2,096,455
Net gains/(losses) from financial assets at fair value through profit or loss	8	(389,767)	433,106	(340,388)	560,482
Net gains/(losses) from derecognition of financial assets	9	15,127	186,248	15,127	186,248
Other operating income	10	6,424,944	1,067,059	6,561,056	1,060,265
Total		109,902,478	62,110,531	111,551,511	64,082,873

5. NET INTEREST INCOME

ACCOUNTING POLICY

Recognition of Interest Income and Interest Expenses

The Group uses the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 9 - Financial Instruments. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or the financial liability.

The carrying amount of financial assets or financial liabilities is adjusted if the Group revises their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The amortised cost is calculated by taking into account any discount or premium on an acquisition, fees and costs that are an integral part of the EIR. The change in the carrying amount is recorded as 'interest income' for financial assets and 'Interest expenses' for financial liabilities.

5.1 Interest Income

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Placements with banks	2,284,922	864,524	2,363,675	882,685
Financial assets recognised through profit or loss measured at fair value	2,863,301	65,435	2,913,525	75,783
Financial assets measured at fair value through other comprehensive income	5,443,943	5,737,646	5,527,118	5,755,331
Financial assets at amortised cost - loans and receivables to other customers	73,213,409	41,760,746	73,179,684	41,760,746
Financial assets at amortised cost - debt and other instruments	14,107,642	4,264,204	14,107,642	4,264,204
Other interest income	4,605	311	125,666	56,014
Total interest income (a)	97,917,822	52,692,866	98,217,310	52,794,763

5.2 Interest Expenses

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Due to banks	4,070,485	2,209,637	4,016,986	2,193,007
Financial liabilities at amortised cost				
Due to depositors	58,949,307	24,762,938	58,915,582	24,762,938
Due to debt securities holders	294,995	108,621	294,995	108,621
Due to other borrowers	492,611	1,478,860	492,611	1,478,860
Debt securities issued	3,366,766	2,510,042	3,366,766	2,510,042
Total interest expenses (b)	67,174,164	31,070,098	67,086,940	31,053,468
Net interest income (a)-(b)	30,743,658	21,622,768	31,130,370	21,741,295

5.3 Net Interest Income from Sri Lanka Government Securities

Interest income and interest expenses on Government Securities have been extracted from interest income and interest expenses given in Notes 5.1 and 5.2 respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Interest income		
Financial assets recognised through profit or loss measured at fair value	2,863,301	65,435
Financial assets measured at fair value through other comprehensive income	5,443,943	5,737,646
Financial assets measured at amortised cost - debt and other instruments	13,387,207	3,878,909
	21,694,451	9,681,990
Less : Interest expenses		
Financial liabilities at amortised cost - Due to debt securities holders	294,995	108,621
Net interest income from Sri Lanka Government Securities	21,399,456	9,573,369

5.4 Interest Income on Impaired Financial Assets

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Interest income on impaired loans and receivables to other customers	2,804,639	1,378,681

6. NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Income from Fee-based Activities

Fee and Commission Income

The Group recognises the fee and commission earned from depositors and the loans and receivables to other customers as per the requirements of SLFRS 9 : Financial Instruments and all other fee and commission income are recognised based on the SLFRS 15: Revenue from contracts with customers.

The fee and commission income are recognised by the Group within the scope of SLFRS 15 (Revenue from contracts with customers) only when all of the following criteria are met:

- (i) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) obligations; and are committed to perform their respective obligations;
- (ii) The entity can identify each party's rights regarding the services to be transferred;
- (iii) The entity can identify the payment terms for the services to be transferred;
- (iv) The contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- (v) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

Fees and commission income that are earned from financial assets and financial liabilities, are recognised at the Effective Interest Rate (EIR) and is accounted in the Statement of Profit or Loss over the life of the instrument. Other fees and commission income on account servicing fees, investment management, fees for underwriting, advisory work, loan syndication and all other fees and commissions earned during the normal course of the business of the Group, are recognised as related services that are performed on an accrual basis. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Income from Financial Guarantees

The Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances, in the normal course of its business activities. Financial guarantees are initially recognised in the Statement of Financial Position as a contingent liability at the guarantee value. The premium received is recognised in the Statement of Profit or Loss on a straight-line basis over the life time of the guarantee and the balance amount to be amortised to the Statement of Profit or Loss after the reporting date, is recognised in the Statement of Financial Position, as Other Liabilities.

Rental Income

The Group recognises the rental income arising from operating leases including the investment property on an accrual basis by equalising the rental income over the tenure of the rent agreement in line with the requirement of SLFRS 16-Leases.

Fee and Commission Expenses

Fee and commission expenses mainly relates to transactions of Loans and receivables to other customers and service fees, which are paid when the services are received. Fee and commission expenses are recognised on an accrual basis.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Fee and commission income (Note 6.1)	6,274,698	5,634,797	7,438,752	7,384,660
Less: Fee and commission expenses (Note 6.2)	16,929	33,260	16,929	33,260
Net Fee and commission income	6,257,769	5,601,537	7,421,823	7,351,400

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
6.1 Fee and commission income on				
Cards	1,641,147	1,200,547	1,641,147	1,200,547
Due to depositors	333,750	289,528	333,750	289,528
Guarantees	848,822	902,881	848,822	902,881
Loans and receivables to other customers	658,179	1,292,043	658,179	1,292,043
Remittances	1,002,662	353,872	1,002,662	353,872
Trade finance	1,262,476	1,170,491	1,262,476	1,170,491
Other financial services	404,604	292,528	478,262	364,612
Bancassurance	121,318	129,743	121,318	129,743
Investment banking and wealth management	-	-	627,332	1,051,889
Brokerage	-	-	273,573	416,664
Rental income	1,740	3,164	191,231	212,390
Total (a)	6,274,698	5,634,797	7,438,752	7,384,660

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
6.2 Fee and commission expenses on				
Loans and receivables to other customers	4,300	5,665	4,300	5,665
Other financial services	12,629	27,595	12,629	27,595
Total (b)	16,929	33,260	16,929	33,260
Net Fee and commission income (a)-(b)	6,257,769	5,601,537	7,421,823	7,351,400

7. NET GAINS/(LOSSES) FROM TRADING

ACCOUNTING POLICY

Net gains/(losses) from trading includes the unrealised gains/(losses) derived from revaluation of the foreign exchange contracts and other derivative financial instruments. All derivative financial instruments are fair valued at each reporting date as per the SLFRS 09 - Financial Instruments.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Income from foreign exchange contracts				
With banks	(834,958)	1,485,014	(834,958)	1,485,014
With other customers	494,612	611,441	494,612	611,441
Total	(340,346)	2,096,455	(340,346)	2,096,455

8. NET GAINS/(LOSSES) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICY

Net gains/ (losses) from financial assets at fair value through Profit or Loss comprises all realised and unrealised fair value changes, related capital gains and losses derived from the financial assets classified as financial assets recognised through profit or loss measured at fair value.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Financial assets recognised through profit or loss measured at fair value				
Realised/ unrealised revaluation gains/(losses);				
Investment in unit trusts	(365,514)	432,458	(365,514)	474,991
Sri Lanka Government Securities - treasury bills/bonds	(24,253)	648	(6,555)	648
Equity securities	-	-	31,681	84,843
Total	(389,767)	433,106	(340,388)	560,482

9. NET GAINS/(LOSSES) FROM DERECOGNITION OF FINANCIAL ASSETS

ACCOUNTING POLICY

All realised gains and losses from derecognition of financial assets classified as financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income are given below.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Financial assets - Measured at Fair Value through Other Comprehensive Income				
Debt securities	15,127	186,248	15,127	186,248
Total	15,127	186,248	15,127	186,248

10. OTHER OPERATING INCOME

ACCOUNTING POLICY

Other operating income includes capital gains/(losses), dividend income, foreign exchange gains, disposal gains/(losses) from property, plant & equipment and gains/(losses) from investment properties.

Dividend Income

Dividend income from group investments in subsidiary companies and associate companies and other investments in quoted and non quoted shares are recognised when the Group's right to receive the payment is established.

Foreign Exchange Gains

The change in exchange rate differences arising from the valuation of the retained profits held in foreign currency is included under 'foreign exchange gains'.

Gains/(Losses) on disposal of Property, Plant & Equipment

Gains/(losses) on disposal of property, plant & equipment represent the difference between the sales proceeds and the net book value of property, plant & equipment that are disposed during the year.

Gains/(Losses) on Investment Properties

Gains/(losses) from investment properties arise from the changes in the fair values of investment properties and are included in the Statement of Profit or Loss, in the year in which they arise. The valuation methodology and the basis of valuation adopted by the Group is explained in detail in Note 31 on page 208.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Dividend income from securities				
- Quoted investments	69,171	33,597	86,883	48,124
- Non-quoted investments	38,841	39,119	38,841	39,119
Dividend income from group investments - Non-quoted investments	306,838	206,918	-	-
Foreign exchange gains/(losses)	5,917,072	769,874	6,121,572	774,030
Gains/(losses) on disposal of property, plant & equipment	1,436	6,778	3,830	14,213
Gains/(losses) on investment properties (Note 31)	-	-	168,269	153,004
Others	91,586	10,773	141,661	31,775
Total	6,424,944	1,067,059	6,561,056	1,060,265

11. IMPAIRMENT CHARGES

ACCOUNTING POLICY

The Group recognises the impairment (Expected Credit Loss) on financial instruments assessed as per SLFRS 9 - "Financial Instruments". Further, the Group also recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

Overview of the Expected Credit Loss (ECL)

The Group records the allowance for expected credit loss for all loans and receivables and other financial assets not held at Fair Value through Profit or Loss (FVPL), together with loan commitments, financial guarantee contracts and letters of credit which are referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The Expected Credit Loss (ECL) allowance is based on the credit losses expected to arise over the life of the asset [The Life Time Expected Credit Loss (LTECL)], unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' Expected Credit Loss (12m ECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 56.3.4.5.

The 12 months ECL is the portion of life time ECLs that represent the ECLs that result from default events on a financial instruments that are possible within the 12 months after the reporting date.

Both Life time ECLs and 12 months ECLs are calculated either on an individual basis or a collective basis, based on a predetermined threshold of customer exposures. If a particular loan is credit impaired under individual impairment the amount of loss is measured as the difference between the carrying amount

of the asset and the present value of estimated future cash flows. If the individually assessed asset is determined that it is not credit impaired under individual impairment, such financial assets are then collectively assessed for any impairment along with other portfolios having similar risk characteristics under collective impairment. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 56.3.4.6.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 56.3.4.5.

As per SLFRS 9, the Group adopts a three stage model for impairment based on changes in credit quality since initial recognition.

STAGE 1

A financial asset that is not originally credit impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of LTECL that result from default events possible within the next 12 months (12M ECL).

STAGE 2

Financial asset is moved to Stage 2 if a significant increase in credit risk (SICR) since origination is identified and the Group records an allowance for LTECL.

STAGE 3

If a financial asset is credit impaired (as outlined in Note 56.3.4.1), it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%.

Purchased or Originated Credit Impaired (POCI) Financial Assets:

Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the LTECL. The Group does not have Purchased or Originated Credit Impaired (POCI) loans as at the reporting date.

The calculation of Expected Credit Loss (ECL)

The Group calculates ECLs under the three staging approach to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis or on a collective basis as per the Group's impairment policy. The collective assessments are made separately for portfolio of facilities with similar credit risk characteristics.

The mechanics of the ECL calculations are outlined below and the key elements, Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) under collective impairment assessment are as follows:

PD

The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 56.3.4.2.

ACCOUNTING POLICY

EAD

The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest whether scheduled by contract or otherwise, expected drawdowns on committed facilities. To calculate EAD for a stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans, the EAD is considered for default events over the life time of the financial instruments. The EAD is further explained in Note 56.3.4.3.

LGD

The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 56.3.4.4.

The above parameters are generally derived from internally developed statistical models and historical data and then adjusted to reflect forward looking information.

When estimating the ECLs, the Group considers three scenarios (a base case, best case and worse case) of Economic Factor Adjustment (EFA). When relevant, the assessment of multiple scenarios are also incorporated to assess how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of Credit cards and other revolving facilities, for which the treatment is separately set out below under "Credit cards and other revolving facilities", the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

Provisions for ECLs for undrawn loan commitments are assessed as set out below under "Loan commitments and letters of credit". The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below under "Credit cards and other revolving facilities".

Forward looking information

The Group incorporates forward looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating the ECLs, the Group considers three economic scenarios (base case, best case and worse case). Quantitative economic factors are based on economic data and forecasts published by CBSL and other reliable sources.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- Quantitative factors - GDP growth, Unemployment rate, rate of Inflation, Interest rate and Exchange rate
- Qualitative factors - Government policies, average loan to value ratio and management outlook on delinquencies etc.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements.

Detailed information about these inputs and sensitivity analysis are provided in Note 56.3.4.7.

Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities within a short period of time. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's number of days past due, as explained in Note 56.3.4.5, but greater emphasis is also given to qualitative factors also.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the

facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

Loan commitments and letters of credit:

When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR of the loan. For loan commitments and letters of credit, the ECL is recognised within other liabilities.

Financial guarantee contracts

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit or Loss and the ECL allowance. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holders for a credit loss that it incurs. The shortfalls are discounted by the risk adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within other liabilities.

Impairment of Debt Instruments

The Group does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. Thus the Group considers PDs based on the rating scales of external rating agencies as at the reporting date.

LGD for all debt instruments are based on the guideline issued by the Central Bank of Sri Lanka. Further, the Group applied the Economic Factor Adjustment based on the macro economic factor model. EAD of a debt instrument is its gross carrying amount.

Recognition of impairment on Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI)

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the Statement of Profit or Loss. The accumulated loss recognised in OCI is recycled to the Statement of Profit or Loss upon derecognition of the assets.

ACCOUNTING POLICY

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credits enhancements such as netting agreements etc.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at inception and re-assessed on a regular basis. Details of the impact of the Bank's various credit enhancements are disclosed in Note 56.3.4.11.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists.

Collateral repossessed

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auctions, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, assets under legal repossession processes are not recorded on the Statement of Financial Position.

The Bank's policy is to sell the repossessed assets at the earliest possible opportunity. Such collaterals repossessed are held on a memorandum basis without derecognising the underlying receivable.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the Statement of Profit or Loss.

Forborne and modified loans (restructured/rescheduled loans)

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The

Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. Accordingly, all rescheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period as specified in the Direction on "Classification, Recognition and Measurement of Credit Facilities in Licensed Banks" issued by the Central Bank of Sri Lanka. Further loans which have been restructured are classified as stage 2 or 3 based on the number of times restructured unless upgraded due to satisfactory performing period as specified in the said Direction.

Significant Accounting Judgements, Estimates and Assumptions on Impairment Allowance on financial assets

The measurement of impairment allowance under SLFRS 9 across all categories of financial assets requires Judgement in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of impairment allowances. Accounting judgements, estimates and assumptions are reviewed regularly and revisions to the same are recognised prospectively.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include;

- The Group's criteria for assessing if there has been a significant increase in credit risk and hence allowances for financial assets should be measured on a LTECL basis and the qualitative assessment

- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models.

A sensitivity analysis of impairment allowance to feasible changes in various factors used has been disclosed in note 56.3.4.14

Management overlays on impairment allowances

The Group considered the following management overlays to the model in computing expected credit loss provisions at the end of the period to mitigate any unforeseen increased credit risk in addition to the expected credit loss resulted from the modelled computation.

- The economic assumptions applied in respect of forward-looking information were adjusted significantly by increasing the weightage given to worst case scenario and adjusting the other factors as required.
- Staging of the facilities included in the identified risk elevated industries were moved to a higher stage where necessary to capture the significant increase in credit risk.

11.1 IMPAIRMENT CHARGES DURING THE YEAR

ACCOUNTING POLICY

Net gains/ (losses) from financial assets at fair value through Profit or Loss comprises all realised and unrealised fair value changes, related capital gains and losses derived from the financial assets classified as financial assets recognised through profit or loss measured at fair value.

For the year ended 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Charges/(reversals) to the Statement of Profit or Loss;					
Loans and receivables to other customers					
- Impairment on individually significant loans	11.2	10,772,845	4,545,698	10,772,845	4,545,698
- Impairment on collective loan portfolio	11.2	1,733,532	2,767,668	1,733,532	2,767,668
Impairment on contingent liabilities and commitments	11.2	(660,626)	863,553	(660,626)	863,553
Total impairment charges for loan and receivables to other customers and contingent liabilities and commitments		11,845,751	8,176,919	11,845,751	8,176,919
Total impairment charges on financial assets	11.2	17,430,787	2,075,775	17,430,787	2,075,775
Impairment charges on investments in subsidiaries	11.2	15,122	11,968	-	-
Total		29,291,660	10,264,662	29,276,538	10,252,695

11.2 Analysis of Impairment Charges - Stage wise Impairment

A further analysis of the impairment charges on financial instruments for the year are given below.

Current Year 2022	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Impairment on loans and receivables								
Financial assets at amortised cost								
- loans and receivables to other customers	334,730	1,316,121	10,855,526	12,506,377	334,730	1,316,121	10,855,526	12,506,377
Individual impairment [Note 26.6 (a)]	-	821,341	9,951,504	10,772,845	-	821,341	9,951,504	10,772,845
Collective impairment [Note 26.6 (a)]	334,730	494,780	904,022	1,733,532	334,730	494,780	904,022	1,733,532
Contingent liabilities and commitments [Note 48.1 (b)]	(353,957)	(101,473)	(205,196)	(660,626)	(353,957)	(101,473)	(205,196)	(660,626)
Total impairment charges on loans and receivables to other customers and contingent liabilities and commitments	(19,227)	1,214,648	10,650,330	11,845,751	(19,227)	1,214,648	10,650,330	11,845,751
Impairment on financial assets								
Cash and cash equivalents (Note 21.1)	7,310	-	-	7,310	7,310	-	-	7,310
Placements with banks (Note 23.1)	(1,853)	-	-	(1,853)	(1,853)	-	-	(1,853)
Financial assets at amortised cost - debt and other instruments [Note 27.1 (d)]	(180)	17,425,510	-	17,425,330	(180)	17,425,510	-	17,425,330
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-
Total impairment charges on financial assets	5,277	17,425,510	-	17,430,787	5,277	17,425,510	-	17,430,787
Impairment charges on investments in subsidiaries (Note 29.1)	15,122	-	-	15,122	-	-	-	-
Total impairment charges	1,172	18,640,158	10,650,330	29,291,660	(13,950)	18,640,158	10,650,330	29,276,538

Previous Year 2021	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Impairment on loans and receivables								
Financial assets at amortised cost								
- loans and receivables to other customers	785,846	1,517,408	5,010,112	7,313,366	785,846	1,517,408	5,010,112	7,313,366
Individual impairment [Note 26.6 (a)]	-	330,412	4,215,286	4,545,698	-	330,412	4,215,286	4,545,698
Collective impairment [Note 26.6 (a)]	785,846	1,186,996	794,826	2,767,668	785,846	1,186,996	794,826	2,767,668
Contingent liabilities and commitments [Note 48.1 (b)]	573,389	66,084	224,080	863,553	573,389	66,084	224,080	863,553
Total impairment charges on loans and receivables to other customers and contingent liabilities and commitments	1,359,235	1,583,492	5,234,192	8,176,919	1,359,235	1,583,492	5,234,192	8,176,919
Impairment on financial assets								
Cash and cash equivalents (Note 21.1)	(330)	-	-	(330)	(330)	-	-	(330)
Placements with banks (Note 23.1)	1,762	-	-	1,762	1,762	-	-	1,762
Financial assets at amortised cost - debt and other instruments [Note 27.1 (d)]	1,938,769	-	-	1,938,769	1,938,769	-	-	1,938,769
Financial assets measured at fair value through other comprehensive income	135,574	-	-	135,574	135,574	-	-	135,574
Total impairment charges on financial assets	2,075,775	-	-	2,075,775	2,075,775	-	-	2,075,775
Impairment charges on investments in subsidiaries (Note 29.1)	11,968	-	-	11,968	-	-	-	-
Total impairment charges	3,446,978	1,583,492	5,234,192	10,264,662	3,435,010	1,583,492	5,234,192	10,252,695

12. PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefit charges, share-based payments and other related expenses. The provisions for bonus is recognised when it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Defined Contribution Plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions, in accordance with the respective statutes and regulations. The Bank contributes 15% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. Group companies contribute 12% and 3% of gross salaries of employees to the Employees' Provident Fund of Central Bank of Sri Lanka and Employees' Trust Fund respectively.

The above expenses are identified as contributions to 'Defined Contribution Plans' as defined in the Sri Lanka Accounting Standard - LKAS 19.

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, the pension fund and staff gratuity were considered as defined benefit plans as per Sri Lanka Accounting Standard - LKAS 19, Employee Benefits. The contributions to the defined benefit plans are recognised in the Statement of Profit or Loss, based on an actuarial valuation carried out for the gratuity liability and the pension fund of the Group in accordance with LKAS 19.

The basis of measurement, assumptions used in actuarial valuations are given in detail in Note 41 to these Financial Statements.

12. PERSONNEL EXPENSES (CONTD.)

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Salary and bonus	4,622,583	4,592,791	5,141,266	5,161,532
Contribution to Employees' Provident Fund	447,479	405,119	484,965	439,044
Contribution to Employees' Trust Fund	89,367	81,024	98,391	89,202
Contribution to defined benefit plan				
- Pension Fund [Note 41.2 (a)]	(32,931)	14,633	(32,931)	14,633
- Gratuity [Note 41.1 (a)]	177,685	141,933	197,725	162,972
Others	432,339	436,507	473,958	455,368
Total	5,736,522	5,672,007	6,363,374	6,322,751

Remuneration paid to Executive Directors are included under salary and bonus as they are not entitled to emoluments as Non-Executive Directors.

13. DEPRECIATION AND AMORTISATION EXPENSES

ACCOUNTING POLICY

Useful Life Time of Property, Plant & Equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from the date when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. No depreciation is charged in the month of disposal of the asset and the Group do not charge depreciation on freehold land. The depreciation rates are determined separately for each significant part of the assets.

The Group reviews the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 December 2022 and 2021, are as follows:

	Period (Years)	% per Annum
Freehold buildings	50	2.00
Leasehold buildings	5	20.00
Motor vehicles	4	25.00
Office equipment and furniture	5	20.00
Computer equipment - ATMs	8	12.50
Computer equipment - Servers	6	16.67
Computer equipment - iPads	4	25.00
Computer equipment - Others	5	20.00
Mobile Phones	3	33.33
Sundry fittings	4	25.00

Above rates are compatible with the rates used by the group companies.

Amortisation of Intangible Assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the years ended 31 December 2022 and 2021 are given as follows:

Class of Assets	Period (Years)	% per Annum
Computer software - Application software	6	16.67
Computer software - Data Base Software	8	12.50
Computer software - Operating System software	8	12.50
Computer software - Utility Software	6	16.67
Computer software - Others	5-10	20.00-10.00

Above rates are compatible with the rates used by the group companies.

Depreciation of Right of Use Assets

Depreciation is calculated using the straight-line method over the tenor of the lease agreements and it is recognised in the Statement of Profit or Loss.

An analysis of depreciation and amortisation expenses are given below.

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Own assets				
Depreciation of property, plant & equipment (Note 32.1 & 32.4)	397,748	408,247	433,647	446,850
Amortisation of intangible assets (Note 34.1)	135,787	114,270	141,118	120,007
Assets under operating leases				
Depreciation of right of use assets (Note 33)	313,099	309,126	351,269	347,254
Total	846,634	831,643	926,034	914,111

14. OTHER EXPENSES

ACCOUNTING POLICY

Other expenses include operating expenses of the Group which are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income and are recognised on an accrual basis.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Directors' emoluments	31,276	32,048	44,660	42,953
Auditors' remuneration				
Audit fees and expenses	11,944	10,225	19,073	16,116
Audit related fees and expenses	5,354	6,014	5,354	6,110
Non-audit fees and expenses*	3,559	1,598	3,933	2,592
Professional and legal expenses	31,710	38,574	55,997	51,184
Donations	7,963	15,994	12,063	20,209
Office administration and establishment expenses	2,209,399	1,598,247	2,372,194	1,716,994
Deposit insurance expenses	621,852	469,209	621,852	469,209
Others	1,877,433	1,758,819	2,074,631	1,952,543
Total	4,800,490	3,930,728	5,209,757	4,277,910

Directors' emoluments consists of fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under salary and bonus in Note 12.

*In addition to the above, an amount of LKR 1.1 Mn (2021-1.4 Mn) in relation to the implementation of core banking project which is included under software under development in Note 34.2, had been paid to the auditors during the year.

15. TAX ON FINANCIAL SERVICES

ACCOUNTING POLICY

Tax on Financial Services include Value Added Tax and Social Security Contribution Levy on financial services.

Value Added Tax (VAT) on Financial Services

Value Added Tax (VAT) on financial services is calculated in accordance with Value Added Tax Act, No. 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on financial services is the accounting profit before income tax and emoluments payable to employees, which is adjusted for the depreciation of property, plant & equipment computed at the prescribed rates. The emoluments payable include aggregate of both benefits in money and benefits not in money payable to the employees and any contribution or provision in relating to terminal benefits. The regulatory tax rate applicable for the current year was 18%. (2021 - 15%).

Social Security Contribution Levy (SSCL) on Financial Services

SSCL on financial services is calculated with effect from 01 October 2022 in accordance with Social Security Contribution Levy Act, No. 25 of 2022. The base applicable for Value Added Tax on financial services is as explain above applied for the computation of the SSCL on financial services and the regulatory tax rate is 2.5%.

15. TAX ON FINANCIAL SERVICES (CONTD.)

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Value Added Tax on financial services	1,149,682	2,014,671
Social Security Contribution Levy on financial services	53,410	-
Total	1,203,092	2,014,671

16. SHARE OF ASSOCIATE COMPANIES' PROFITS/(LOSSES)

The Group's share of profits/(losses) of an investment in an associate company which is recognised as per the equity method, is shown on the face of the Statement of Profit or Loss outside operating profits. The Bank has not recognised profits/(losses) from its associate company, Ayojana Fund (Pvt) Limited, as the company is under liquidation. Please refer Note 30 to these Financial Statements.

17. INCOME TAX EXPENSES

ACCOUNTING POLICY

As per Sri Lanka Accounting Standard - LKAS 12, Income Taxes, income tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Statement of Profit or Loss, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

Current tax

Current tax consists of the expected tax payable to or receivable from the taxation authorities for the year and any adjustment to the tax payable or receivable in respect of previous years. The tax rates and tax laws used to compute the charge are those that are enacted or substantively enacted on the reporting date. Current tax also includes any tax arising from dividends. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017 and amendments there to, at the rates specified in Note 17.2 of these Financial Statements.

Provision for taxation of the foreign subsidiaries is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant statutes in those countries, using the tax rates enacted or substantively enacted as at the reporting date.

Deferred Tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised

deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax laws of the relevant jurisdiction. Details of deferred tax liabilities/(assets) are given in Note 40 to the Financial Statements.

IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

ACCOUNTING POLICY

The Group applies IFRIC Interpretation 23, "Uncertainty Over Income Tax Treatment" in determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over the income tax treatment. The Group determines whether to consider each uncertain tax

treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments. It assessed whether the Interpretation had an impact on its consolidated Financial

Statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. Accordingly the Group has already estimated and recorded the probable effect of uncertainty over income tax treatment in its consolidated Financial Statements.

Significant Accounting Estimates & Assumptions

The amount of current tax receivable or payable is the best estimate of the tax amount expected to be received or paid that reflects uncertainty related to income taxes, if any.

Management periodically evaluates the positions taken in the tax returns, with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The components of the income tax expenses for the years ended 31 December 2022 and 2021 are:

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current tax expense				
Taxation based on the profit for the year	5,868,752	3,247,443	6,074,946	3,484,244
Under/(over) provision in respect of previous years	(222,838)	(316,226)	(216,621)	(337,655)
Total current tax expense	5,645,914	2,931,217	5,858,325	3,146,589
Deferred tax expense				
Deferred tax reversal (Note 40.2)	(7,721,972)	(1,000,231)	(7,465,282)	(995,312)
Total income tax charged/(reversal) to the Statement of Profit or Loss (Note 17.1)	(2,076,058)	1,930,986	(1,606,957)	2,151,277
Effective tax rate (including deferred tax) (%)	(249)	23	(109)	23
Effective tax rate (excluding deferred tax) (%)	678	35	399	34

17.1 Reconciliation of the Accounting Profit to Income Tax Expenses

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit before taxation	832,987	8,293,462	1,468,847	9,214,007
Income tax expenses for the year (accounting profit @ applicable tax rate)	180,859	1,959,290	344,556	2,231,100
Income tax expenses for the year (dividend @ applicable tax rate)	22,355	18,166	59,511	42,748
Tax effect on				
Disallowable expenses	8,761,771	3,622,454	8,798,180	3,654,105
Tax deductible expenses	(2,096,818)	(1,828,543)	(2,120,132)	(1,919,785)
Exempt income	(999,415)	(523,924)	(1,007,169)	(523,924)
Taxation based on the profits for the year	5,868,752	3,247,443	6,074,946	3,484,244
Under/(over) provision in respect of previous years	(222,838)	(316,226)	(216,621)	(337,655)
Total current tax expense	5,645,914	2,931,217	5,858,325	3,146,589
Deferred tax reversal (Note 40.2)	(7,721,972)	(1,000,231)	(7,465,282)	(995,312)
Total income tax charged/(reversal) to the Statement of Profit or Loss	(2,076,058)	1,930,986	(1,606,957)	2,151,277

17.2 Applicable Income Tax Rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2022 and 2021 are as follows:

	2022 %	2021 %
National Development Bank PLC	24 & 30	24
NDB Capital Holdings Limited	24 & 30	24
Development Holdings (Pvt) Limited	24 & 30	24
NDB Investment Bank Limited	24 & 30	24
NDB Securities (Pvt) Limited	24 & 30	24
NDB Wealth Management Limited	24 & 30	24
NDB Zephyr Partners Lanka (Pvt) Limited	Exempt	Exempt
NDB Zephyr Partners Limited (Mauritius)*	15	15
NDB Capital Limited (Bangladesh)**	0.6	0.6

*The Company is, however, entitled to a tax credit equivalent to the higher of actual foreign tax suffered or 80% of the Mauritius tax chargeable on its foreign source income.

**The applicable tax rate for the company is 37.5%. However, a minimum tax provision of 0.6% on gross receipts is applicable for loss making companies.

The income tax rate of 24% was increased to 30% with effect from 01 October 2022 with the legalisation of the Inland Revenue (Amendment) Act, No. 45 of 2022 during the current period.

The Group computed the income tax liability for the first six months of the year of assessment 2022/23 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the Group for the second six months of the year of assessment.

Dividend received out of taxable profits are liable to income tax at 14% up to 30 September 2022. During the period from 01 October 2022 to 31 December 2022, dividend received out of taxable profits are liable to income tax at 15% as per the Notice PN/IT/2023-01 dated 20 January 2023 issued by the Department of Inland Revenue pending formal amendments being made to the Inland Revenue Act, No. 24 of 2017.

The income tax rate of 28% was reduced to 24% retrospectively with effect from 01 January 2020 with the legalisation of the Inland Revenue (Amendment) Act, No. 10 of 2021 during the year 2021. However, current and deferred tax provisions for the year ended 31 December 2020 were calculated at the rate of 28% on the basis that the said amendment was not considered to be "substantially enacted" as per LKAS 12 - Income Taxes, as at 31 December 2020. The Group reassessed the current and deferred tax liabilities/ assets as at 31 December 2020 in compliance with the said amendment during the year 2021.

17.3 The Deferred Tax (Credit)/Charge in the Statement of Profit or Loss Comprise the Following:

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
(Reversal)/origination of deferred tax liabilities	(37,522)	(213,897)	242,508	(260,369)
Origination of deferred tax assets	(7,684,450)	(786,334)	(7,707,790)	(734,943)
Deferred tax (credit)/charge to the Statement of Profit or Loss (Note 40.2)	(7,721,972)	(1,000,231)	(7,465,282)	(995,312)

The deferred tax assets/liabilities of the Group as at 31 December 2022 were computed using the revised income tax rate of 30%.

18. BASIC/DILUTED EARNINGS PER SHARE

ACCOUNTING POLICY

The Group presents basic and diluted Earning per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit attributable to the ordinary equity shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, if any.

Earnings per Share: Basic/Diluted

	BANK		GROUP	
	2022	2021	2022	2021
Amount used as the numerator				
Profit attributable to equity holders of the parent (LKR '000)	2,909,045	6,362,476	3,008,737	6,904,263
Amount used as the denominator				
Weighted average number of ordinary shares [Note 18.1]	380,094,722	330,641,215	380,094,722	330,641,215
Basic/diluted earnings per share (LKR)	7.65	19.24	7.92	20.88

18.1 Weighted Average Number of Ordinary Shares for Basic/Diluted EPS

	BANK & GROUP	
	2022	2021
Number of shares held as at 01 January as per stated capital	357,123,647	232,637,231
Add : Weighted average effect of number of shares issued due to the Rights Issue	-	64,360,843
Add : Weighted average effect of number of shares issued due to the Private Placement	-	10,672,066
Add: Number of shares issued due to final scrip dividend for the year 2021	22,971,075	22,971,075
Weighted average number of shares held as at 31 December used as the denominator for EPS	380,094,722	330,641,215

19. DIVIDEND PER SHARE

ACCOUNTING POLICY

Interim and final dividends are recognised and accrued when the dividends are recommended and declared by the Board of Directors in accordance with the Companies Act No. 7 of 2007.

The Board of Directors will consider a declaration of dividends for the year 2022 in due course. The Bank paid a total dividend of LKR 5.50 per share comprising of a cash dividend of LKR 1.00 per share and a scrip dividend of LKR 4.50 per share for the year 2021.

	BANK & GROUP	
	2022 LKR	2021 LKR
Final dividend per share - Cash	-	1.00
Final dividend per share - Scrip	-	4.50
Total dividend per share	-	5.50

Dividend Paid during the Year	BANK & GROUP			
	Dividend per Share LKR	2022 LKR '000	Dividend per Share LKR	2021 LKR '000
Final scrip dividend declared and paid for the prior year	4.50	1,607,056	-	-
Final cash dividend declared and paid for the prior year	1.00	357,124	-	-
Interim cash dividend declared and paid for the prior year	-	-	1.50	348,956
Gross dividends declared and paid during the year with respect of prior year	5.50	1,964,180	1.50	348,956
Reversal of dividends paid in prior years		(4,215)		(10,462)
Dividends to equity holders		1,959,965		338,494

20. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

ACCOUNTING POLICY

Financial instruments in the Statement of Financial Position are measured on an ongoing basis either at fair value or at amortised cost. The Accounting Policies describe how each category of financial instrument is measured and how income and expenses, including fair value gains and losses are recognised. The following tables analyse the carrying amount of the financial instruments by category as defined in Sri Lanka Accounting Standard SLFRS 9 - 'Financial Instruments' under headings of the Statement of Financial Position:

20. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

As at 31 December 2022	BANK			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Cash and cash equivalents	-	34,849,521	-	34,849,521
Balances with the Central Bank of Sri Lanka	-	18,187,547	-	18,187,547
Placements with banks	-	4,108,989	-	4,108,989
Derivative financial instruments	7,909,252	-	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	19,318,483	-	-	19,318,483
Financial assets at amortised cost - loans and receivables to other customers	-	545,873,027	-	545,873,027
Financial assets at amortised cost - debt and other instruments	-	135,047,886	-	135,047,886
Financial assets measured at fair value through other comprehensive income	-	-	44,685,230	44,685,230
Other financial assets	-	1,963,077	-	1,963,077
Total financial assets	27,227,735	740,030,047	44,685,230	811,943,012

As at 31 December 2022	BANK		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	20,251,657	20,251,657
Derivative financial instruments	96,246	96,246	192,492
Financial liabilities at amortised cost - due to depositors	-	672,314,023	672,314,023
Financial liabilities at amortised cost - due to debt securities holders	-	130,541	130,541
Financial liabilities at amortised cost - due to other borrowers	-	32,372,265	32,372,265
Debt securities issued	-	27,979,631	27,979,631
Other financial liabilities	-	2,958,157	2,958,157
Total financial liabilities	96,246	756,102,520	756,198,766

As at 31 December 2022	GROUP			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Cash and cash equivalents	-	35,727,665	-	35,727,665
Balances with the Central Bank of Sri Lanka	-	18,187,547	-	18,187,547
Placements with banks	-	4,108,989	-	4,108,989
Derivative financial instruments	7,909,252	-	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	20,788,523	-	-	20,788,523
Financial assets at amortised cost - loans and receivables to other customers	-	545,919,824	-	545,919,824
Financial assets at amortised cost - debt and other instruments	-	135,047,886	-	135,047,886
Financial assets measured at fair value through other comprehensive income	-	-	45,454,490	45,454,490
Other financial assets	-	2,424,812	-	2,424,812
Total financial assets	28,697,775	741,416,723	45,454,490	815,568,988

As at 31 December 2022	GROUP		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	20,298,844	20,298,844
Derivative financial instruments	96,246	-	96,246
Financial liabilities at amortised cost - due to depositors	-	671,713,337	671,713,337
Financial liabilities at amortised cost - due to debt securities holders	-	130,541	130,541
Financial liabilities amortised cost - due to other borrowers	-	32,372,265	32,372,265
Debt securities issued	-	27,979,631	27,979,631
Other financial liabilities	-	3,273,911	3,273,911
Total financial liabilities	96,246	755,768,529	755,864,775

As at 31 December 2021	BANK			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Cash and cash equivalents	-	13,411,819	-	13,411,819
Balances with the Central Bank of Sri Lanka	-	16,403,362	-	16,403,362
Placements with banks	-	8,299,403	-	8,299,403
Derivative financial instruments	1,338,204	-	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	2,441,833	-	-	2,441,833
Financial assets at amortised cost - loans and receivables to other customers	-	504,538,968	-	504,538,968
Financial assets at amortised cost - debt and other instruments	-	54,262,976	-	54,262,976
Financial assets measured at fair value through other comprehensive income	-	-	89,552,196	89,552,196
Other financial assets	-	1,446,327	-	1,446,327
Total financial assets	3,780,037	598,362,855	89,552,196	691,695,088

As at 31 December 2021	BANK		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	24,770,644	24,770,644
Derivative financial instruments	1,048,644	-	1,048,644
Financial liabilities at amortised cost - due to depositors	-	552,039,792	552,039,792
Financial liabilities at amortised cost - due to debt securities holders	-	1,341,060	1,341,060
Financial liabilities at amortised cost - due to other borrowers	-	25,228,865	25,228,865
Debt securities issued	-	27,960,731	27,960,731
Other financial liabilities	-	2,911,821	2,911,821
Total financial liabilities	1,048,644	634,252,913	635,301,557

20. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

As at 31 December 2021	GROUP			
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Cash and cash equivalents	-	13,765,270	-	13,765,270
Balances with the Central Bank of Sri Lanka	-	16,403,362	-	16,403,362
Placements with banks	-	8,299,403	-	8,299,403
Derivative financial instruments	1,338,204	-	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	4,784,124	-	-	4,784,124
Financial assets at amortised cost - loans and receivables to other customers	-	504,374,296	-	504,374,296
Financial assets at amortised cost - debt and other instruments	-	54,262,976	-	54,262,976
Financial assets measured at fair value through other comprehensive income	-	-	89,696,611	89,696,611
Other financial assets	-	2,218,351	-	2,218,351
Total financial assets	6,122,328	599,323,658	89,696,611	695,142,597

As at 31 December 2021	GROUP		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	24,821,158	24,821,158
Derivative financial instruments	1,048,644	-	1,048,644
Financial liabilities at amortised cost - due to depositors	-	551,256,595	551,256,595
Financial liabilities at amortised cost - due to debt securities holders	-	1,341,060	1,341,060
Financial liabilities amortised cost - due to other borrowers	-	25,228,865	25,228,865
Debt securities issued	-	27,960,731	27,960,731
Other financial liabilities	-	3,252,900	3,252,900
Total financial liabilities	1,048,644	633,861,309	634,909,953

21. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

For the purpose of reporting in the Statement of Financial Position, cash and cash equivalents comprise of cash in hand and balances with banks. The cash in hand comprises of both local currency and foreign currency. Balances with banks represent local and foreign Nostro accounts. The balances of cash in hand are recorded at book value and the balances with banks are carried at amortised cost in the Statement of Financial Position.

	BANK		GROUP	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Cash in hand				
Local currency	7,579,661	6,913,746	7,579,849	6,913,838
Foreign currency	295,246	32,678	295,311	32,686
Balances with banks				
Local currency	997,999	349,810	1,670,324	491,337
Foreign currency	25,984,594	6,116,254	26,190,160	6,328,078
Sub Total	34,857,500	13,412,488	35,735,644	13,765,939
Less : Impairment allowance (Note 21.1)	7,979	669	7,979	669
Total	34,849,521	13,411,819	35,727,665	13,765,270

21.1 Movement in impairment allowance during the year

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Stage 1				
Balance as at 01 January	669	999	669	999
Charges/(reversals) for the year	7,310	(330)	7,310	(330)
Balance as at 31 December	7,979	669	7,979	669

22. BALANCES WITH THE CENTRAL BANK OF SRI LANKA

ACCOUNTING POLICY

Balances with the Central Bank of Sri Lanka include the cash balance that is required to be maintained with the Central Bank of Sri Lanka as per the provisions of the Monetary Law Act. The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve on all deposit liabilities denominated in Sri Lankan Rupees. There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Offshore Banking Unit (OBU) in Sri Lanka. Balances with the Central Bank of Sri Lanka is carried at amortised cost in the Statement of Financial Position.

The minimum cash reserve requirement to be maintained by the Bank during the year was as follows.

	Period	Reserve Requirement (SRR)	Period	Reserve Requirement (SRR)
	2022		2021	
All Rupee deposit liabilities	01.01.2022 - 31.12.2022	4.0%	01.01.2021 - 31.08.2021 01.09.2021 - 31.12.2021	2.0% 4.0%

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Statutory balances with the Central Bank of Sri Lanka	18,187,547	16,403,362	18,187,547	16,403,362
Total	18,187,547	16,403,362	18,187,547	16,403,362

23. PLACEMENTS WITH BANKS

ACCOUNTING POLICY

Placements with Banks include short-term deposits placed in banks and are subjected to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments. These are recorded in the Financial Statements at the face values or the gross values, where appropriate, net of impairment charges.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Placements - in local banks	4,109,227	8,301,494	4,109,227	8,301,494
Less : Impairment allowance (Note 23.1)	238	2,091	238	2,091
Total	4,108,989	8,299,403	4,108,989	8,299,403

23.1 Movement in impairment allowance during the year

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Stage 1				
Balance as at 01 January	2,091	329	2,091	329
Charges/(reversals) for the year	(1,853)	1,762	(1,853)	1,762
Balance as at 31 December	238	2,091	238	2,091

24. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include, cross-currency swaps, forward foreign exchange contracts and currency options. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The changes in the fair value of derivatives are included in 'Net gains/(losses) from trading

except the currency SWAP entered with the Central Bank of Sri Lanka.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).

Hedge Accounting

The Group elected to continue to apply hedge accounting in accordance with SLFRS 9 Financial Instruments.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception, the Group document the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also document their assessment, both at the inception of the hedge and on an ongoing basis, if the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss.

The amounts accumulated in Equity are reclassified to the Statement of Profit or Loss in the periods in which the hedged items, affect, profit or loss. When a hedging instrument is expired or is sold, or when a hedge no longer meets the criteria for hedge accounting. Any cumulative gain or loss existing in Equity at that time remains in Equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were reported in Equity are immediately transferred to the Statement of Profit or Loss.

The changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognised immediately in the Statement of Profit or Loss.

	BANK & GROUP			
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
	2022	2022	2021	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Forward foreign exchange contracts	209,134	96,246	1,338,204	1,048,644
Currency SWAP (Note 24.1)	7,700,118	-	-	-
Total	7,909,252	96,246	1,338,204	1,048,644

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding as at 31 December 2022 and are indicative of neither the market risk nor the credit risk.

	BANK & GROUP					
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	2022	2022	2022	2021	2021	2021
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Forward foreign exchange contracts						
- Sales	20,200	68,177	17,608,734	1,213,720	63,441	50,402,578
- Purchases	188,934	28,069	17,726,451	124,484	985,203	50,638,120
Currency SWAP - Purchases [Note 24.1]	7,700,118	-	13,212,000	-	-	-
Total	7,909,252	96,246	48,547,185	1,338,204	1,048,644	101,040,698

24.1 Currency SWAP

The Bank entered in to a SWAP arrangement with the Central Bank of Sri Lanka effective from 18 March 2022 USD 36 mn out of a total foreign borrowing value of USD 50 Mn which has a tenure of seven years with a grace period of 1 year for the repayment of capital.

The SWAP arrangement is with twelve cross currency SWAPS which are maturing semi annually over the tenure of the foreign borrowings.

As per Sri Lanka Accounting Standard - SLFRS 9 - Financial Instruments, the Bank identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship.

A brief description of the cash flow hedge is given below:

24.1(a) SWAP Agreement

Details	Description of the Hedge
Hedged instrument	SWAP contract - 12 cross currency swaps Counterparty - Central Bank of Sri Lanka Notional amount - USD 36 Mn which is 72% of the total amount of the foreign borrowings that is hedged.
Hedged item	USD denominated borrowing - USD 50 Mn with a tenure of 7 years and grace period of 1 year. Repayment periods commenced from April 2023 until 2029 which is paid once in three months.
The periods when the cash flows are expected to occur	As given above
The amount recognised in other comprehensive income	LKR 3.1 Bn credit to the cash flow hedge reserve (net of tax)
Fair value of the hedged item	LKR 18.25 Bn
Fair value of the hedged instrument	LKR 7.7 Bn
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None

24.1(b) Total Amount Recognised in the Statement of Comprehensive Income Relating to the Cash Flow Hedge

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Cash flow hedge reserve-SWAP	4,385,238	-
Deferred Tax-effect on gains/(losses) of cash flow hedge reserve	(1,315,571)	-
Total	3,069,667	-

24.1(c) Sensitivity analysis of Effective Interest rate of discounting factor on Cash Flow Hedge

The fair value of derivative financial assets/liability discounted based on effective interest rate and sensitivity analysis presented below

	BANK & GROUP	
	Sensitivity Effect on Other Comprehensive Income Increase/ (Decrease) in Comprehensive Income 2022 LKR '000	Sensitivity Effect on Other Comprehensive Income Increase/(Decrease) in Comprehensive Income 2021 LKR '000
Increase/(Decrease) in Discount rate %		
2	(552)	-
(2)	604	-
1	(282)	-
(1)	295	-

25. FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE

ACCOUNTING POLICY

The Group classifies financial assets as financial assets recognised through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Financial assets recognised through profit or loss are recorded and measured in the Statement of Financial

Position at fair value. The changes in fair value are recognised in the Statement of Profit or Loss under Net gains/(losses) from financial assets at fair value through profit or loss.

Financial assets recognised through profit or loss consist of quoted equity securities, Unit Trust Investments and Sri Lanka Government Debt Securities, that have been acquired principally for the purpose of selling or repurchasing in the near term, and are recorded at fair values using assumptions

that a market participant would make, when valuing such instruments. The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange. Sri Lanka Government Securities are valued based on the market rates publish by the money brokers. Investment in private equity funds are measured at fair value based on the change in the net asset value of the funds and is recognised through profit or loss. The unit trust investments are valued at unit prices available in the market.

Accounting Judgements, Estimates and Assumptions

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government Securities - treasury bonds	1,790,818	-	1,790,818	-
Sri Lanka Government Securities - treasury bills	17,527,665	-	17,527,665	-
Quoted ordinary shares	-	-	242,957	400,165
Non-quoted ordinary shares	-	-	126,200	126,200
Investment in private equity fund	-	-	749,668	847,239
Investment in unit trusts	-	2,441,833	351,215	3,410,520
Total	19,318,483	2,441,833	20,788,523	4,784,124

25.1 Analysis of financial assets recognised through profit or loss measured at fair value

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
By collateralisation				
Unencumbered	19,318,483	2,441,833	20,788,523	4,784,124
Gross total	19,318,483	2,441,833	20,788,523	4,784,124
By currency				
Sri Lanka Rupee	19,318,483	2,441,833	20,038,855	3,936,885
United States Dollar	-	-	749,668	847,239
Gross total	19,318,483	2,441,833	20,788,523	4,784,124

26. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS

ACCOUNTING POLICY

The accounting policy applied by the Group for Financial assets at amortised cost - Loans and receivables to other customers, impairment, collateral valuations, write-off of loans and receivables to other customers and restructured/rescheduled loan facilities are described in Note 3.1, Financial instruments - SLFRS 9 and Note 11, Impairment charges.

Financial assets at amortised cost - Loans and receivables to other customers include, loans and receivables and lease receivables of the Group. As per SLFRS 9, "Loans and receivables to other customers" are assets that are held within a business model with the objective of holding the assets in order to collect

contractual cash flows and the contractual terms of the assets that give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

When the Group is the lessor in a lease agreement that transfers substantially all risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases, net of initial rentals received, unearned lease income and impairment allowance are classified as leasing and are presented within "Loans and receivables to other customers" in the Statement of Financial Position.

After initial measurement, "Loans and receivables to other customers" are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment allowance, except when the Group designates loans and receivables at fair value through profit or loss. Amortised cost is calculated by considering any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income" in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss as "Impairment charges for loans and receivables to other customers".

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross loans and receivables to other customers	579,560,964	526,141,042	579,607,761	525,976,370
Less: Impairment allowance for loans and receivables to other customers (Note 26.1)	33,687,937	21,602,074	33,687,937	21,602,074
Net loans and receivables to other customers	545,873,027	504,538,968	545,919,824	504,374,296

26.1 Loans and Receivables to Other Customers - Stage wise analysis

	BANK							
	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Individually impaired loans	-	65,750,586	43,555,523	109,306,109	-	17,868,689	28,530,336	46,399,025
Collectively impaired loans	336,560,467	112,103,321	21,591,067	470,254,855	371,274,982	93,716,951	14,750,084	479,742,017
Gross loans and receivables to other customers (a)	336,560,467	177,853,907	65,146,590	579,560,964	371,274,982	111,585,640	43,280,420	526,141,042
Individual impairment [Note 26.6.(a)]	-	2,336,073	19,400,586	21,736,659	-	1,514,732	9,869,596	11,384,328
Collective impairment [Note 26.6.(a)]	3,688,573	3,019,038	5,243,667	11,951,278	3,353,843	2,524,258	4,339,645	10,217,746
Total impairment allowance (b)	3,688,573	5,355,111	24,644,253	33,687,937	3,353,843	4,038,990	14,209,241	21,602,074
Net loans and receivables to other customers (a)-(b)	332,871,894	172,498,796	40,502,337	545,873,027	367,921,139	107,546,650	29,071,179	504,538,968

	GROUP							
	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Individually impaired loans	-	65,750,586	43,555,523	109,306,109	-	17,868,689	28,530,336	46,399,025
Collectively impaired loans	336,607,264	112,103,321	21,591,067	470,301,652	371,110,310	93,716,951	14,750,084	479,577,345
Gross loans and receivables to other customers (a)	336,607,264	177,853,907	65,146,590	579,607,761	371,110,310	111,585,640	43,280,420	525,976,370
Individual impairment [Note 26.6.(a)]	-	2,336,073	19,400,586	21,736,659	-	1,514,732	9,869,596	11,384,328
Collective impairment [Note 26.6.(a)]	3,688,573	3,019,038	5,243,667	11,951,278	3,353,843	2,524,258	4,339,645	10,217,746
Total impairment allowance (b)	3,688,573	5,355,111	24,644,253	33,687,937	3,353,843	4,038,990	14,209,241	21,602,074
Net loans and receivables to other customers (a)-(b)	332,918,691	172,498,796	40,502,337	545,919,824	367,756,467	107,546,650	29,071,179	504,374,296

26.2 Loans and Receivables to Other Customers - By Product

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Long-term loans	157,268,970	150,509,586	157,315,767	150,509,586
Medium and short-term loans	132,089,581	117,464,363	132,089,581	117,464,363
Overdrafts	91,368,075	73,098,306	91,368,075	72,863,853
Consumer loans	55,359,969	55,080,118	55,359,969	55,080,118
Trade finance loans	58,282,323	48,322,435	58,282,323	48,322,435
Leasing and hire purchases (Note 26.7)	23,510,550	28,080,778	23,510,550	28,080,778
Housing loans	19,219,995	19,230,619	19,219,995	19,230,619
Islamic loans	16,471,991	13,914,119	16,471,991	13,914,119
Credit Cards	8,329,859	7,948,654	8,329,859	7,948,654
Auto finance loans	3,453,044	3,423,346	3,453,044	3,423,346
Pawning	11,864,851	6,598,837	11,864,851	6,598,837
Staff loans	2,341,756	2,469,881	2,341,756	2,539,662
Total	579,560,964	526,141,042	579,607,761	525,976,370

26.3 Loans and Receivables to Other Customers - By Currency

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Rupee	448,718,704	436,653,742	448,765,501	436,489,070
United States Dollar	126,046,161	86,984,766	126,046,161	86,984,766
Euro	4,650,615	2,392,588	4,650,615	2,392,588
Great Britain Pound	1,454	7,824	1,454	7,824
Others	144,030	102,122	144,030	102,122
Total	579,560,964	526,141,042	579,607,761	525,976,370

26.4 Loans and Receivables to Other Customers - By Industry

	BANK			
	2022		2021	
	LKR '000	%	LKR '000	%
Services	117,908,917	20	109,365,160	21
Consumer	75,673,325	13	61,239,369	11
Agriculture, agro-business and fisheries	57,188,988	10	62,241,443	12
Metals, chemicals and engineering	52,485,032	9	47,350,279	9
Trading	52,134,047	9	50,102,939	10
Constructions and housing finance	49,374,759	9	50,088,834	10
Utilities	46,999,427	8	43,315,302	8
Hotels and tourism	41,297,328	7	26,657,992	5
Textiles and garments	37,887,798	7	32,660,483	6
Food, beverages and tobacco	24,784,992	4	20,910,193	4
Transport	14,694,248	3	15,052,082	3
Wood and paper products	5,798,288	1	5,332,216	1
Leather and plastic products	2,497,898	0	1,808,734	0
Others	835,917	0	16,016	0
Total	579,560,964	100	526,141,042	100

26.5 Loans and Receivables to Other Customers - By Province

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Western Province	494,840,521	445,714,855	494,887,318	445,550,183
Southern Province	17,410,309	16,599,493	17,410,309	16,599,493
North-Western Province	14,935,706	15,220,658	14,935,706	15,220,658
Central Province	16,914,840	14,140,225	16,914,840	14,140,225
Sabaragamuwa Province	9,525,702	9,653,284	9,525,702	9,653,284
North-Central Province	10,891,945	9,763,189	10,891,945	9,763,189
Eastern Province	5,704,520	5,373,744	5,704,520	5,373,744
Northern Province	4,792,202	5,290,131	4,792,202	5,290,131
Uva Province	4,545,219	4,385,463	4,545,219	4,385,463
Total	579,560,964	526,141,042	579,607,761	525,976,370

The province-wise disclosure is made based on the location of the branch from which the facilities have been disbursed.

26.6 Impairment Allowance for Loans and Receivables to Other Customers

26.6(a) Movement in impairment allowance during the year

	BANK & GROUP							Total LKR '000
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	
Balance as at 01 January 2022	3,353,843	2,524,258	4,339,645	10,217,746	1,514,732	9,869,596	11,384,328	21,602,074
Charges/(reversals) for the year [Note 11.2]	334,730	494,780	904,022	1,733,532	821,341	9,951,504	10,772,845	12,506,377
Net amount written off	-	-	-	-	-	(578,490)	(578,490)	(578,490)
Other movement	-	-	-	-	-	157,976	157,976	157,976
Balance as at 31 December 2022	3,688,573	3,019,038	5,243,667	11,951,278	2,336,073	19,400,586	21,736,659	33,687,937

	BANK & GROUP							Total LKR '000
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	
Balance as at 01 January 2021	2,567,997	1,337,262	3,901,942	7,807,201	1,184,320	7,773,991	8,958,311	16,765,512
Charges/(reversals) for the year [Note 11.2]	785,846	1,186,996	794,826	2,767,668	330,412	4,215,286	4,545,698	7,313,366
Net amount written off	-	-	(357,123)	(357,123)	-	(2,144,593)	(2,144,593)	(2,501,716)
Other movement	-	-	-	-	-	24,912	24,912	24,912
Balance as at 31 December 2021	3,353,843	2,524,258	4,339,645	10,217,746	1,514,732	9,869,596	11,384,328	21,602,074

26.6(b) Impairment allowance for Loans and Receivables to other customers - By Product

	BANK & GROUP											Total
	Long-term Loans	Medium & Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchase Rental Receivables	Housing Loans	Credit Cards	Pawning	Islamic Banking	Staff Loans	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2022	4,435,711	6,283,317	3,321,239	1,430,536	2,800,165	1,446,425	678,241	831,381	5,047	369,194	818	21,602,074
Charges/(reversals) for the year	1,894,857	7,873,232	1,527,835	377,936	45,164	19,769	136,607	569,416	39,478	22,083	-	12,506,377
(Amount written off)/written back	94,378	(728,574)	(11,411)	(4,077)	-	71,194	-	-	-	-	-	(578,490)
Other movement	-	-	-	-	-	-	-	-	-	157,976	-	157,976
As at 31 December 2022	6,424,946	13,427,975	4,837,663	1,804,395	2,845,329	1,537,388	814,848	1,400,797	44,525	549,253	818	33,687,937
Individual impairment	5,651,721	11,999,680	2,237,173	1,146,187	16,227	297,795	45,614	22,687	2,141	317,434	-	21,736,659
Collective impairment	773,222	1,428,295	2,600,491	658,208	2,829,102	1,239,593	769,234	1,378,111	42,384	231,820	818	11,951,278
As at 31 December 2022	6,424,943	13,427,975	4,837,664	1,804,395	2,845,329	1,537,388	814,848	1,400,798	44,525	549,254	818	33,687,937
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	69,383,478	46,315,211	12,085,347	14,027,803	34,150	2,735,623	688,020	24,780	2,141	659,516	-	145,956,069
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	54,829,068	38,138,252	7,757,965	7,196,818	32,572	514,213	312,756	24,461	2,141	497,863	-	109,306,109
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	49,177,347	26,138,572	5,520,792	6,050,631	16,345	216,418	267,142	1,774	-	180,429	-	87,569,450

26.6(c) Impairment allowance for Loans and Receivables to Other Customers - By Product

BANK & GROUP												
	Long-term Loans	Medium & Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchase Rental Receivables	Housing Loans	Credit Cards	Pawning	Islamic Banking	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2021	3,832,945	4,728,264	2,701,643	839,068	2,225,963	1,267,726	547,038	359,577	7,605	254,865	818	16,765,512
Charges/(reversals) for the year	858,149	2,772,483	960,220	699,039	693,966	384,638	138,463	719,549	(2,558)	89,417	-	7,313,366
(Amount written off)/written back	(255,383)	(1,217,430)	(340,624)	(107,571)	(119,764)	(205,939)	(7,260)	(247,745)	-	-	-	(2,501,716)
Other movement	-	-	-	-	-	-	-	-	-	24,912	-	24,912
As at 31 December 2021	4,435,711	6,283,317	3,321,239	1,430,536	2,800,165	1,446,425	678,241	831,381	5,047	369,194	818	21,602,074
Individual impairment	3,457,931	5,514,845	1,241,521	552,022	23,338	327,939	38,190	13,116	-	215,426	-	11,384,328
Collective impairment	977,777	768,473	2,079,718	878,514	2,776,827	1,118,486	640,050	818,266	5,047	153,770	818	10,217,746
As at 31 December 2021	4,435,708	6,283,318	3,321,239	1,430,536	2,800,165	1,446,425	678,240	831,382	5,047	369,196	818	21,602,074
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	32,489,284	29,491,993	8,182,640	4,802,168	108,320	2,895,874	810,877	23,956	4,065	1,019,739	-	79,828,916
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	17,729,097	19,595,066	4,917,868	1,850,466	72,861	642,354	704,889	22,975	-	863,449	-	46,399,025
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	14,271,166	14,080,221	3,676,347	1,298,444	49,523	314,415	666,699	9,859	-	648,023	-	35,014,697

26.7 Leasing and Hire Purchases

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Gross lease and hire purchase rental receivables	27,666,807	33,063,657
Less: Unearned income	4,156,257	4,982,879
Total lease and hire purchase rental receivables (Note 26.2)	23,510,550	28,080,778
Less: Impairment allowance [Note 26.7.(a)]	1,537,388	1,446,425
Total	21,973,162	26,634,353

26.7 (a) Impairment allowance

	BANK & GROUP							Total LKR '000
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	
Balance as at 01 January 2022	190,512	426,769	501,205	1,118,486	331	327,608	327,939	1,446,425
Charges/(reversals) for the year	(22,345)	127,269	16,183	121,107	4,111	(105,449)	(101,338)	19,769
(Amount written off)/written back	-	-	-	-	-	71,194	71,194	71,194
Balance as at 31 December 2022	168,167	554,038	517,388	1,239,593	4,442	293,353	297,795	1,537,388
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance								2,735,623
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance								514,213
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance								216,418

	BANK & GROUP							Total LKR '000
	COLLECTIVE				INDIVIDUAL			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Sub total LKR '000	
Balance as at 01 January 2021	192,682	114,208	695,371	1,002,261	11,461	254,004	265,465	1,267,726
Charges/(reversals) for the year	(2,170)	312,561	(178,404)	131,987	(11,130)	263,781	252,651	384,638
(Amount written off)/written back	-	-	(15,762)	(15,762)	-	(190,177)	(190,177)	(205,939)
Balance as at 31 December 2021	190,512	426,769	501,205	1,118,486	331	327,608	327,939	1,446,425
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance								2,895,874
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance								642,354
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance								314,415

26.8 Maturity of Leasing and Hire Purchases

	BANK & GROUP			
	2022			
	Less than 1 Year LKR '000	1-5 Years LKR '000	More than 5 Years LKR '000	Total LKR '000
Gross lease and hire purchase rentals receivables				
Total rental receivables	2,175,609	25,317,190	174,008	27,666,807
Less : Impairment allowance	327,810	1,206,436	3,142	1,537,388
Unearned income	64,192	4,031,675	60,389	4,156,256
Net rentals receivables	1,783,607	20,079,079	110,477	21,973,163

	BANK & GROUP			
	2021			
	Less than 1 Year LKR '000	1-5 Years LKR '000	More than 5 Years LKR '000	Total LKR '000
Gross lease and hire purchase rentals receivables				
Total rental receivables	1,539,219	31,358,975	165,463	33,063,657
Less : Impairment allowance	234,322	1,209,884	2,219	1,446,425
Unearned income	53,521	4,882,739	46,619	4,982,879
Net rentals receivables	1,251,376	25,266,352	116,625	26,634,353

27. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

ACCOUNTING POLICY

In line with the requirements of SLFRS 9, the Group applies the amortised cost method to measure financial instruments for which an entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

- Principle is the fair value of the instrument at initial recognition.
- Interest is the return within a basic lending arrangement and typically consists of consideration for the time value of money, and credit risk. It may also include consideration for other basic lending risks such as liquidity risk as well as a profit margin.

The Group determines its business model at the level that best reflect how it manages the financial assets to achieve its business objective. The details of the accounting policy on financial assets at amortised cost - debt and other instruments and impairment are described in Notes 3.1 and 11.

Accounting Judgements Estimates and Assumptions

The Group assesses impairment of financial assets measured at amortised cost - debt and other instruments in line with the same principles used for assessment of impairment of loans and receivables as described in Note 11. The impairment loss on financial assets measured at amortised cost - debt and other instruments is disclosed in Note 27.1 (d)) to the financial statements.

Reclassification of investment in Sovereign Bonds previously measured at Fair Value Through Other Comprehensive Income to measured at Amortised cost category

The Bank reclassified the Debt portfolio amounting to LKR 37.7 Bn, consisting of Sri Lanka Government Treasury Bonds of LKR 32.6 Bn and Sri Lanka USD Sovereign Bonds of USD 14 Mn held as "Fair Value through Other Comprehensive Income" to "Amortised cost" with effect from 01 April 2022. This reclassification is a one-time event in accordance with the Statement of Alternative Treatment (SoAT) on reclassification of debt portfolio issued by the Institute of Chartered Accountants of Sri Lanka and in line with the requirements of paragraph 5.6.5 of the SLFR 9-Financial Instruments. The cumulative losses from these instruments previously recognised in Other Comprehensive Income were removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government Securities - treasury bonds	32,340,388	2,362,552	32,340,388	2,362,552
Sri Lanka Government Securities - treasury bills	40,292,351	-	40,292,351	-
Sri Lanka Development Bonds	22,206,894	18,356,345	22,206,894	18,356,345
Sovereign Bonds	54,105,234	26,576,257	54,105,234	26,576,257
Quoted debentures	6,606,309	6,642,202	6,606,309	6,642,202
Securities purchased under resale agreements	-	3,223,111	-	3,223,111
Sub Total	155,551,176	57,160,467	155,551,176	57,160,467
Less: Impairment allowance [Note 27.1 (d)]	20,503,290	2,897,491	20,503,290	2,897,491
Total	135,047,886	54,262,976	135,047,886	54,262,976

27.1 (a) Analysis of financial assets at amortised cost - Debt and other instruments

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
By collateralisation				
Pledged as collateral	160,802	-	160,802	-
Unencumbered	155,390,374	57,160,467	155,390,374	57,160,467
Gross total	155,551,176	57,160,467	155,551,176	57,160,467
By currency				
Sri Lanka Rupee	79,239,048	12,227,865	79,239,048	12,227,865
United States Dollar	76,312,128	44,932,602	76,312,128	44,932,602
Gross total	155,551,176	57,160,467	155,551,176	57,160,467

27.1 (b) Financial assets at amortised cost - Debt and other instruments - stage wise analysis

	BANK & GROUP							
	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government securities- treasury bonds	32,340,388	-	-	32,340,388	2,362,552	-	-	2,362,552
Sri Lanka Government Securities - treasury bills	40,292,351	-	-	40,292,351	-	-	-	-
Sri Lanka Development Bonds	-	22,206,894	-	22,206,894	18,356,345	-	-	18,356,345
Sovereign Bonds	-	54,105,234	-	54,105,234	26,576,257	-	-	26,576,257
Quoted debentures	6,361,309	-	245,000	6,606,309	6,397,202	-	245,000	6,642,202
Securities purchased under resale agreements (Note 27.1 (c))	-	-	-	-	3,223,111	-	-	3,223,111
Sub Total	78,994,048	76,312,128	245,000	155,551,176	56,915,467	-	245,000	57,160,467
Less: Impairment allowance for investments [Note 27.1 (d)]	496	20,257,794	245,000	20,503,290	2,652,491	-	245,000	2,897,491
Total	78,993,552	56,054,334	-	135,047,886	54,262,976	-	-	54,262,976

27.1 (c) Disclosure as per the Direction No. 01 of 2019 dated 20.12.2019 on Repurchase and Reverse Repurchase transactions of dealer direct participants in Scripless Treasury Bonds and Scripless Treasury Bills

Dividend Paid during the Year	BANK			
	Carrying Value of Securities purchased under resale agreements 2022 LKR '000	Market Value of Securities received for Securities purchased under resale agreements 2022 LKR '000	Carrying Value of Securities purchased under resale agreements 2021 LKR '000	Market Value of Securities received for Securities purchased under resale agreements 2021 LKR '000
Securities purchased under resale agreements	-	-	3,223,111	3,487,989
Total	-	-	3,223,111	3,487,989

Bank's policy on haircuts for repurchase and reverse repo transactions are explained below.

The Bank's Board approved Policy Guideline outlines the allocation of securities and haircut rules for Repurchase and Reverse Re-purchase agreements and valuation process. The Policy has been formulated in line with Central Bank Direction No. 01 of 2019 and considering the market practice. Securities are allocated/obtained as per the set guidelines and the Bank was not exposed to any penalties due to non-compliance.

The Bank was not liable to any penalties imposed for the non compliance with the Direction No. 01 of 2019 on Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance dated 20 December 2019 issued by the Monetary Board of the Central Bank of Sri Lanka.

27.1 (d) Movements in impairment allowance during the year

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Stage 1				
Balance as at 01 January	2,652,491	713,722	2,652,491	713,722
Transfer / Adjustment	(2,651,815)	-	(2,651,815)	-
Charges/(reversals) to Statement of Profit or Loss	(180)	1,938,769	(180)	1,938,769
Balance as at 31 December	496	2,652,491	496	2,652,491
Stage 2				
Balance as at 01 January	-	-	-	-
Transfer / Adjustment	2,832,284	-	2,832,284	-
Charges/(reversals) to Statement of Profit or Loss	17,425,510	-	17,425,510	-
Balance as at 31 December	20,257,794	-	20,257,794	-
Stage 3				
Balance as at 01 January	245,000	245,000	245,000	245,000
Charges/(reversals) to Statement of Profit or Loss	-	-	-	-
Balance as at 31 December	245,000	245,000	245,000	245,000
Total	20,503,290	2,897,491	20,503,290	2,897,491

28. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

ACCOUNTING POLICY

Debt Instruments at Fair Value through Other Comprehensive Income (FVOCI)

The Group categorised debt instruments measured at FVOCI under SLFRS 9 when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial assets are solely payments of the principle amount and the interest (SPPI).

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in the Statement of Profit or Loss in the same manner as for financial assets measured at amortised cost as explained in Note 27. The ECL calculation for debt instruments at FVOCI is explained in Note 11, impairment charges. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in

first- out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to Statement of Profit or Loss.

The accounting policy applied by the Group for the Debt Instruments at Fair Value through Other Comprehensive Income (FVOCI) and impairment is described in Notes 3.1 and 11.

Reclassification of investment in Sovereign Bonds previously measured at Fair Value Through Other Comprehensive Income to measured at Amortised cost category

The Bank has reclassified the Debt portfolio amounting to LKR 37.7 Bn, consisting of Sri Lanka Government Treasury Bonds of LKR 32.6 Bn and Sri Lanka USD Sovereign Bonds of USD 14 Mn held as "Fair Value through Other Comprehensive Income" to "Amortised cost" with effect from 01 April 2022. This reclassification is a one-time event in accordance with the Statement of Alternative Treatment (SoAT) on reclassification of debt portfolio issued by the Institute of Chartered Accountants of Sri Lanka and in line with the requirements of the SLFR 9-Financial Instruments paragraph 5.6.5. The cumulative

losses from these instruments previously recognised in Other Comprehensive Income has been removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

Equity Instruments at Fair Value through Other Comprehensive Income (FVOCI)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under SLFRS 9, Financial Instruments: and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

28. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTD.)

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government Securities - treasury bonds	18,248,043	33,893,508	18,248,043	33,893,508
Sri Lanka Government Securities - treasury bills	25,651,529	53,030,077	26,354,221	53,030,077
Sovereign Bonds	-	1,607,879	-	1,607,879
Quoted ordinary shares (Note 28.2)	779,434	1,014,508	779,434	1,014,508
Non-quoted ordinary shares (Note 28.3)	16,568	16,568	16,568	16,568
Quoted debentures	-	-	66,568	144,415
Sub total	44,695,574	89,562,540	45,464,834	89,706,955
Less: Impairment allowance	10,344	10,344	10,344	10,344
Total	44,685,230	89,552,196	45,454,490	89,696,611

28.1 (a) Analysis of financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
By collateralisation				
Pledged as collateral	-	1,438,000	-	1,438,000
Unencumbered	44,695,574	88,124,540	45,464,834	88,268,955
Gross total	44,695,574	89,562,540	45,464,834	89,706,955
By currency				
Sri Lanka Rupee	44,695,574	87,954,661	45,464,834	88,099,076
United States Dollar	-	1,607,879	-	1,607,879
Gross total	44,695,574	89,562,540	45,464,834	89,706,955

28.1 (b) Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI) - stage wise analysis

	BANK							
	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities - treasury bonds	18,248,043	-	-	18,248,043	33,893,508	-	-	33,893,508
Sri Lanka Government Securities - treasury bills	25,651,529	-	-	25,651,529	53,030,077	-	-	53,030,077
Sovereign Bonds	-	-	-	-	1,607,879	-	-	1,607,879
Quoted ordinary shares (Note 28.2)	779,434	-	-	779,434	1,014,508	-	-	1,014,508
Non-quoted ordinary shares (Note 28.3)	6,224	-	10,344	16,568	6,224	-	10,344	16,568
Sub Total	44,685,230	-	10,344	44,695,574	89,552,196	-	10,344	89,562,540
Less: Impairment allowance for investments	-	-	10,344	10,344	-	-	10,344	10,344
Total	44,685,230	-	-	44,685,230	89,552,196	-	-	89,552,196

	GROUP							
	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Sri Lanka Government Securities - treasury bonds	18,248,043	-	-	18,248,043	33,893,508	-	-	33,893,508
Sri Lanka Government Securities - treasury bills	26,354,221	-	-	26,354,221	53,030,077	-	-	53,030,077
Sovereign Bonds	-	-	-	-	1,607,879	-	-	1,607,879
Quoted ordinary shares (Note 28.2)	779,434	-	-	779,434	1,014,508	-	-	1,014,508
Non-quoted ordinary shares (Note 28.3)	6,224	-	10,344	16,568	6,224	-	10,344	16,568
Quoted debentures	66,568	-	-	66,568	144,415	-	-	144,415
Sub Total	45,454,490	-	10,344	45,464,834	89,696,611	-	10,344	89,706,955
Less: Impairment allowance for investments	-	-	10,344	10,344	-	-	10,344	10,344
Total	45,454,490	-	-	45,454,490	89,696,611	-	-	89,696,611

28.1(c) Movement in impairment allowance during the year

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Stage 1				
Balance as at 01 January	181,155	45,581	191,669	56,095
Impairment charges (debited)/credited to other comprehensive income	(181,155)	135,574	(181,155)	135,574
Balance as at 31 December	-	181,155	10,514	191,669
Stage 3				
Balance as at 01 January	10,344	10,344	10,344	10,344
Impairment charges	-	-	-	-
Balance as at 31 December	10,344	10,344	10,344	10,344

28.2 Quoted ordinary shares

	BANK & GROUP			
	2022		2021	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of investments as at 01 January	23,056,971	2,011,196	22,398,200	1,977,598
Scrip dividend received during the year	1,608,625	69,171	658,771	33,598
Cost of the Investments as at 31 December	24,665,596	2,080,367	23,056,971	2,011,196
Gains/(losses) from fair valuations as at 01 January		(996,688)		(947,281)
Unrealised gains/(losses) during the year		(304,245)		(49,407)
Gains/(losses) from fair valuations as at 31 December		(1,300,933)		(996,688)
Market Value		779,434		1,014,508

28.2(a) Quoted ordinary shares

Details of quoted ordinary shares - 31 December 2022

Name of the Company	BANK & GROUP			
	No of Shares	Market price	Cost of Investments	Market value
		LKR	LKR '000	LKR '000
Seylan Bank PLC	24,665,595	31.60	2,080,367	779,434

Details of quoted ordinary shares - 31 December 2021

Name of the Company	BANK & GROUP			
	No of Shares	Market price	Cost of Investments	Market value
		LKR	LKR '000	LKR '000
Seylan Bank PLC	23,056,970	44.00	2,011,196	1,014,508

28.3 Non-quoted ordinary shares

The majority of non-quoted ordinary shares held by the Bank include share investments that have been made primarily for regulatory purposes. Such investments are recorded at cost due to unavailability of information to value such investments at fair value.

29. INVESTMENTS IN SUBSIDIARY COMPANIES

ACCOUNTING POLICY

Investments in subsidiary companies are accounted at cost less impairment allowance in the Financial Statements of the Bank. The net assets of each subsidiary company are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

	Corporate Status	2022		2021	
		Percentage Holding (%)	Cost LKR '000	Percentage Holding (%)	Cost LKR '000
NDB Capital Holdings Limited	Non-quoted	99.9	802,888	99.9	802,888
Development Holdings (Pvt) Limited	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Limited (Bangladesh)	Non-quoted	41.8	180,552	41.8	180,552
Sub total			1,211,590		1,211,590
Less: Impairment allowance for investments (Note 29.1)			95,796		80,674
Total			1,115,794		1,130,916

29.1 Movement in impairment allowance for investments in subsidiary companies

	2022 LKR '000	2021 LKR '000
As at 01 January	80,674	68,706
Charges/(reversals) to the Statement of Profit or Loss (Note 29.2)	15,122	11,968
As at 31 December	95,796	80,674

- 29.2** During the annual review of impairment allowance of investment in subsidiary companies, it was noted that the net assets position of NDB Capital Limited as at 31 December 2022 had decreased from LKR 241.4 Mn to LKR 202.9 Mn which is excluding the currency conversion impact on exchange rate movement. Accordingly, an impairment allowance of LKR 15 Mn was charged during the year to reflect the Bank's share of the net assets position of the Company as at 31 December 2022. The Bank assumed that the net book value of the company is the best approximate to the fair value less cost to sale.

29.3 Summarised Financial Information of the NDB Group's Investments in Subsidiaries

	Total	Development Holdings (Pvt) Limited	NDB Capital Limited (Bangladesh)	NDB Capital Holdings Limited (NCAP)	NDB Investment Bank Limited (Held through NCAP)	NDB Wealth Management Limited (Held through NCAP)	NDB Securities (Pvt) Limited (Held through NCAP)	NDB Zephyr Partners Limited (Group) (Held through NCAP)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
2022								
Total assets	8,968,597	3,916,753	365,027	2,551,575	528,698	301,721	1,078,942	225,881
Total liabilities	1,871,414	875,455	59,532	156,334	106,862	178,357	471,520	23,354
Net assets	7,097,183	3,041,298	305,495	2,395,241	421,836	123,364	607,422	202,527
Gross income	2,389,028	517,748	61,993	640,667	245,537	430,498	403,511	89,074
Profits/(losses)	703,451	175,515	(56,138)	374,488	6,740	57,615	138,715	6,516
Cash Flow								
Cash flows from operating activities	813,397	184,930	(13,231)	452,937	(72,006)	(65,375)	286,769	39,373
Cash flows from investing activities	369,321	(66,771)	49,704	(153,823)	199,771	324,604	15,836	-
Cash flows from financing activities	(597,420)	(97,310)	-	(250,077)	-	(250,033)	-	-

	Total	Development Holdings (Pvt) Limited	NDB Capital Limited (Bangladesh)	NDB Capital Holdings Limited (NCAP)	NDB Investment Bank Limited (Held through NCAP)	NDB Wealth Management Limited (Held through NCAP)	NDB Securities (Pvt) Limited (Held through NCAP)	NDB Zephyr Partners Limited (Group) (Held through NCAP)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
2021								
Total assets	9,646,961	3,639,349	301,204	2,443,918	587,576	625,619	1,908,734	140,561
Total liabilities	2,731,203	623,757	59,854	167,467	166,749	256,103	1,443,209	14,064
Net assets	6,915,758	3,015,592	241,350	2,276,451	420,827	369,516	465,525	126,497
Gross income	2,424,628	450,438	29,295	347,047	393,811	661,847	479,169	63,021
Profits/(losses)	1,061,870	396,771	(38,849)	124,285	109,514	238,689	237,405	(5,945)
Cash Flow								
Cash flows from operating activities	208,001	224,151	(2,121)	(213,468)	183,436	288,947	(136,472)	(136,472)
Cash flows from investing activities	28,580	(167,670)	-	535,834	(194,923)	(139,342)	(5,319)	-
Cash flows from financing activities	(397,376)	(97,310)	-	(150,046)	-	(150,020)	-	-

30. INVESTMENTS IN ASSOCIATE COMPANIES

ACCOUNTING POLICY

An associate is an entity in which the Group has significant influence, but not control, over the variable returns through its power over the investee. An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. The Group's investments in its associate companies are accounted for by using the equity method. Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate. The carrying value of the investment in associates is reviewed for impairment at each reporting period.

The Bank's investments in Associate companies represent Ayojana Fund (Pvt) Limited (a 50% share holding) at a cost of LKR 100,000 for which full impairment allowance has been made.

31. INVESTMENT PROPERTY

ACCOUNTING POLICY

Basis of Recognition

An 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 is reliably measured.

Distinction Between Investment Properties and Owner-Occupied Properties

The Group determines whether a property qualifies as an investment property by considering whether the property generates cash flows largely independently of the other assets held by the entity. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Group considers each property separately in making its judgment.

Measurement

The Land and Building of Development Holdings (Pvt) Limited, which is held to earn rental income and for capital appreciation has been classified as an 'investment property', and is reflected at fair value in accordance with LKAS 40, Investment Property. Investment properties are initially recognised at cost. Subsequent to the initial recognition, the investment properties are stated at fair values. In estimating the fair values, the Independent Valuer considers current market prices of similar assets, so as to reflect market conditions at the reporting date. Gains or losses arising from changes in the fair values are included in the Statement of Profit or Loss, in the year in which they arise. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials, direct labour and any other costs directly attributable to bringing the investment property to a working condition for their intended use. Owner-occupied portion of an investment property is recognised and measured in line with the accounting policy used for property, plant & equipment of the Group and are presented under property, plant & equipment in the Financial Statements.

De-Recognition

Investment properties are derecognised when disposed or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

Basis of Valuation

As at 31 December 2021, the fair value of the property was based on the valuation performed by an Independent Professional Valuer, A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka who is having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, to determine the fair value of land and buildings. The income approach using the current market rent including passing rents has been used as the methodology by the valuer to value the investment property as recommended by SLFRS 13 - 'Fair Value Measurements'.

Significant Assumptions Used for the Valuation

- Outgoing at 30% of estimated rent (2021 - 40%)
- Capitalise YP at 16% (2021 - 16%)

	GROUP	
	2022 LKR '000	2021 LKR '000
As at 01 January	2,528,228	2,361,535
Additions during the year	182,594	13,689
Change in the fair value during the year	235,406	184,312
Less: Fair value of the owner-occupied portion	67,137	31,308
Net change in the fair value during the year (Note 10)	168,269	153,004
As at 31 December	2,879,091	2,528,228

31.1 Statement of Income and Expenditure of the Investment Property

	GROUP	
	2022 LKR '000	2021 LKR '000
Rental income derived from investment properties	236,865	246,348
Direct operating expenses (including repair and maintenance) generating rental income	(38,187)	(31,025)
Direct operating expenses (including repair and maintenance) that did not generate rental income	(27,223)	(21,918)
Profit arising from investment properties carried at fair value	171,455	193,405

31.2 Information on investment properties of the Group - Extent and Locations

As required by Rule No 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange

	Business location of the premises	Number of Buildings	Land Extent (Perches)	Building Sq ft.	Fair Value as at 31 December 2022 LKR '000	Fair Value as at 31 December 2021 LKR '000
Through the subsidiary company of Development Holding (Pvt) Limited (DHPL)	No: 42 Nawam Mawatha, Colombo 02	1	71.27	175,190	3,430,000	3,012,000

Valuation amount includes fair value of owner occupied portion of LKR 551 Mn (2021 - LKR 484 Mn).

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancement.

Fair value hierarchy disclosures for investment properties are given in Note 55 (a), to these Financial Statements.

32. PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

Basis of Recognition

Property, plant & equipment are recognised, if it is probable that future economic benefits associated with the asset will flow to the Group and the cost or the fair value of the asset can be reliably measured.

Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring the site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

Cost Model

The Group applies the 'Cost Model' to all property, plant & equipment other than freehold land and buildings and record at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Group applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at revalued amounts, being their fair value at the reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Group are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

A letter of confirmation is obtained from the Independent Professional Valuer annually, except the year in which full valuation is carried out by the Group, to ensure that the fair values of the freehold land and building at the reporting date do not significantly vary from their carrying amounts.

Subsequent Cost

These are costs that are recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Group and it can be reliably measured. Ongoing repairs and maintenance are expensed as incurred.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, which will be capitalised with the completion of the project and when the asset is ready to be used. These are stated in the Statement of Financial Position at cost. Capital work-in-progress is transferred to the relevant asset when it is completed and converted into a usable condition as expected by the Management of the Group.

Derecognition

An item of property, plant & equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of

Profit or Loss in the year, in which the asset is derecognised.

Depreciation and amortisation

The accounting policy and the judgement and estimates used in the computation of depreciation and amortisation of property, plant & equipment are explained in detail in Note 13 on page 182.

Accounting Judgements, Estimates and Assumptions

Fair value of freehold land and buildings

The freehold land and buildings of the Group are reflected at fair value. The Group engaged an Independent Professional Valuer, A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard- SLFRS 13 on "Fair Value Measurement". In estimating the fair values, the Independent Valuer considered current market prices of similar assets.

The methods used to determine the fair value of the freehold land and buildings are further explained in Note 55 & 55 C to the financial statements.

Useful Life Time of Property, Plant & Equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

32.1 The Movement in Property, Plant & Equipment - Bank

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
(a) Cost or Valuation								
As at 1 January 2021	919,305	1,328,069	557,399	1,637,891	130,794	1,164,760	58,348	5,796,566
Additions during the year	-	29,556	31,897	378,447	-	81,535	120,829	642,264
Disposals during the year	-	(5,740)	(22,374)	(27,208)	(61,174)	(24,074)	-	(140,570)
Revaluation adjustment during the year	-	22,794	-	-	-	-	-	22,794
Transfers/adjustments	-	-	-	-	-	(604)	(79,646)	(80,250)
As at 31 December 2021	919,305	1,374,679	566,922	1,989,130	69,620	1,221,617	99,531	6,240,804
Additions during the year	-	19,897	37,159	142,609	-	81,462	51,859	332,986
Disposals during the year	-	(134)	(32,639)	(186,866)	-	(51,089)	-	(270,728)
Revaluation adjustment during the year	104,695	144,956	-	-	-	-	-	249,651
Transfers/adjustments	-	-	-	-	-	(39)	(67,000)	(67,039)
As at 31 December 2022	1,024,000	1,539,398	571,442	1,944,873	69,620	1,251,951	84,390	6,485,674
(b) Depreciation/Amortisation								
As at 1 January 2021	-	293,374	404,624	1,102,847	123,280	903,448	-	2,827,573
Charge for the year (Note 13)	-	51,411	54,457	190,918	5,640	105,821	-	408,247
On disposals	-	(5,473)	(21,897)	(27,053)	(61,174)	(23,249)	-	(138,846)
Transfers/Adjustments	-	673	(1,843)	-	-	1,170	-	-
As at 31 December 2021	-	339,985	435,341	1,266,712	67,746	987,190	-	3,096,974
Charge for the year (Note 13)	-	50,554	53,940	188,212	775	104,267	-	397,748
On disposals	-	(134)	(32,628)	(186,664)	-	(51,024)	-	(270,450)
Transfers/Adjustments	-	(6)	-	6	-	40	-	40
As at 31 December 2022	-	390,399	456,653	1,268,266	68,521	1,040,473	-	3,224,312
Net book value as at 31 December 2022	1,024,000	1,149,000	114,789	676,607	1,099	211,478	84,390	3,261,362
Net book value as at 31 December 2021	919,305	1,034,694	131,581	722,418	1,874	234,427	99,531	3,143,829

32.2 Details of Revalued Freehold Land and Buildings - Bank

As at 31 December 2022

The freehold land and building of the Bank have been revalued by the independent professional Valuer A A M Fathihu, B.Sc (Hons) EMV, FIV Sri Lanka, for the year ended 31 December 2022. Accordingly gains/(losses) on revaluation of land and building has been recognised during the year as given below.

Date of valuation - 31 December 2022

Freehold Land	Extent	Revaluation of Land	Book Value before Revaluation	Revaluation Gains (Losses) Recognised on Land
Location	(Perches)	LKR '000	LKR '000	LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 07	20.00	1,000,000	900,000	100,000
Head Office No. 40, Nawam Mawatha, Colombo 02	1.43	24,000	19,305	4,695
Sub Total (a)	21.43	1,024,000	919,305	104,695

Freehold building	Extent	Revaluation of Buildings	Book Value before Revaluation	Revaluation Gains (Losses) Recognised on Buildings
Location	(Square Feet)	LKR '000	LKR '000	LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 07	41,143	383,000	317,915	65,085
Head Office No. 40, Nawam Mawatha, Colombo 02	95,343	766,000	686,129	79,871
Sub Total (b)	136,486	1,149,000	1,004,044	144,956
Total (a)+(b)		2,173,000	1,923,349	249,651

32.3 Freehold Land and Buildings on Cost Basis - Bank

The carrying amount of the Bank's revalued freehold land and buildings that would have been included in the Financial Statements at cost less accumulated depreciation is as follows:

	2022			2021		
	Cost LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000	Cost LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000
Class of assets						
Freehold land	165,016	-	165,016	165,016	-	165,016
Freehold buildings	608,365	494,775	113,590	588,468	482,608	105,860
Total	773,381	494,775	278,606	753,484	482,608	270,876

32.4 The Movement in Property, Plant & Equipment - Group

	Freehold Land LKR '000	Freehold Buildings LKR '000	Leasehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work- in-Progress LKR '000	Total LKR '000
(a) Cost or Valuation								
As at 1 January 2021	919,305	1,830,528	587,825	1,718,809	174,618	1,496,758	61,053	6,788,896
Additions during the year	-	6,995	22,553	386,510	-	135,222	118,124	669,404
Disposals during the year	-	(5,743)	(22,374)	(29,312)	(86,538)	(25,074)	-	(169,041)
Revaluation adjustment during the year	-	54,102	-	-	-	-	-	54,102
Transfers/adjustments	-	-	-	-	-	(604)	(79,647)	(80,251)
As at 31 December 2021	919,305	1,885,882	588,004	2,076,007	88,080	1,606,302	99,530	7,263,110
Additions during the year	-	19,897	37,159	151,168	-	95,723	51,859	355,806
Disposals during the year	-	(134)	(32,639)	(186,911)	-	(51,881)	-	(271,565)
Revaluation adjustment during the year	104,695	212,093	-	-	-	-	-	316,788
Transfers/adjustments	-	-	146	3,693	5,923	7,238	(66,999)	(49,999)
As at 31 December 2022	1,024,000	2,117,738	592,670	2,043,957	94,003	1,657,382	84,390	7,614,140
(b) Depreciation/Amortisation								
As at 1 January 2021	-	319,058	412,019	1,161,364	172,638	1,182,799	-	3,247,878
Charge for the year (Note 13)	-	51,411	56,580	198,995	1,837	138,027	-	446,850
On disposals	-	(5,473)	(21,897)	(29,312)	(86,538)	(23,697)	-	(166,917)
Transfers/adjustments	-	673	(1,843)	1	-	1,170	-	1
As at 31 December 2021	-	365,669	444,859	1,331,048	87,937	1,298,299	-	3,527,812
Charge for the year (Note 13)	-	50,554	56,063	198,822	899	127,309	-	433,647
On disposals	-	(134)	(32,628)	(188,923)	-	(51,168)	-	(272,853)
Transfers/adjustments	-	(6)	146	8,712	3,588	5,100	-	17,540
As at 31 December 2022	-	416,083	468,440	1,349,659	92,424	1,379,540	-	3,706,146
Net book value as at 31 December 2022	1,024,000	1,701,655	124,230	694,298	1,579	277,842	84,390	3,907,994
Net book value as at 31 December 2021	919,305	1,520,213	143,145	744,959	143	308,003	99,530	3,735,298

32.5 Cost of Fully Depreciated Property, Plant & Equipment and Intangible Assets

The initial cost of fully depreciated property, plant & equipment and intangible assets which are still in use are as follows:

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Freehold buildings	32,149	29,321	32,149	29,321
Leasehold building	749,528	307,426	749,528	307,426
Motor vehicles	66,519	66,519	67,549	67,352
Office equipment and furniture	764,607	736,686	914,440	830,425
Computer equipment	712,753	855,702	769,608	908,948
Computer software	307,017	690,453	406,499	784,395
Total	2,632,573	2,686,107	2,939,773	2,927,867

32.6 Information on freehold land and buildings of the Bank - Extent and locations

As required by Rule No.7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange.

Location	No of buildings	Extent (Perches)	Buildings (Square)	Revalued land LKR '000	Revalued buildings LKR '000	Total revalued amount LKR '000	Net Book Value before Revaluation LKR '000	Revaluation Gains/ (Losses) Recognised on Land LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 07	1	20	41,143	1,000,000	383,000	1,383,000	1,217,915	165,085
Head Office No. 40, Nawam Mawatha, Colombo 02	1	1.43	95,343	24,000	766,000	790,000	705,434	84,566
Total				1,024,000	1,149,000	2,173,000	1,923,349	249,651

Title restriction on property, plant and equipment

There were no restrictions on the title of the property, plant and equipment of the Group as at the reporting date (2021 - Nil).

Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment of the Group that have been pledged as securities for liabilities as at the reporting date (2021 - Nil).

Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2022 (2021 - Nil).

33. RIGHT OF USE ASSETS

ACCOUNTING POLICY		
Basis of Recognition The Group applies Sri Lanka Accounting Standard SLFRS 16 "Leases" in accounting for all lease hold rights except for short term leases, which are held for use in the provision of services.	Lease Liability At the commencement date of the lease, the Group recognises lease liabilities, measured at present value of lease payments to be made over the lease term. The Group applied modified retrospective approach in accordance with SLFRS 16 when accounting for right-of-use assets and operating lease liabilities.	Significant Accounting Judgments, Estimates and Assumptions The Group use its judgment to determine whether an operating lease agreement qualifies as recognition of right-of-use assets. In estimating the borrowing cost of lease liabilities, the Group uses the interest rate applicable to loans given for housing purposes, based on a similar tenor, collateral and economic environment. The present value of operating lease commitments has been calculated using weighted average incremental borrowing rates at which the Group opts to borrow such assets.
Basis of Measurement The Group recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are amortised on a straight line basis over the term of the lease.	The interest expense on the lease liabilities and the depreciation expense on the right-of-use assets are recognised separately in the Statement of Profit or Loss in line with the requirements of SLFRS 16-Leases. Further the lease liabilities will be remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Group will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.	There is no change in the incremental borrowing rates use for land and vehicles as there were no additions during the year 2022.

The incremental borrowing rates used for the year ended 31 December 2022 and 2021, are as follows:

Class of Assets	BANK & GROUP	
	2022 %	2021 %
Buildings	9.50-25	9.50-12
Land	14	14
Vehicles	15	15

	BANK			GROUP		
	Land and Building	Vehicle	Total	Land and Building	Vehicle	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost						
As at 01 January 2022	1,815,941	101,492	1,917,433	2,121,149	101,492	2,222,641
Additions during the year	389,749	-	389,749	389,749	-	389,749
Transfers/adjustments	(494)	-	(494)	(497)	-	(497)
As at 31 December 2022	2,205,196	101,492	2,306,688	2,510,401	101,492	2,611,893
Depreciation/Amortisation						
As at 01 January 2022	758,006	64,820	822,826	872,436	64,820	937,256
Charge for the year (Note 13)	291,491	21,608	313,099	329,661	21,608	351,269
As at 31 December 2022	1,049,497	86,428	1,135,925	1,202,097	86,428	1,288,525
Net book value as at 31 December 2022	1,155,699	15,064	1,170,763	1,308,304	15,064	1,323,368

	BANK			GROUP		
	Land and Building	Vehicle	Total	Land and Building	Vehicle	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost						
As at 01 January 2021	1,473,051	101,492	1,574,543	1,778,259	101,492	1,879,751
Additions during the year	345,806	-	345,806	345,806	-	345,806
Transfers/adjustments	(2,916)	-	(2,916)	(2,916)	-	(2,916)
As at 31 December 2021	1,815,941	101,492	1,917,433	2,121,149	101,492	2,222,641
Depreciation/Amortisation						
As at 01 January 2021	470,488	43,212	513,700	546,790	43,212	590,002
Charge for the year (Note 13)	287,518	21,608	309,126	325,646	21,608	347,254
As at 31 December 2021	758,006	64,820	822,826	872,436	64,820	937,256
Net book value as at 31 December 2021	1,057,935	36,672	1,094,607	1,248,713	36,672	1,285,385

34. INTANGIBLE ASSETS

ACCOUNTING POLICY

Intangible assets of the Group include the value of computer software and software under development.

Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relate. All other expenditure is expensed as incurred.

Computer Software and Software under development

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Software under development mainly includes the cost incurred for the core banking upgrade.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the Statement of Profit or Loss in the year in which the asset is derecognised.

Research and Development Costs

Research costs are expensed as incurred. Development costs on an individual project are recognised as an intangible asset when the Group can demonstrate:

- Its intention to complete and its ability to use or sell the asset.
- The asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

As at the reporting date, the Group did not have development costs that were capitalised as an internally-generated intangible asset.

34. INTANGIBLE ASSETS (CONTD.)

ACCOUNTING POLICY

Accounting Judgements, Estimates and Assumptions

Useful Life Time of Intangible Assets

The Group reviews the residual values, useful lives and methods of depreciation of intangible assets at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

Assessment for impairment

Irrespective of whether there is any indication of impairment, the Bank assesses an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amounts. However, if such an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested

for impairment before the end of the current annual period and recognised in the Statement of Profit or Loss if there is any impairment allowance.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Computer Software [Note 34.1]	552,380	367,141	561,272	380,312
Software Under Development [Note 34.2]	1,251,941	836,799	1,251,941	836,799
	1,804,321	1,203,940	1,813,213	1,217,111

34.1 Computer Software

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cost				
As at 01 January	1,499,397	1,407,912	1,619,189	1,522,143
Additions during the year	324,161	92,029	326,074	97,590
Disposals during the year	(975)	-	(975)	-
Transfers/adjustments	(3,135)	(544)	151	(544)
As at 31 December	1,819,448	1,499,397	1,944,439	1,619,189
Depreciation/Amortisation				
As at 01 January	1,132,256	1,017,986	1,238,877	1,118,870
Charge for the year (Note 13)	135,787	114,270	141,118	120,007
Disposals during the year	(975)	-	(975)	-
Transfers/adjustments	-	-	4,147	-
As at 31 December	1,267,068	1,132,256	1,383,167	1,238,877
Net book value as at 31 December (a)	552,380	367,141	561,272	380,312

34.2 Software Under Development

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cost				
As at 01 January	836,799	658,400	836,799	658,400
Additions during the year	506,626	340,168	506,626	340,168
Transfer to computer software during the year	(91,484)	(161,769)	(91,484)	(161,769)
As at 31 December (b)	1,251,941	836,799	1,251,941	836,799
Net book value of total intangible assets (a) + (b)	1,804,321	1,203,940	1,813,213	1,217,111

Additions during the year includes the consultancy fees paid to Ernst & Young LLP for the core banking project, amounting to LKR 72 Mn (2021 - LKR 31 Mn).

35. OTHER ASSETS

ACCOUNTING POLICY

The Group classifies other assets as 'other financial assets' and 'other non-financial assets'. Other assets mainly comprise of deposits and prepayments, unamortised staff costs and sundry receivables. Deposits are carried at historical cost less impairment allowance.

Prepayments are amortised during the period in which they are utilised and are carried at historical cost less impairment allowance.

As all staff loans granted at below market interest rates are recognised at fair value, the difference between the fair value and the

amount disbursed was treated as a Day 1 difference. The Day 1 difference is classified as 'unamortised staff cost' and is amortised over the loan period by using the Effective Interest Rate (EIR). The staff loans are subsequently measured at amortised costs.

Other financial assets and other non-financial assets included under other assets are summarised below:

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Other financial assets	1,963,077	1,446,327	2,424,812	2,218,351
Other non-financial assets (Note 35.1)	4,472,251	3,246,922	4,612,859	3,452,365
Total	6,435,328	4,693,249	7,037,671	5,670,716

35.1 Other Non-Financial Assets

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sundry receivables	2,711,610	1,623,581	2,774,666	1,626,988
Deposits and prepayments	432,543	348,108	497,511	536,025
Unamortised staff cost (Note 35.2)	1,328,098	1,275,233	1,340,682	1,289,352
Total	4,472,251	3,246,922	4,612,859	3,452,365

35.2 Unamortised Staff Cost

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	1,275,233	1,289,256	1,289,352	1,315,185
Add: Adjustment for new grants and settlements	204,331	129,216	209,091	125,887
Charged to personnel expenses	(151,466)	(143,239)	(157,761)	(151,720)
As at 31 December	1,328,098	1,275,233	1,340,682	1,289,352

36. DUE TO BANKS

ACCOUNTING POLICY

Due to banks, include call money borrowings and credit balances in Nostro accounts. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Interest paid/payable on these dues are recognised in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Borrowing from local banks	13,056,364	17,004,695	13,056,364	17,004,695
Borrowing from foreign banks	7,195,293	7,765,949	7,242,480	7,816,463
Total	20,251,657	24,770,644	20,298,844	24,821,158

36.1 Due to Banks - By Currency

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Local currency	9,721,801	12,328,475	9,721,801	12,328,475
Foreign currency	10,529,856	12,442,169	10,577,043	12,492,683
Total	20,251,657	24,770,644	20,298,844	24,821,158

37. FINANCIAL LIABILITIES AT AMORTISED COST

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Due to depositors (Note 37.1)	672,314,023	552,039,792	671,713,337	551,256,595
Due to debt securities holders (Note 37.2)	130,541	1,341,060	130,541	1,341,060
Due to other borrowers (Note 37.3)	32,372,265	25,228,865	32,372,265	25,228,865
Total	704,816,829	578,609,717	704,216,143	577,826,520

37.1 Due to Depositors

ACCOUNTING POLICY

Due to depositors include non-interest bearing deposits, savings deposits, term deposits, margins and other deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the Effective Interest Rate (EIR) method. Interest paid/payable on deposits are recognised in the Statement of Profit or Loss under 'Interest Expenses'

37.1 (a) Due to Depositors - By Product

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Savings deposits	100,382,052	111,114,173	99,781,366	110,557,791
Time deposits	529,230,558	401,240,670	529,230,558	401,023,149
Demand deposits	41,324,347	36,709,312	41,324,347	36,700,018
Margin deposits	934,169	2,634,636	934,169	2,634,636
Other deposits	442,897	341,001	442,897	341,001
Total	672,314,023	552,039,792	671,713,337	551,256,595

37.1 (b) Due to Depositors - By Deposit Composition

	BANK				GROUP			
	2022		2021		2022		2021	
	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000	%
Local currency deposits								
Savings deposits	63,027,142	9	86,686,437	17	62,426,456	9	86,117,155	16
Time deposits	374,560,470	56	313,670,167	57	374,560,470	56	313,452,646	57
Demand deposits	31,435,221	5	30,337,930	5	31,435,221	5	30,341,536	6
Margin deposits	908,369	-	2,504,837	-	908,369	-	2,504,837	-
Other deposits	129,154	-	177,494	-	129,154	-	177,494	-
Sub total	470,060,356	70	433,376,865	79	469,459,670	70	432,789,853	79
Foreign currency deposits								
Savings deposits	37,354,910	6	24,427,736	4	37,354,910	6	24,440,636	4
Time deposits	154,670,088	23	87,570,503	16	154,670,088	23	87,570,503	16
Demand deposits	9,889,126	1	6,371,382	1	9,889,126	1	6,358,482	1
Margin deposits	25,800	-	129,799	-	25,800	-	129,799	-
Other deposits	313,743	-	163,507	-	313,743	-	163,507	-
Sub total	202,253,667	30	118,662,927	21	202,253,667	30	118,466,742	21
Total	672,314,023	100	552,039,792	100	671,713,337	100	551,256,595	100

37.1 (c) Due to Depositors - By Currency

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Rupee	470,060,356	433,376,865	469,459,670	432,593,668
United States Dollar	177,218,962	101,439,711	177,218,962	101,439,711
Australian Dollar	9,692,108	5,340,207	9,692,108	5,340,207
Great Britain Pound	7,828,817	6,519,704	7,828,817	6,519,704
Euro	4,829,249	3,943,048	4,829,249	3,943,048
Other currencies	2,684,531	1,420,257	2,684,531	1,420,257
Total	672,314,023	552,039,792	671,713,337	551,256,595

37.1 (d) Due to Depositors - By Institutions/Customers

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deposits from banks	3,612,003	11,268,260	3,011,317	11,268,260
Deposits from finance companies	11,978,135	12,374,022	11,978,135	12,374,022
Deposits from other customers	656,723,885	528,397,510	656,723,885	527,614,313
Total	672,314,023	552,039,792	671,713,337	551,256,595

37.1 (e) Due to Depositors - By Province

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Western Province	578,428,470	490,113,963	577,827,784	489,330,766
Central Province	21,232,755	12,329,445	21,232,755	12,329,445
North-Western Province	17,985,702	11,931,047	17,985,702	11,931,047
Southern Province	16,858,113	11,758,801	16,858,113	11,758,801
Sabaragamuwa Province	10,630,948	8,423,808	10,630,948	8,423,808
Northern Province	13,435,462	8,014,012	13,435,462	8,014,012
Eastern Province	5,724,165	3,752,819	5,724,165	3,752,819
North-Central Province	4,030,224	3,162,947	4,030,224	3,162,947
Uva Province	3,988,184	2,552,950	3,988,184	2,552,950
Total	672,314,023	552,039,792	671,713,337	551,256,595

37.2 Due to Debt Securities Holders

ACCOUNTING POLICY

Due to Debt Securities Holders consists of securities sold under repurchase agreements. The Group sells financial assets and simultaneously enter into an agreement to repurchase the asset (or similar asset) at a fixed price at a future date. Such an arrangement is accounted for as a financial liability and the underlying asset continues to be recognised in the Financial Statements of the Group, as the Group retain substantially all risks and rewards of ownership. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method with the corresponding interest paid/payable being recognised in the Statement of Profit or Loss, under 'Interest Expenses'

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Securities sold under repurchase agreements	130,541	1,341,060	130,541	1,341,060
	130,541	1,341,060	130,541	1,341,060

37.3 Due to Other Borrowers

ACCOUNTING POLICY

Due to other borrowers represents the funds borrowed by the Group for long-term and short-term liquidity funding requirements and include borrowings from concessionary credit lines, institutional borrowings and funds received from the Central Bank of Sri Lanka including the funds received under the Saubagya COVID-19 Renaissance facilities. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Interest paid/payable on "Due to Other Borrowers" are recognised in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Concessionary credit lines	7,651,466	7,205,810	7,651,466	7,205,810
Saubagya COVID-19 borrowings	2,052,792	9,195,235	2,052,792	9,195,235
Refinance borrowings	3,213,582	3,805,544	3,213,582	3,805,544
Institutional borrowings - Local	502,893	-	502,893	-
- Foreign	18,951,532	5,022,276	18,951,532	5,022,276
Total	32,372,265	25,228,865	32,372,265	25,228,865

37.4 Maturity Analysis of Due to Debt Securities holders and due to other borrowers - Based on the contractual maturity

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Payable within 12 Months				
Concessionary credit lines	960,784	665,150	960,784	665,150
Saubagya COVID-19 borrowings	2,044,984	8,491,217	2,044,984	8,491,217
Refinance borrowings	524,158	638,297	524,158	638,297
Institutional borrowings - Local	502,893	-	502,893	-
- Foreign	3,145,446	4,331,085	3,145,446	4,331,085
Securities sold under repurchase agreements	130,541	1,341,060	130,541	1,341,060
Sub total	7,308,806	15,466,809	7,308,806	15,466,809
Payable after 12 Months				
Concessionary credit lines	6,690,682	6,540,660	6,690,682	6,540,660
Saubagya COVID-19 borrowings	7,808	704,018	7,808	704,018
Refinance borrowings	2,689,424	3,167,247	2,689,424	3,167,247
Institutional borrowings - Foreign	15,806,086	691,191	15,806,086	691,191
Sub total	25,194,000	11,103,116	25,194,000	11,103,116
Total (Note 37.2 & Note 37.3)	32,502,806	26,569,925	32,502,806	26,569,925

38. DEBT SECURITIES ISSUED

ACCOUNTING POLICY

Debt securities issued includes the funds borrowed by the Group for long-term and short-term funding requirements by way of quoted debentures. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Interest paid/payable on debt securities issued are recognised in the Statement of Profit or Loss. The direct costs attributable to these term debts are amortised over the term of the debt and are offset, in the presentation of debt securities issued, in the Statement of Financial Position.

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
As at 01 January	27,960,731	19,880,891
Additions during the year	-	8,000,000
Net effect on amortised interest payable	18,900	79,840
As at 31 December (Note 38.1)	27,979,631	27,960,731

38.1 Debenture

	Interest Payable Frequency	Issued Date	Maturity Date	Effective Annual Yield %	BANK & GROUP	
					2022 LKR '000	2021 LKR '000
Fixed Rate Debenture Issuance - December 2013						
Type C - 13.90% - (120 Months)	Annually	19-Dec-2013	19-Dec-2023	13.17	3,634,951	3,632,293
Type D - 14.00% - (144 Months)	Annually	19-Dec-2013	19-Dec-2025	13.26	3,582,653	3,580,672
Total (a)					7,217,604	7,212,965
Fixed Rate Debenture Issuance - March 2019						
Type A - 13.50% - (60 Months)	Semi-annually	30-Mar-2019	30-Mar-2024	13.16	1,283,027	1,281,931
Type B - 13.95% - (60 Months)	Annually	30-Mar-2019	30-Mar-2024	13.15	4,760,731	4,756,946
Total (b)					6,043,758	6,038,877
Fixed Rate Debenture Issuance - September 2020						
9.50% - (60 Months)	Annually	24-Sep-2020	24-Sep-2025	9.16	6,645,899	6,641,503
Total (c)					6,645,899	6,641,503
Fixed Rate Debenture Issuance - November 2021						
Type A - 11.90% - (60 Months)	Semi-annually	23-Nov-2021	23-Nov-2026	11.66	7,955,337	7,950,424
Type B - 12.00% - (84 Months)	Semi-annually	23-Nov-2021	23-Nov-2028	11.73	117,033	116,962
Total (d)					8,072,370	8,067,386
Debt securities issued (a)+(b)+(c)+(d)						
					27,979,631	27,960,731
The contractual maturity of the debt securities issued are given below:						
Due within one year					4,386,729	671,121
Due after one year					23,592,902	27,289,610
					27,979,631	27,960,731

39. CURRENT TAX (RECEIVABLES)/LIABILITIES

ACCOUNTING POLICY

The accounting policy on current tax (receivables)/liabilities for the Group is included in Note 17 on page 184.

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
39.1 Summary of net current tax liabilities				
Current tax liabilities	6,470,353	2,407,243	6,635,188	2,585,975
Current tax receivables	-	-	(43,488)	(27,701)
Net current tax liability	6,470,353	2,407,243	6,591,700	2,558,274
39.2 Movement in net current tax liabilities				
As at 01 January	2,407,243	2,297,296	2,558,274	2,518,247
Current tax based on profit for the year	5,868,752	3,247,443	6,074,946	3,484,244
Under/(over) provision in respect of previous years	(222,838)	(316,226)	(216,621)	(337,655)
Payment of tax	(1,582,804)	(2,821,270)	(1,824,899)	(3,106,562)
As at 31 December	6,470,353	2,407,243	6,591,700	2,558,274

40. DEFERRED TAX (ASSETS)/LIABILITIES

ACCOUNTING POLICY

The accounting policy on deferred tax (assets)/liabilities for the Group is included in Note 17 on page 184.

40.1 Summary of Net Deferred Tax (Assets)/Liabilities

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Recognised under assets	(9,004,747)	(3,417,315)	(9,048,896)	(3,443,207)
Recognised under liabilities	-	-	873,280	569,213
Net deferred tax assets (Note 40.3 and 40.4)	(9,004,747)	(3,417,315)	(8,175,616)	(2,873,994)

40.2 Movement in Net Deferred Tax (Assets)/Liabilities

	BANK				GROUP			
	2022		2021		2022		2021	
	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000
As at 01 January	(14,238,813)	(3,417,315)	(6,698,999)	(1,875,720)	(11,974,974)	(2,873,994)	(4,820,059)	(1,349,618)
Amount originating/(reversing) to Statement of Profit or Loss (Note 17.3)	(23,030,122)	(7,721,972)	(5,130,922)	(1,000,231)	(22,629,189)	(7,465,282)	(5,042,634)	(995,312)
Amount originating/(reversing) to Other Comprehensive Income	7,253,113	2,134,540	(2,408,892)	(541,364)	7,352,113	2,163,660	(2,112,281)	(529,064)
As at 31 December	(30,015,822)	(9,004,747)	(14,238,813)	(3,417,315)	(27,252,050)	(8,175,616)	(11,974,974)	(2,873,994)

Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the current year include the impact of tax rate change on deferred tax assets/liabilities as at 31 December 2022 amounting to a tax reversal of LKR 2,195 Mn and a tax charge of LKR 394 Mn recorded to the Statement of Profit or Loss and Other Comprehensive Income of the Bank respectively. The reversal recorded to the Statement of Profit or Loss and charge recorded to the Other Comprehensive Income of the Group is LKR 2,052 Mn and LKR 405 Mn respectively.

Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the previous year include the impact of tax rate change on deferred tax assets/liabilities as at 31 December 2020 amounting to a tax charge of LKR 231 Mn and LKR 37 Mn recorded to the Statement of Profit or Loss and Other Comprehensive Income of the Bank respectively. The charge recorded to the Statement of Profit or Loss and Other Comprehensive Income of the Group is LKR 160 Mn and LKR 33 Mn respectively.

40.3 Reconciliation of Net Deferred Tax (Assets)/Liabilities

	BANK					
	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	56,976	35,379	21,597	(21,060)	-	-
Revaluation gains on freehold land and buildings	628,329	442,748	-	-	185,581	(67,409)
Finance leases	282,729	341,848	(59,119)	(192,837)	-	-
Gains on fair value adjustment of financial assets measured at fair value through other comprehensive income	110,656	-	-	-	110,656	(2,293)
Cash flow hedge reserve	1,315,571	-	-	-	1,315,571	-
Total	2,394,261	819,975	(37,522)	(213,897)	1,611,808	(69,702)
Deferred tax assets						
Defined benefit plans	274,801	176,562	(56,195)	(3,506)	(42,044)	25,547
Losses on fair value adjustment of financial assets measured at fair value through other comprehensive income	-	564,776	-	-	564,776	(564,776)
Operating leases	75,180	61,902	(13,278)	18,153	-	-
Impairment allowances						
On loans and receivables to other customers	4,992,404	2,694,512	(2,297,892)	(368,991)	-	93,536
On other financial assets	6,056,623	739,538	(5,317,085)	(431,990)	-	(25,969)
Total	11,399,008	4,237,290	(7,684,450)	(786,334)	522,732	(471,662)
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year		-	(7,721,972)	(1,000,231)	2,134,540	(541,364)
Net deferred tax (assets)/liabilities as at 31 December (Note 40.1)	(9,004,747)	(3,417,315)		-		-

40.4 Reconciliation of Net Deferred Tax (Assets)/Liabilities

	GROUP					
	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	73,628	45,829	27,799	(24,657)	-	-
Revaluation gains on freehold land and buildings	708,252	490,573	-	-	217,679	(66,614)
Revaluation gains on investment property	693,351	514,297	179,054	(42,875)	-	-
Finance leases	282,729	341,848	(59,119)	(192,837)	-	-
Gains on fair value adjustment of financial assets measured at fair value through other comprehensive income	171,746	-	55,228	-	116,518	-
Cash flow hedge reserve	1,315,571	-	-	-	1,315,571	-
Un realised forex gain	39,546	-	39,546	-	-	-
Total	3,284,823	1,392,547	242,508	(260,369)	1,649,768	(66,614)
Deferred tax assets						
Defined benefit plans	303,052	197,168	(60,862)	(6,275)	(45,022)	33,833
Losses on other operations	-	-	-	16,895	-	-
Losses on fair value adjustment of financial assets measured at fair value through other comprehensive income	-	558,914	-	35,510	558,914	(570,288)
Operating leases	104,335	77,043	(27,292)	20,777	-	-
Impairment allowances	-	-	-	-	-	-
On loans and receivables to other customers	4,992,404	2,694,512	(2,297,892)	(368,991)	-	93,536
On other financial assets	6,060,648	738,904	(5,321,744)	(432,859)	-	(19,531)
Total	11,460,439	4,266,541	(7,707,790)	(734,943)	513,892	(462,450)
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year		-	(7,465,282)	(995,312)	2,163,660	(529,064)
Net deferred tax (assets)/liabilities as at 31 December (Note 40.1)	(8,175,616)	(2,873,994)		-		-

41. RETIREMENT BENEFIT OBLIGATIONS

ACCOUNTING POLICY

Retirement benefit obligations include the provisions made for retirement gratuity and the pension fund.

Retirement Gratuity

In compliance with the Gratuity Act, No.12 of 1983, provisions are made on behalf of the employees from the first year of service for employees who joined the Bank on or after 1999, as they are not in pensionable service of the Bank and for employees of the group companies. The costs of retirement gratuities are determined by a qualified Actuary using the projected unit credit method. Actuarial gains and losses are recognised as income or expense in the Statement of Comprehensive Income, during the financial year in which it arose.

Pension Fund

The Bank operates an approved employee non-contributory pension fund for the payment of pensions to members of its permanent staff, who qualify for such payments when

retiring. Employees who joined after 1999, are not covered under the said pension scheme. These employees are entitled to retirement gratuity. Up to 31 December 2002, annual contributions to the pension fund was payable by the Bank, based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation carried out each year.

Basis of Measurement

The cost of the defined benefit plans (retirement gratuity and the pension fund) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions, which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans,

such estimates are subject to significant uncertainties. All assumptions are reviewed at each reporting date. The assumptions used to arrive at the value of defined benefit obligation is given in Note 41.1 (b) and 41.2 (d).

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities, corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Estimated future salary increases are based on expected future inflation rates and the policy on salary revisions of the Group.

41.1 Provision for Retirement Gratuity

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	735,666	709,294	829,873	820,109
Provision made during the year				
Statement of Profit or Loss [Note 41.1 (a)]	177,685	141,933	197,725	162,972
Other Comprehensive Income [Note 41.1 (a)]	103,862	(65,314)	113,788	(99,103)
Contribution made for retirement gratuity	281,547	76,619	311,513	63,869
Benefits paid by the plan	(101,206)	(50,247)	(122,092)	(54,105)
As at 31 December	916,007	735,666	1,019,294	829,873

41.1 (a) Provision for Retirement Gratuity

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current service cost	88,964	85,686	98,646	98,573
Interest cost	88,721	56,247	99,079	64,399
Amount recognised in the Statement of Profit or Loss	177,685	141,933	197,725	162,972
Liability experience loss/(gain)	141,302	6,863	141,302	9,275
Liability loss/(gain) due to changes in;				
Financial assumptions	(37,440)	(72,177)	(27,514)	(108,378)
Demographic assumptions	-	-	-	-
Amount recognised in Other Comprehensive Income	103,862	(65,314)	113,788	(99,103)

41.1 (b) Assumptions and the Sensitivity of the Assumptions used for the Provision of Retirement Gratuity - Bank

The actuarial valuations of the retirement gratuity liability were carried out by a professional Actuary, Messrs. Actuarial and Management Consultants (Pvt) Ltd and Messrs. Piyal S Goonetilleke and Associates as at 31 December 2022 and 31 December 2021 respectively.

The valuation method used by the Actuary to value the liability is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

Assumptions and the sensitivity of the assumptions used for the Gratuity plan

Type of assumption	Criteria	Description
Demographic	Mortality	UP 1984 Mortality Table
	Retirement age	Normal retirement age or age on valuation date, if grater
Financial	Rate of discount*	The discount rate of 18% p.a. (2021 - 12.06% p.a.) has been used to discount future liabilities.
	Salary increases	Estimated long term salary increment of 15% p.a. (2021 - 9.75% p.a.) has been used in respect of the active employees

The above assumptions except salary increment rate have been used by the group companies, in arriving at the provision for retirement gratuity.

The group companies used the salary increment rate of 15% p.a (2021 - 8% - 10% p.a).

*The Bank uses market yields on treasury bonds issued by the Government of Sri Lanka (T-bonds) to determine the discount rate, as disclosed in its accounting policy (refer Note 41). However, due to the economic conditions prevailing in the country as at the end of the current reporting period, the exceptionally high T-bond market yields would not be a reasonable reflection of the time value of money. Therefore, period end T-bond market yields have been adjusted for the credit risk spread to derive at the rate used to discount the defined benefit obligation.

Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the provision for retirement gratuity and Other Comprehensive Income by the amounts shown below.

		BANK			
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2022		2021	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability
		LKR Mn	LKR Mn	LKR Mn	LKR Mn
1		72.71	(72.71)	68.11	(68.11)
(-1)		(83.33)	83.33	(79.83)	79.83
	1	(86.73)	86.73	(78.95)	78.95
	(-1)	76.64	(76.64)	68.53	(68.53)

		GROUP			
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2022		2021	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability
		LKR Mn	LKR Mn	LKR Mn	LKR Mn
1		80.05	(80.05)	75.16	(75.16)
(1)		(91.74)	91.74	(88.18)	88.18
	1	(95.60)	95.60	(87.29)	87.29
	(1)	84.48	(84.48)	75.70	(75.70)

41.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	BANK	
	2022 LKR '000	2021 LKR '000
Within next 12 months	48,499	42,407
Between 2 and 5 years	190,368	286,396
Beyond 5 years	677,140	1,112,257

The expected benefits are estimated, based on the same assumptions used to measure the retirement benefit obligation of the Bank at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 10 years (2021 -11.5 years).

41.2 Pension Fund

The amount recognised in the Statement of Financial Position is as follows:

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Present value of the funded obligation as at 31 December	656,258	790,708
Fair value of plan assets as at 31 December	(1,240,690)	(1,170,253)
Retirement Benefit (Asset)/Liability*	(584,432)	(379,545)

*The over payment is recognised as prepaid expenses in Other Assets.

41.2(a) Contribution made to the Pension Fund

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Current service cost	14,512	22,144
Interest cost	(47,443)	(7,511)
Amount recognised in the Statement of Profit or Loss	(32,931)	14,633
Assets loss/(gain) arising during the year	10,744	34,596
Liability experience loss/(gain)	(9,068)	11,801
Actuarial (gain)/loss due to changes in;		
Financial assumptions	(173,632)	(297,444)
Demographic assumptions	-	-
Amount recognised in the Other Comprehensive Income	(171,956)	(251,047)

41.2(b) Defined Benefit Obligation Reconciliation

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
As at 01 January	790,708	1,052,450
Current service cost	14,512	22,144
Interest cost	98,839	83,249
Actual benefits paid from the plan	(65,101)	(81,492)
Actuarial (gain)/loss due to changes in assumptions	(173,632)	(297,444)
Actuarial (gain)/loss due to experience adjustments	(9,068)	11,801
As at 31 December	656,258	790,708

41.2(c) Fair Value of Plan Assets Reconciliation

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
As at 01 January	1,170,253	1,195,582
Expected return on assets	146,282	90,759
Actual employer contributions	-	-
Actual benefit paid from the plan	(65,101)	(81,492)
Actuarial (loss)/gain from plan assets	(10,744)	(34,596)
As at 31 December	1,240,690	1,170,253

41.2(d) Assumptions and the sensitivity of the assumptions used for the Pension Fund

The actuarial valuations of the Pension Fund were carried out by a professional Actuary, Messrs. Actuarial and Management Consultants (Pvt) Ltd and Messrs. Piyal S Goonetilleke and Associates as at 31 December 2022 and 31 December 2021 respectively.

The valuation method used by the Actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

Assumptions and the sensitivity of the assumptions used for the Pension Fund

Type of assumption	Criteria	Description
Demographic	Mortality	UP 1984 Mortality Table
	Retirement age	Normal retirement age
Financial	Rate of discount	The discount rate of 18% p.a. (2021 - 12.5% p.a.) has been used to discount future liabilities. [Note 41.1 (b)]
	Salary increases	Estimated long term salary increment of 15% p.a. (2021 - 9.75% p.a.) has been used in the report of the active employees.

Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the pension liability and Other Comprehensive Income by the amounts shown below:.

		BANK & GROUP			
		2022		2021	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn
%	%				
1		40.17	(40.17)	59.95	(59.95)
(-1)		(44.70)	44.70	(68.61)	68.61
	1	(19.74)	19.74	(23.22)	23.22
	(-1)	18.66	(18.66)	21.77	(21.77)

		BANK & GROUP			
		2022		2021	
Increase/ (Decrease) in Life expectancy		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR Mn	Sensitivity Effect on Provision for Retirement Obligation Increase/(Decrease) in Liability LKR Mn
%					
+1 Year		(8.59)	8.59	(10.28)	10.28
- 1 Year		8.91	(8.91)	10.68	(10.68)

41.2(e) Fair value of total plan assets consists of the following

	BANK	
	2022 LKR '000	2021 LKR '000
Investments in Sri Lanka Government Securities	632,108	619,293
Investments in time deposits	573,558	534,355
Others	35,024	16,605
Total	1,240,690	1,170,253

41.2(f) The Expected Benefit Payout from the Pension Fund in Future Years

	BANK	
	2022 LKR '000	2021 LKR '000
Within next 12 months	59,591	71,877
Between 2 and 5 years	165,791	486,159
Beyond 5 years	430,876	659,075

The expected benefits are based on the same assumptions used to measure the Bank's retirement benefit obligation at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 7.6 years as at 31 December 2022 (2021 - 9.3 years).

41.2(g) The total amount recognised in Other Comprehensive Income relating to retirement benefit obligations

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Retirement Gratuity [Note 41.1 (a)]	103,862	(65,314)	113,788	(99,103)
Pension Fund [Note 41.2 (a)]	(171,956)	(251,047)	(171,956)	(251,047)
Total	(68,094)	(316,361)	(58,168)	(350,150)

42. OTHER LIABILITIES

Other liabilities include other financial liabilities and other non-financial liabilities. Other non-financial liabilities include fees, expenses and amounts payable for deposit insurance, dividend payable and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Dividends on ordinary shares are recognised as a liability and deducted from equity, when they are approved by the Board of Directors. Other financial liabilities and other non-financial liabilities included under other liabilities are summarised below:

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Other financial liabilities (Note 42.1)	2,958,157	2,911,821	3,273,911	3,252,900
Other non-financial liabilities (Note 42.2)	5,747,507	7,555,945	5,909,204	7,870,336
Total	8,705,664	10,467,766	9,183,115	11,123,236

42.1 Other Financial Liabilities

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Unpresented cheques/pay orders	1,600,092	1,600,430	1,609,576	1,609,769
Unpresented cheques - Dividend Payable (Note 42.1.1)	99,001	91,823	99,001	91,823
Lease liabilities (Note 42.1.2)	1,246,341	1,207,930	1,496,130	1,490,757
Others	12,723	11,638	69,204	60,551
Total	2,958,157	2,911,821	3,273,911	3,252,900

42.1.1 Unpresented cheques - Dividend Payable

	BANK & GROUP	
	2022 LKR '000	2021 LKR '000
Balance as at 01 January	91,823	86,354
Cash dividend declared for the prior year	357,124	348,956
Reversal of dividends declared in prior years [Note 42.1.1 (a)]	(4,215)	(10,462)
Dividend paid	(345,731)	(333,025)
Balance as at 31 December	99,001	91,823

42.1.1 (a) Reversal of Dividends declared in Prior Years

Reversal of dividends declared in previous years represents unclaimed dividends which are written back to equity after six years.

42.1.2 Lease liabilities

Set out below are the carrying amount of lease liabilities recognised on adoption of SLFRS 16 - Leases.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance as at 01 January	1,207,930	1,204,896	1,490,757	1,525,282
Additions	305,892	295,699	305,892	295,699
Accretion of interest	153,287	124,814	185,448	148,514
Payments	(420,768)	(417,479)	(485,967)	(478,738)
Balance as at 31 December	1,246,341	1,207,930	1,496,130	1,490,757

42.1.2 (a) Maturity Analysis of Lease Liabilities

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Less than 1 year	240,210	249,094	289,094	282,132
1 to 5 years	747,959	705,773	948,864	955,562
More than 5 years	258,172	253,063	258,172	253,063
	1,246,341	1,207,930	1,496,130	1,490,757

42.1.2 (b) Sensitivity Analysis of Lease liabilities

Asset Class	BANK			GROUP	
	2022				
	Increase/ (Decrease) in Interest Rate	Sensitivity Effect on the Profit or loss Increase/(Decrease) for the Year	Sensitivity Effect on the Financial position Increase/ (Decrease) in Lease Liabilities	Sensitivity Effect on the Profit or loss Increase/(Decrease) for the Year	Sensitivity Effect on the Financial position Increase/ (Decrease) in Lease Liabilities
	%	LKR Mn	LKR Mn	LKR Mn	LKR Mn
Building	1	8.55	(28.61)	10.58	(33.45)
	(-1)	(9.02)	29.74	(10.95)	34.45
Land	1	0.00	0.00	0.00	0.00
	(-1)	(0.00)	(0.00)	(0.00)	(0.00)
Vehicles	1	0.31	(0.09)	0.31	(0.09)
	(-1)	(0.31)	0.09	(0.31)	0.09

Asset Class	BANK			GROUP	
	2021				
	Increase/ (Decrease) in Interest Rate	Sensitivity Effect on the Profit or loss Increase/(Decrease) for the Year	Sensitivity Effect on the Financial position Increase/ (Decrease) in Lease Liabilities	Sensitivity Effect on the Profit or loss Increase/(Decrease) for the Year	Sensitivity Effect on the Financial position Increase/ (Decrease) in Lease Liabilities
	%	LKR Mn	LKR Mn	LKR Mn	LKR Mn
Building	1	8.04	(28.88)	10.00	(35.52)
	(-1)	(8.49)	30.11	(10.57)	36.75
Land	1	-	(0.02)	-	(0.02)
	(-1)	-	0.03	-	0.03
Vehicles	1	0.48	(0.39)	0.48	(0.39)
	(-1)	(0.49)	0.40	(0.49)	0.40

42.2 Other Non-Financial Liabilities

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Accrued expenses	706,850	1,179,104	822,792	1,467,332
Provision for deposit insurance	163,194	130,958	163,194	130,958
Impairment allowance for commitments and contingencies	1,368,885	2,029,511	1,368,885	2,029,511
Other liabilities	3,508,578	4,216,372	3,554,333	4,242,535
Total	5,747,507	7,555,945	5,909,204	7,870,336

43. STATED CAPITAL

	BANK & GROUP			
	2022 Number of Shares	2022 LKR '000	2021 Number of Shares	2021 LKR '000
Issued and fully paid	357,123,647	18,263,609	232,637,231	8,794,333
Shares issued due to scrip dividends (Note 43.1)	22,971,075	1,607,056	-	-
Issue of new shares through rights issue (Note 43.2)	-	-	106,780,489	8,008,537
Issue of new shares through private placement (Note 43.2)	-	-	17,705,927	1,460,739
Issue of new shares total	-	-	124,486,416	9,469,276
Total	380,094,722	19,870,665	357,123,647	18,263,609

43.1 Scrip Issue

"In 2022, the Board of Directors approved and declared a first and final Dividend for the financial year ended 31 December 2021 comprising of a total Cash and Scrip Dividend of LKR 5.50 per share amounting to LKR 1.00 in cash and LKR 4.50 in scrip dividend. Accordingly 22,971,075 ordinary voting shares have been listed as scrip dividends and LKR 357,123,647 has been paid as cash dividends on 26th April 2022. As a result, the stated capital of the Bank as at 31 December 2022 was LKR 19.87 Bn (31 December 2021 - LKR 18.26 Bn).

43.2 Issue of new shares

In 2020, the Bank successfully concluded the Rights Issue announced in October 2020, where a total of 106,780,489 were offered at a ratio of 28 new ordinary voting shares for every 61 ordinary voting shares held, 83.2% of these shares were allotted to existing shareholders with the balance 16.8% offered to Norfund - the Norwegian Investment Fund for developing countries as per the Share Subscription Agreement and Investment Agreement entered in to with them, and as approved by the shareholders of the Bank at the EGM held on 09 April 2021. Accordingly, LKR 8 Bn was raised through the Rights Issue.

A further 17,705,927 shares was issued to Norfund through a Private Placement. This resulted in a further LKR 1.46 Bn, totalling to LKR 9.5 Bn raised by the Bank as issue of new shares during the year 2021.

44. STATUTORY RESERVE FUND

The Statutory Reserve Fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of the said reserve fund is equal to the stated capital of the Bank.

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	2,571,479	2,196,479	2,571,479	2,196,479
Transferred from retained earnings (Note 45)	175,000	375,000	175,000	375,000
As at 31 December	2,746,479	2,571,479	2,746,479	2,571,479

45. RETAINED EARNINGS

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	39,134,382	33,126,579	42,730,952	36,143,348
Surcharge Tax (Note 45.1)	(2,456,403)	-	(2,554,396)	-
Total comprehensive income for the year	2,838,029	6,721,297	3,104,393	7,301,098
Transferred to the statutory reserve fund (Note 44)	(175,000)	(375,000)	(175,000)	(375,000)
Dividends paid to equity holders	(1,964,180)	(348,956)	(1,964,180)	(348,956)
Reversal of dividends paid in prior years	4,215	10,462	4,215	10,462
As at 31 December	37,381,043	39,134,382	41,116,154	42,730,952

45.1 Surcharge Tax

Surcharge Tax Act No. 14 of 2022 was enacted on 8 April 2022 and is applicable to the Bank and group companies as the collective taxable income of companies belonging to the Group, calculated in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, exceeds LKR 2,000 Mn, for the year of assessment 2020/21. The liability is computed at the rate of 25% on the taxable income of the individual Group companies, net of dividends from subsidiaries. Total Surcharge Tax liability of LKR 2,456 Mn and LKR 2,576 Mn has been recognised for the Bank and the Group respectively as an opening adjustment to the retained earnings in the Statement of Changes in Equity as at 1 January 2022 as per the Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka. According to the said Act, the surcharge tax shall be deemed to be expenditure in the financial statements relating to the year of assessment 2020/21.

46. OTHER RESERVES

Current Year 2022	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000
Revaluation reserve (Note 46.1)	1,402,195	64,070	1,466,265	1,583,831	99,110	1,682,941
Fair Value through other comprehensive income reserve [Note 46.2]	(2,483,938)	1,441,203	(1,042,735)	(2,467,181)	1,441,694	(1,025,487)
Share based payment reserve (Note 46.3)	44,479	-	44,479	44,479	-	44,479
Cash flow hedge reserve [Note 24.1(b)]	-	3,069,667	3,069,667	-	3,069,667	3,069,667
Total	(1,037,264)	4,574,940	3,537,676	(838,871)	4,610,470	3,771,599

Prior Year 2021	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000
Revaluation reserve (Note 46.1)	1,311,992	90,203	1,402,195	1,463,115	120,716	1,583,831
Fair Value through other comprehensive income reserve [Note 46.2]	(648,360)	(1,835,578)	(2,483,938)	(621,038)	(1,846,143)	(2,467,181)
Share based payment reserve (Note 46.3)	-	44,479	44,479	-	44,479	44,479
Total	663,632	(1,700,896)	(1,037,264)	842,077	(1,680,948)	(838,871)

46.1 Revaluation Reserve

Revaluation reserve represents the fair value changes of freehold land and buildings net of deferred tax effect on revaluation surplus as at the date of revaluation.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	1,402,195	1,311,992	1,583,831	1,463,115
Revaluation of freehold land and building	249,651	22,794	316,789	22,794
Adjustment for revaluation of owner occupied portion of Investment Property	-	-	-	31,308
Deferred tax effect including the effect of rate change on the opening balance on revaluation gains/(losses)	(185,581)	67,409	(217,679)	66,614
Net impact during the year	64,070	90,203	99,110	120,716
As at 31 December	1,466,265	1,402,195	1,682,941	1,583,831

46.2 Fair Value through Other Comprehensive Income Reserve

The fair value through Other Comprehensive Income reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through Other Comprehensive Income until they are derecognised or impaired.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	(2,483,938)	(648,360)	(2,467,181)	(621,038)
Reclassification of debt instruments at FVOCI to amortised cost	2,052,026	-	2,052,026	-
Net change in fair value during the year in debt instruments	368,854	(2,353,240)	369,345	(2,367,024)
	2,420,880	(2,353,240)	2,421,371	(2,367,024)
Net change in fair value during the year in equity instruments	(304,245)	(49,407)	(304,245)	(49,407)
Deferred tax effect including the effect of rate change on the opening balance of fair value through other comprehensive income reserve	(675,432)	567,069	(675,432)	570,288
Net impact during the year	1,441,203	(1,835,578)	1,441,694	(1,846,143)
As at 31 December	(1,042,735)	(2,483,938)	(1,025,487)	(2,467,181)

46.3 Share Based Payment Reserve

Employee Share Option Scheme (ESOS)

An Employee Share Option Scheme (ESOS 2016) was approved by the shareholders of the Bank at an Extraordinary General Meeting (EGM) held in March 2016 in order to, enable the management staff in the rank of Senior Manager and above of the Bank and the respective Chief Executive Officers of NDB Capital Holdings Limited, NDB Wealth Management Limited, NDB Investment Bank Limited and NDB Securities (Pvt) Limited to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions.

As per the ESOS 2016, the Bank will offer share options relating to voting shares to the eligible employees up to a maximum of 5% of the total number of shares issued by the Bank. The shares under the said scheme shall be issued during a period of five years from the year 2017 (performance year 2016) subject to the performance criteria set out in the Circular to Shareholders dated 01 March 2016, and each year the share options will be limited to 1.25% of the total number of shares then issued by the Bank. The details of the currently applicable scheme (Tranche 5) is as given below.

Although the scheme commenced in the year 2017, the Bank did not meet the 'Qualifying Performance Criteria' set out in the Circular to Shareholders dated 01 March 2016 for the performance years 2016, 2017 and 2019.

ESOS tranche 3 (performance year 2018)

The Bank was able to meet the performance criteria for the performance year 2018 and the approved management staff are eligible to exercise their share options during the period from 01 July 2020 to 30 June 2023. However, no share options were exercised by any approved management staff up to 31 December 2022.

Furthermore, as required by SLFRS 2 on "Share-based Payment", the fair value of the ESOS Tranche 3 was estimated at the grant date using the Binomial Valuation Model taking into consideration various terms and conditions upon which the share options are granted. Accordingly, the inputs used in the measurement of fair value of the share option were : Exercise price of the share options, Market price of a share, Risk-free rate, Exercise period, Volatility of the share price. However, the fair value of the said option plan was not material to be accounted for in the Financial Statements given the historical trend of the share price movements and the volatility in the expected share price movements.

ESOS tranch 5 (performance year 2020)

In additions to the Tranche 3, the Bank was able to achieve the performance criteria under Tranche 5 for the performance year 2020 and the approved management staff are eligible to exercise their share options as per the ESOS. The details of the Tranche 5 is as given below.

Tranche	Period of Performance Evaluation	Option grant date	Vesting Period (From -To)	Exercise Period (From -To)
5	2020	01 July 2021	01 July 2021 - 30 June 2022	01 July 2022 - 30 June 2025

The Group recognised a Share Based Payment Reserve for the value of the share options under Tranche 5 based on a valuation carried out by an independent valuer as required by SLFRS 2, "Share-based Payment" using the Binomial Valuation Model. The inputs used in measurement of fair value of the share option were : Exercise price of the share options, Market price of a share, Risk-free rate, Exercise period, Volatility of the share price. The share based payment reserve was LKR 44.5 Mn and corresponding charge of the same is represented in the Statement of Profit or Loss under Note 12-Personnel Expenses in year 2021. However, no adjustment was made to the fair value of the share option since the amount was not material to the financial statements as at 31 December 2022.

46.4 Cash Flow Hedge Reserve

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	-	-	-	-
Additions during the year	4,385,238	-	4,385,238	-
Deferred tax effect on gains/(losses)	(1,315,571)	-	(1,315,571)	-
As at 31 December	3,069,667	-	3,069,667	-

47. NON-CONTROLLING INTERESTS

ACCOUNTING POLICY

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if it is a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognised as equity. Therefore no goodwill is recognised as a result of such transactions.

	GROUP	
	2022 LKR '000	2021 LKR '000
Balance as at 01 January	1,339,373	1,227,155
Surcharge Tax (Note 45.1)	(21,780)	-
Profit for the year	67,067	158,467
Other comprehensive income, net of tax	47,377	3,967
Dividends paid to equity holders	(40,778)	(50,216)
Balance as at 31 December	1,391,259	1,339,373

48. CONTINGENT LIABILITIES AND COMMITMENTS

ACCOUNTING POLICY

All discernible risks are accounted for in determining the amount of all known liabilities. Commitments and contingencies represent 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, as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Group enter into various irrevocable commitments and contingent liabilities. These consist of the financial guarantees, letters of credit and forward foreign exchange contracts and other undrawn commitments to lend. The letters of credit and guarantees commit the Group to make payments on behalf of customers in the event of a specific act, generally related to import or export of goods. The guarantees and standby letters of credit carry a similar credit risk of that loans/contingent liabilities and are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

48.1 Business Commitments and contingencies

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Contingencies				
Guarantees	47,386,645	61,705,580	47,240,694	61,559,629
Performance Bonds	25,810,093	22,399,692	25,810,093	22,399,692
Documentary Credits	7,745,122	24,253,102	7,745,122	24,253,102
Other Contingencies [Note 48.1 (a)]	34,128,635	78,343,624	34,128,635	78,343,624
Commitments				
Undrawn commitments	178,539,261	125,370,437	179,452,163	125,422,343
Total	293,609,756	312,072,435	294,376,707	311,978,390
Less: Impairment allowance [Note 48.1 (b)]	1,368,885	2,029,511	1,368,885	2,029,511
Net of impairment	292,240,871	310,042,924	293,007,822	309,948,879

The maturity analysis of the commitments and contingencies is disclosed in Note 56.4.(f)

48.1 (a) Other Contingencies

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Forward Exchange Contracts	27,739,854	50,402,579	27,739,854	50,402,579
Acceptances	6,388,781	27,941,045	6,388,781	27,941,045
Total	34,128,635	78,343,624	34,128,635	78,343,624

48.1 (b) Impairment allowance for commitments and contingencies

	BANK & GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Balance as at 01 January 2022	1,478,048	288,492	262,971	2,029,511
Charges/(reversals) during the year	(353,957)	(101,473)	(205,196)	(660,626)
Balance as at 31 December 2022	1,124,091	187,019	57,775	1,368,885
Balance as at 01 January 2021	904,659	222,408	38,891	1,165,958
Charges/(reversals) during the year	573,389	66,084	224,080	863,553
Balance as at 31 December 2021	1,478,048	288,492	262,971	2,029,511

48.1 (c) Analysis of Commitments and Contingencies (before impairment allowance)

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Domestic Currency				
Guarantees	34,757,932	45,401,543	34,611,981	45,255,592
Performance Bonds	13,688,432	15,046,076	13,688,432	15,046,076
Documentary Credits	203,745	1,298,545	203,745	1,298,545
Forward Exchange Contracts	8,353,450	14,685,260	8,353,450	14,685,260
Acceptances	-	150,687	-	150,687
Undrawn commitments	177,198,954	124,328,803	178,111,856	124,380,709
Sub Total	234,202,513	200,910,914	234,969,464	200,816,869
Foreign Currency				
Guarantees	12,628,713	16,304,037	12,628,713	16,304,037
Performance Bonds	12,121,661	7,353,616	12,121,661	7,353,616
Documentary Credits	7,541,377	22,954,557	7,541,377	22,954,557
Forward Exchange Contracts	9,255,284	35,717,319	9,255,284	35,717,319
Currency Swap Agreement	10,131,120		10,131,120	
Acceptances	6,388,781	27,790,358	6,388,781	27,790,358
Undrawn commitments	1,340,307	1,041,634	1,340,307	1,041,634
Sub Total	59,407,243	111,161,521	59,407,243	111,161,521
Total	293,609,756	312,072,435	294,376,707	311,978,390

48.2 Capital Commitments

The capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	BANK & GROUP			
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Approved and contracted for	400,000	347,088	400,000	395,752
Total	400,000	347,088	400,000	395,752

The Bank has a capital commitments totalling approximately LKR 400 Mn over the next 12 months in relation to the upgrade of the Core Banking system.

48.3 Litigation Against the Bank

In the normal course of business, the bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their facility agreements. Based on the assessment carried out, the Bank is of the view that the legal cases filed against the Bank will not have a material impact on the reported financial results or the future operations of the Bank.

48.4 Tax Assessments Against the Bank and Group Companies

The following tax assessments are outstanding, against which the Bank and Group companies have duly appealed.

1. The VAT on financial services assessments received by the Bank for the years 2012 and 2013 amounting to LKR 302.6 Mn, were determined by the Commissioner General of Inland Revenue and the Tax Appeals Commission as payable. The stated cases against the determination of the Tax Appeals Commission were forwarded to the Court of Appeal for their opinion.
2. The assessments on VAT on financial services received by NDB Capital Holdings Limited for the years 2012 and 2013 amounting to LKR 183.8 Mn which were determined by the Commissioner General of Inland Revenue as payable have been forwarded to the Tax Appeals Commission for their determinations. The Company has taken up the position that the company does not carry on the business of provision of loans, as charged in the assessments/ determinations. Further the assessment on VAT on financial services for the year 2018 received by the Company amounting to LKR 79 Mn is pending hearing at the Appeal Branch of the Department of Inland Revenue.
3. The income tax assessments received by NDB Capital Holdings Limited for the Year of Assessment 2018/19 amounting to LKR 30.7 Mn is pending hearing by the Appeal Branch of the Department of Inland Revenue.

The Group is of the view that the above assessments will not have any material adverse impact on the Financial Statements.

49. NET ASSETS VALUE PER ORDINARY SHARE

	BANK		GROUP	
	2022	2021	2022	2021
Amount used as the Numerator:				
Total equity attributable to equity holders of the Bank (LKR '000)	63,535,863	58,932,205	67,504,898	62,727,164
Number of Ordinary Shares used as the Denominator:				
Total number of shares	380,094,722	357,123,647	380,094,722	357,123,647
Net Assets value per share (LKR)	167.16	165.02	177.60	175.65

50. MATURITY ANALYSIS

An analysis of the assets and liabilities, based on the remaining period as at the date of the Statement of Financial Position to the respective contractual maturity dates, are as follows:

As at 31 December 2022	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	34,849,521	-	34,849,521
Balances with the Central Bank of Sri Lanka	17,271,993	915,554	18,187,547
Placements with banks	4,108,989	-	4,108,989
Derivative financial instruments	7,909,252	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	19,318,483	-	19,318,483
Financial assets at amortised cost - loans and receivables to other customers	345,247,610	200,625,417	545,873,027
Financial assets at amortised cost - debt and other instruments	87,353,044	47,694,842	135,047,886
Financial assets measured at fair value through other comprehensive income	44,685,230	-	44,685,230
Investments in subsidiary companies	-	1,115,794	1,115,794
Property, plant & equipment	-	3,261,362	3,261,362
Right of use assets	33,665	1,137,098	1,170,763
Intangible assets	-	1,804,321	1,804,321
Deferred tax assets	-	9,004,747	9,004,747
Other assets	6,435,328	-	6,435,328
Total assets	567,213,115	265,559,135	832,772,250
Liabilities			
Due to banks	20,251,657	-	20,251,657
Derivative financial instruments	96,246	-	96,246
Financial Liabilities at amortised cost			
Due to depositors	638,470,006	33,844,017	672,314,023
Due to debt securities holders	130,541	-	130,541
Due to other borrowers	31,726,688	645,577	32,372,265
Debt securities issued	4,386,729	23,592,902	27,979,631
Current tax liabilities	1,792,967	4,677,386	6,470,353
Retirement benefit obligations	42,407	873,600	916,007
Other liabilities	7,699,533	1,006,131	8,705,664
Total liabilities	704,596,774	64,639,613	769,236,387
Maturity GAP	(137,383,659)	200,919,522	63,535,863

The Bank classified LKR 24.5 Bn of its other borrowed funds within 12 months in the maturity disclosures as there were few financial covenants that were not met due to the economic conditions that prevailed with the emergence of the prolonged economic crisis during the year. The Bank has intimated the reasons for the covenant breaches to the lenders which are not entirely within the control of the Banking operations and is mainly due to subdued economic conditions that prevailed in 2022. It is expected that the waivers would be processed by the lenders in due course, considering the current economic environment.

As at 31 December 2021

	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	13,411,819	-	13,411,819
Balances with the Central Bank of Sri Lanka	15,035,819	1,367,543	16,403,362
Placements with banks	8,299,403	-	8,299,403
Derivative financial instruments	1,338,204	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	2,441,833	-	2,441,833
Financial assets at amortised cost - loans and receivables to other customers	320,138,516	184,400,452	504,538,968
Financial assets at amortised cost - debt and other instruments	13,673,641	40,589,335	54,262,976
Financial assets measured at fair value through other comprehensive income	89,552,196	-	89,552,196
Investments in subsidiary companies	-	1,130,916	1,130,916
Property, plant & equipment	-	3,143,829	3,143,829
Right of use assets	-	1,094,607	1,094,607
Intangible assets	-	1,203,940	1,203,940
Deferred tax assets	-	3,417,315	3,417,315
Other assets	4,693,249	-	4,693,249
Total assets	468,584,680	236,347,937	704,932,617
Liabilities			
Due to banks	24,770,644	-	24,770,644
Derivative financial instruments	1,048,644	-	1,048,644
Financial Liabilities at amortised cost			
Due to depositors	506,016,400	46,023,392	552,039,792
Due to debt securities holders	1,341,060	-	1,341,060
Due to other borrowers	16,496,909	8,731,956	25,228,865
Debt securities issued	671,121	27,289,610	27,960,731
Current tax liabilities	1,792,967	614,276	2,407,243
Retirement benefit obligations	42,407	693,259	735,666
Other liabilities	10,467,768	-	10,467,767
Total liabilities	562,647,920	83,352,493	646,000,412
Maturity GAP	(94,063,240)	152,995,444	58,932,205

The Bank classified LKR 2.5 Bn of its other borrowed funds within 12 months in the maturity disclosures as there were few financial covenants that were not met due to the economic conditions that prevailed during the year. The Bank has intimated the reasons for the covenant breaches to the lenders which are not entirely within the control of the Banking operations and is mainly due to the subdued economic conditions that prevailed during 2021.

50. MATURITY ANALYSIS (CONTD.)

As at 31 December 2022	GROUP		
	Within 12 Months	After 12 Months	Total
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	35,727,665	-	35,727,665
Balances with the Central Bank of Sri Lanka	17,271,993	915,554	18,187,547
Placements with banks	4,108,989	-	4,108,989
Derivative financial instruments	7,909,252	-	7,909,252
Financial assets recognised through profit or loss- measured at fair value	20,788,523	-	20,788,523
Financial assets at amortised cost - loans and receivables to other customers	345,262,478	200,657,346	545,919,824
Financial assets at amortised cost - debt and other instruments	87,353,044	47,694,842	135,047,886
Financial assets measured at fair value through other comprehensive income	45,454,490	-	45,454,490
Investment property	-	2,879,091	2,879,091
Property, plant & equipment	-	3,907,994	3,907,994
Right of use assets	33,665	1,289,703	1,323,368
Intangible assets	-	1,813,213	1,813,213
Current tax receivables	43,488	-	43,488
Deferred tax assets	-	9,048,896	9,048,896
Other assets	7,037,671	-	7,037,671
Total assets	570,991,258	268,206,639	839,197,897
Liabilities			
Due to banks	20,298,844	-	20,298,844
Derivative financial instruments	96,246	-	96,246
Financial liabilities at amortised cost			
Due to depositors	637,869,320	33,844,017	671,713,337
Due to debt securities holders	130,541	-	130,541
Due to other borrowers	31,726,688	645,577	32,372,265
Debt securities issued	4,386,729	23,592,902	27,979,631
Current tax liabilities	5,866,492	768,696	6,635,188
Deferred tax liabilities	-	873,280	873,280
Retirement benefit obligations	48,499	970,795	1,019,294
Other liabilities	7,976,079	1,207,036	9,183,115
Total liabilities	708,399,438	61,902,303	770,301,741
Maturity GAP	(137,408,180)	206,304,336	68,896,156

The Group classified LKR 24.5 Bn of its other borrowed funds within 12 months in the maturity disclosures as there were few financial covenants that were not met due to the economic conditions that prevailed with the emergence of the prolonged economic crisis during the year. The Bank has intimated the reasons for the covenant breaches to the lenders which are not entirely within the control of the Banking operations and is mainly due to subdued economic conditions that prevailed in 2022. It is expected that the waivers would be processed by the lenders in due course, considering the current economic environment.

As at 31 December 2021

	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	13,765,270	-	13,765,270
Balances with the Central Bank of Sri Lanka	15,035,819	1,367,543	16,403,362
Placements with banks	8,299,403	-	8,299,403
Derivative financial instruments	1,338,204	-	1,338,204
Financial assets recognised through profit or loss- measured at fair value	4,784,124	-	4,784,124
Financial assets at amortised cost - loans and receivables to other customers	319,917,108	184,457,188	504,374,296
Financial assets at amortised cost - debt and other instruments	13,673,641	40,589,335	54,262,976
Financial assets measured at fair value through other comprehensive income	89,696,611	-	89,696,611
Investment property	-	2,528,228	2,528,228
Property, plant & equipment	-	3,735,298	3,735,298
Right of use assets	-	1,285,385	1,285,385
Intangible assets	-	1,217,111	1,217,111
Current tax receivables	27,701	-	27,701
Deferred tax assets	-	3,443,207	3,443,207
Other assets	5,670,716	-	5,670,716
Total assets	472,208,597	238,623,295	710,831,892
Liabilities			
Due to banks	24,821,158	-	24,821,158
Derivative financial instruments	1,048,644	-	1,048,644
Financial liabilities at amortised cost			
Due to depositors	505,233,203	46,023,392	551,256,595
Due to debt securities holders	1,341,060	-	1,341,060
Due to other borrowers	16,496,909	8,731,956	25,228,865
Debt securities issued	671,121	27,289,610	27,960,731
Current tax liabilities	1,892,141	693,834	2,585,975
Deferred tax liabilities	-	569,213	569,213
Retirement benefit obligations	42,407	787,466	829,873
Other liabilities	11,123,236	-	11,123,237
Total liabilities	562,669,879	84,095,470	646,765,349
Maturity GAP	(90,461,283)	154,527,825	64,066,541

The Group classified LKR 2.5 Bn of its other borrowed funds within 12 months in the maturity disclosures as there were few financial covenants that were not met due to the economic conditions that prevailed during the year. The Bank has intimated the reasons for the covenant breaches to the lenders which are not entirely within the control of the Banking operations and is mainly due to the subdued economic conditions that prevailed during 2021.

51. SEGMENTAL ANALYSIS - GROUP

ACCOUNTING POLICY

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, whose operating results are reviewed regularly by the Senior Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group has identified four operating segments based on products and services, as follows:

- Banking
- Capital Markets
- Property Investment
- Others

Income taxes are managed on a Group basis and are not allocated to operating segments. Interest income is reported net, as management primarily relies on net interest income as a performance measure, not the gross interest income and interest expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

For the year ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Revenue										
Interest income	97,917,822	52,692,866	212,264	85,151	-	-	-	-	98,130,086	52,778,017
Net fee and commission income	6,274,698	5,634,797	758,631	1,381,560	189,605	209,341	88,908	62,928	7,311,842	7,288,626
Net gains/(losses) from trading	(340,346)	2,096,455	-	-	-	-	-	-	(340,346)	2,096,455
Net gain/(loss) from financial investments at fair value through Profit or Loss	(389,767)	433,106	49,379	127,376	-	-	-	-	(340,388)	560,482
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	15,127	186,248	-	-	-	-	-	-	15,127	186,248
Other operating income	6,118,106	860,141	274,681	47,120	168,269	153,004	-	-	6,561,056	1,060,265
Total revenue from external customers	109,595,640	61,903,613	1,294,955	1,641,207	357,874	362,345	88,908	62,928	111,337,377	63,970,093
Inter-segment revenue	-	-	121,397	55,993	92,737	56,787	-	-	214,134	112,780
Total Revenue	109,595,640	61,903,613	1,416,352	1,697,200	450,611	419,132	88,908	62,928	111,551,511	64,082,873
Impairment (charge)/reversal	(29,276,538)	(10,252,695)	-	-	-	-	-	-	(29,276,538)	(10,252,695)
Segment expenses	(78,474,207)	(41,507,797)	(1,026,853)	(1,014,504)	(18,035)	(11,213)	(83,939)	(67,985)	(79,603,034)	(42,601,499)
Total segment expenses	(107,750,745)	(51,760,492)	(1,026,853)	(1,014,504)	(18,035)	(11,213)	(83,939)	(67,985)	(108,879,572)	(52,854,194)
Segment results	1,844,895	10,143,121	389,499	682,696	432,576	407,919	4,969	(5,057)	2,671,939	11,228,678
Income tax expense/(reversal)	-	-	-	-	-	-	-	-	(1,606,957)	2,151,277
Taxes on financial services	-	-	-	-	-	-	-	-	1,203,092	2,014,671
Profit after taxation	-	-	-	-	-	-	-	-	3,075,804	7,062,730
Other information										
Segment assets	832,553,967	704,762,586	3,117,485	2,906,491	3,334,898	3,073,346	191,547	89,469	839,197,897	710,831,892
Segment liabilities	768,617,780	645,177,915	799,755	965,118	860,852	608,253	23,354	14,064	770,301,741	646,765,350
Segmental cash flows										
Cash flows from operating activities	89,669,078	(23,393,364)	(58,138)	(111,853)	184,930	223,848	39,779	91,040	89,835,649	(23,190,329)
Cash flows from investing activities	(68,722,453)	7,476,659	465,442	76,621	(66,771)	(167,670)	-	-	(68,323,782)	7,385,610
Cash flows from financing activities	(3,693,880)	14,740,218	56,761	71,555	(97,310)	(97,309)	-	(24,120)	(3,734,429)	14,690,344

52. RELATED PARTY DISCLOSURES

52.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable Parent of its own.

52.2 Terms and Conditions

The Bank carries out transactions with Key Management Personnel and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates as per the Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures' except, loans that the key management have availed under the loan schemes which are uniformly applicable to all the staff.

There are no preferential treatments given by the Group to related parties during the year.

52.3 Key Management Personnel (KMP) of the Group

KMP of the Bank

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key Management Personnel include the members of the Board of Directors of the Bank (including Executive and Non-Executive) and the Chief Operating Officer.

KMP of the Group

The Bank is the ultimate parent of the subsidiaries listed out on page 206. The KMP of the Bank has the authority and responsibility for planning directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (including the Executive and Non-Executive) and the Chief Operating Officer represent the KMP of the Group.

52.3(a) Compensation to KMP

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Short-term employment benefits	136,245	104,753	139,418	107,461
Post-employment benefits	11,119	11,672	11,119	11,672
	147,364	116,425	150,537	119,133

The amounts disclosed above are the amounts recognised as expenses during the reporting period relating to KMP.

In addition to the remuneration, the Bank has also provided non cash benefits to eligible KMP in line with the approved benefit plans of the Bank.

52.3(b) KMP and their close family members had the following related party transactions during the year

For the year ended 31 December	Limit		Outstanding Balance		Average Balance	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Items in the Statement of Financial Position - Bank Assets						
Financial assets at amortised cost - loans and receivables to other customers	50,390	59,759	20,643	34,872	30,751	60,058
	50,390	59,759	20,643	34,872	30,751	60,058
Liabilities						
Financial liabilities at amortised cost						
Due to depositors	-	-	299,736	307,666	275,579	227,423
Due to debt securities holders	-	-	-	-	5,859	-
	-	-	299,736	307,666	281,438	227,423

52.3(b) KMP and their close family members had the following related party transactions during the year (Contd.)

	During the year	
	2022 LKR '000	2021 LKR '000
Items in the Statement of Profit or Loss excluding compensation to KMP - Bank		
Interest income	3,870	3,631
Interest expenses	31,683	13,085
Fee and commission income	261	173
Impairment charges/ (reversals)*	(202)	129

*Impairment charges/ (reversals) does not include any specific impairment.

Share investments in the Bank and dividends paid to the KMPs and their Close Family Members are given below.

	2022	2021
Investments in ordinary shares as at 31 December (Number of shares)	91,815	86,268
Scrip dividends paid during the year (Number of shares)	5,547	-
Cash dividends paid during the year (LKR '000)	86	28

52.3(c) Transactions involving entities which are controlled/ jointly controlled by the KMP and their close family members

For the year ended 31 December	Limit		Outstanding Balance		Average Balance	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Items in the Statement of Financial Position - Bank						
Assets						
Financial assets at amortised cost - loans and receivables to other customers	100,000	3,221,100	102,436	3,200,597	1,386,201	4,031,169
	100,000	3,221,100	102,436	3,200,597	1,386,201	4,031,169
Liabilities						
Financial liabilities at amortised cost						
Due to depositors	-	-	3,900,327	2,974,082	1,399,445	2,401,746
	-	-	3,900,327	2,974,082	1,399,445	2,401,746
Commitment & Contingencies						
Guarantees	-	-	-	30	235	278
	-	-	-	30	235	278

	During the year	
	2022 LKR '000	2021 LKR '000
Items in the Statement of Profit or Loss - Bank		
Interest income	137,910	382,713
Interest expenses	211,073	139,287
Fee and commission income	4,080	6,099
Impairment charges/ (reversals)*	(924)	(2,299)

*Impairment charges/ (reversals) does not include any specific impairment.

Share investments in the Bank and dividends paid to the entities which are controlled/ jointly controlled by the KMP and their Close Family Members are given below.

	2022	2021
Investments in ordinary shares as at 31 December (Number of shares)	86	-
Scrip dividends paid during the year (Number of shares)	-	-
Cash dividends paid during the year (LKR '000)	-	-

52.4 Transactions with the Government of Sri Lanka and its Related Entities

The Group enter into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities.

52.4(a) The transactions entered with the Government of Sri Lanka and its related entities on a collective basis is as follows

	Outstanding Balance		Average Balance	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Items in the Statement of Financial Position - Bank				
Assets				
Financial assets at amortised cost - loans and receivables to other customers	28,944,395	27,291,868	27,370,670	24,551,763
Financial assets at amortised cost - debt and other instruments	4,759,248	4,681,377	4,550,375	2,842,872
Financial assets measured at fair value through other comprehensive income	6,224	6,224	6,224	6,224
	33,709,867	31,979,469	31,927,269	27,400,859
Liabilities				
Financial liabilities at amortised cost				
Due to depositors	2,568,819	14,777,038	7,550,560	17,137,330
Due to debt securities holders	-	8,538	2,248,203	786,748
Due to other borrowers	12,917,841	20,206,588	16,091,841	20,576,835
Debt securities issued	7,748,940	7,428,300	7,705,925	7,347,825
	23,235,600	42,420,464	33,596,529	45,848,738
Contingent liabilities and commitments				
Forward exchange contracts	8,337,323	6,633,495	10,508,517	11,847,404
Other contingencies	18,503	16,738	33,864	38,415
Undrawn commitments	9,910,456	3,485,380	9,576,370	5,407,214
	18,266,282	10,135,613	20,118,751	17,293,033

52.4 (a) The transactions entered with the Government of Sri Lanka and its related entities on a collective basis is as follows (Contd.)

	During the year	
	2022 LKR '000	2021 LKR '000
Items in the Statement of Profit or Loss - Bank		
Interest income	3,501,152	2,521,574
Interest expenses	4,212,725	2,502,160
Fee and commission income	16,810	9,431
Net gains/(losses) from trading	283	5,865
Other operating income	37,188	39,119
Impairment charges/(reversals)*	82,984	(156)
Scrip dividends paid during the year (Number of shares)	7,393,903	-
Cash dividends paid during the year (LKR '000)	114,951	119,479

*Impairment charges/ (reversals) does not include any specific impairment.

52.4 (b) Further transactions detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities;

- Statutory balances with the Central Bank of Sri Lanka
- Investments in Treasury bills, Treasury bonds, Sovereign and Development Bonds and money market placements. Sovereign and Development Bonds are recorded net of impairment provisions.
- Payment of statutory rates, taxes and deposit insurance premium
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - ETF
- Currency SWAP arrangement with the Central Bank of Sri Lanka (Note 24.1)

52.4 (c) Individually significant transactions

The Bank uses an internal assessment methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities in accordance with the disclosure requirements of LKAS 24. Accordingly, there are no individually significant transactions that require disclosure during the year.

52.5 Transactions with Related Entities
52.5 (a) The transactions entered by the Bank with its Subsidiaries

	Limit		Outstanding Balance		Average Balance	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Items in the Statement of Financial Position - Bank Assets						
Financial assets at amortised cost - loans and receivables to other customers	350,000	600,000	4,433	226,578	79,363	166,907
Other assets	-	-	12,615	693	173,881	133,524
Investments in subsidiary companies	-	-	1,115,794	1,130,916	1,125,796	1,139,211
Liabilities						
Financial liabilities at amortised cost						
Due to depositors	-	-	613,070	828,577	964,903	627,191
Due to debt securities holders	-	-	-	-	-	1,619
Other liabilities	-	-	-	-	-	80
Contingent liabilities and commitments						
Guarantees	300,000	250,000	145,951	145,951	145,951	84,581

	During the year	
	2022 LKR '000	2021 LKR '000
Items in the Statement of Profit or Loss in relation to transactions with subsidiaries of the Bank		
Interest income	11,328	16,566
Interest expenses	94,252	25,434
Fee and commission income	5,643	14,823
Net gains/(losses) from trading	-	107
Other expenses	103,017	48,870
Other operating income	306,838	206,918
Impairment charges	13,777	16,823

Investments in subsidiary companies are stated net of impairment allowance amounting to LKR 95.8 Mn for the year ended 31 December 2022 and LKR 80.7 Mn for the year ended 31 December 2021.

Refer Note 29 and note 30 for details of subsidiary and associate companies.

52.5 (b) The contribution made by the Bank and the employees, for EPF, is managed as a separate fund by the Bank.

The Bank had the under-mentioned financial dealings during the year with the NDB Provident Fund.

	2022 LKR '000	2021 LKR '000
Financial liabilities at amortised cost		
Due to depositors	95,782	135,657
Interest expenses	50,815	11,169
Contribution by the Bank	760,493	690,221

52.5 (c) NDB Wealth Management Limited, a subsidiary of the Bank, had the under mentioned financial dealings with the NDB Provident Fund.

	2022 LKR '000	2021 LKR '000
Portfolio under management	2,195,271	2,522,459

52.5 (d) The Bank had the under-mentioned financial dealings with the NDB Pension Fund during the year.

	2022 LKR '000	2021 LKR '000
Financial liabilities at amortised cost		
Due to depositors	540,265	516,326
Interest expenses	58,364	34,116
Contribution by the Bank	-	-

53. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements except those disclosed below.

Proposed Debenture Issue

The Bank announced to the Colombo Stock Exchange on 25 January 2023 that the Board of Directors of the Bank at its meeting held on 24 January 2023 approved that the Bank issues up to a maximum of One Hundred Million (100,000,000) Basel III Compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non- Viability Conversion (hereinafter referred to as “Debentures”) of Rupees Hundred (Rs.100/-) each, to raise a maximum sum of Rupees Ten Billion (LKR 10,000,000,000/-) as follows;

- The Debentures will be offered to “Qualified Investors” as defined under the Listing Rules of the CSE;
- The 100,000,000 Debentures will be issued in multiple issuances, the timing of which is within one year time frame from the date of obtaining shareholder approval for the issuance of the Debentures, subject to the approval of the Colombo Stock Exchange and will be decided by the Board of Directors of the Bank based on the requirements of the Bank and the prevailing market conditions ;
- The size, tenure/maturity period (minimum five years), coupon rate/s, frequency of coupon/s, etc., as determined by the Board as per the requirements of the Bank, will be notified prior to the opening of such multiple issuances planned.

The aforesaid multiple issues will be carried out subject to necessary regulatory approvals therefore and the Bank proposes to have these Basel III Compliant Debentures quoted on the Colombo Stock Exchange.

54. COMPARATIVE INFORMATION

No changes have been made to the information/balances published in the Annual Report for the year 2021 which have been given as comparatives in the Annual Report for the year 2022, other than the items mentioned below.

		BANK			GROUP		
	Notes	Previous Presentation	Current Presentation	Adjustment	Previous Presentation	Current Presentation	Adjustment
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Statement of financial position							
Financial assets at amortised cost							
- loans and receivables to other customers	26	502,509,458	504,538,968	2,029,510	502,344,786	504,374,296	2,029,510
Total assets		702,903,107	704,932,617	2,029,510	708,802,382	710,831,892	2,029,510
Other liabilities	42	8,438,256	10,467,766	2,029,510	9,093,727	11,123,236	2,029,510
Total liability		643,970,901	646,000,411	2,029,510	644,735,840	646,765,350	2,029,510

55. FAIR VALUE OF FINANCIAL INSTRUMENTS AND NON FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

The following is a description of how fair values are determined for financial instruments and non-financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing such instruments.

Significant Accounting Judgments, Estimates and Assumptions

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from an active market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

FINANCIAL INSTRUMENTS**Derivative Financial Instruments**

Derivative products are foreign exchange contracts and foreign exchange options which are valued using market observable inputs.

Financial Assets Recognised through Profit or Loss - Measured at Fair Value

The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange. Sri Lanka Government Securities are valued based on the market rates published by the money brokers. Investment in private equity funds are measured at fair value based on the change in the net asset value of the funds and is recognised through the Statement of Profit or Loss. Unit trust investments are valued at unit prices available in the market.

Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income, consist of quoted debentures, non-quoted ordinary shares, quoted ordinary shares and Sri Lanka Government Securities. The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange. The Sri Lanka Government Securities are valued based on the market rates published by the money brokers as at the reporting date and quoted debentures and non-quoted ordinary shares are valued using Internal valuation techniques.

NON-FINANCIAL INSTRUMENTS**Property, Plant & Equipment/ Investment Property****Valuation Model**

The fair value of the freehold land and buildings presented in the Financial Statements are provided by an independent valuer based on the valuations carried out at the reporting date.

Freehold land - valuations performed by the valuer are based on the market approach (direct comparison method), for similar properties in the same location and conditions (Note 32).

Freehold buildings - valuations are performed by an independent valuer based on the cost approach (current replacement cost - Note 32).

Investment Property - valuations are performed based on the income approach using the current market rent by an independent valuer to value the Investment Property (Income approach - Note 31).

Valuation Framework

Fair values of financial instruments and non-financial instruments are determined according to the following hierarchy:

Level 1 - quoted market price (unadjusted): financial instruments with quoted prices in active markets

Level 2 - valuation techniques using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets are valued using models where all significant inputs are observable.

Level 3 - valuation techniques with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

The free hold land and buildings of the Group are valued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from fair values at the reporting date.

Also a letter of confirmation is obtained from the Independent Professional Valuer annually except the year in which full valuation is carried out by the Group, to ensure that the fair values of the freehold land and buildings, does not significantly vary from their carrying amounts, at the reporting date.

55 (a) Determination of fair value of financial instruments and non financial instruments by hierarchy

The following table shows the analysis of financial instruments and non financial instruments recorded at fair value in the Statement of Financial Position by the level of the fair value hierarchy in accordance with disclosure requirements as per LKAS 13, Fair Value Measurements.

		BANK			
		Fair Value Measurement Using			Total
		Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	LKR '000
31 December 2022		Note			
Financial Assets					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	209,134	-	209,134
Currency SWAP	24		7,700,118		7,700,118
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value					
Investment in unit trusts	25	-	-	-	-
Sri Lanka Government Securities - treasury bills	25	17,527,665			17,527,665
Sri Lanka Government Securities - treasury bonds	25	1,790,818			1,790,818
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Sri Lanka Government Securities - treasury bills	28	25,651,529	-	-	25,651,529
Sri Lanka Government Securities - treasury bonds	28	18,248,043	-	-	18,248,043
Sovereign Bonds	28	-	-	-	-
Quoted ordinary shares	28	779,434	-	-	779,434
Non quoted ordinary shares	28	-	-	16,568	16,568
Total Financial Assets		63,997,489	7,909,252	16,568	71,923,309
Non-Financial Assets					
Freehold land	32.1			1,024,000	1,024,000
Freehold buildings	32.1			1,149,000	1,149,000
Total Non-Financial Assets		-	-	2,173,000	2,173,000
Financial Liabilities					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	96,246	-	96,246
Total Financial Liabilities		-	96,246	-	96,246

		BANK			
		Fair Value Measurement Using			
		Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	Total LKR '000
31 December 2021	Note				
Financial Assets					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	1,338,204	-	1,338,204
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value					
Investment in unit trusts	25	2,441,833	-	-	2,441,833
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Sri Lanka Government Securities - treasury bills	28	53,030,077	-	-	53,030,077
Sri Lanka Government Securities - treasury bonds	28	33,893,508	-	-	33,893,508
Sovereign Bonds	28	1,607,879	-	-	1,607,879
Quoted ordinary shares	28	1,014,508	-	-	1,014,508
Non quoted ordinary shares	28	-	-	16,568	16,568
Total Financial Assets		91,987,805	1,338,204	16,568	93,342,577
Non-Financial Assets					
Freehold land	32.1	-	-	919,305	919,305
Freehold buildings	32.1	-	-	1,034,694	1,034,694
Total Non-Financial Assets		-	-	1,953,999	1,953,999
Financial Liabilities					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	1,048,644	-	1,048,644
Total Financial Liabilities		-	1,048,644	-	1,048,644

55 (a) Determination of fair value of financial instruments and non financial instruments by hierarchy (Contd.)

31 December 2022		GROUP			
		Fair Value Measurement Using			Total
		Quoted Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
		LKR '000	LKR '000	LKR '000	
	Note				LKR '000
Financial Assets					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	209,134	-	209,134
Currency SWAP	24		7,700,118		7,700,118
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value					
Sri Lanka Government Securities - treasury bills	25	17,527,665			17,527,665
Sri Lanka Government Securities - treasury bonds	25	1,790,818			1,790,818
Quoted ordinary shares	25	242,957	-	-	242,957
Investment in private equity fund	25	-	-	749,668	749,668
Non-quoted ordinary shares	25	-		126,200	126,200
Investment in unit trusts	25	351,215	-	-	351,215
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Sri Lanka Government Securities - treasury bills	28	26,354,221	-	-	26,354,221
Sri Lanka Government Securities - treasury bonds	28	18,248,043	-	-	18,248,043
Sovereign Bonds	28	-	-	-	-
Quoted ordinary shares	28	779,434	-	-	779,434
Non quoted ordinary shares	28	-	-	16,568	16,568
Quoted debentures	28	-	66,568		66,568
Total Financial Assets		65,294,353	7,975,821	892,436	74,162,609
Non-Financial Assets					
Freehold land	32.1	-	-	1,024,000	1,024,000
Freehold buildings	32.1	-	-	1,701,655	1,701,655
Investment property	31	-	-	2,879,091	2,879,091
Total Non-Financial Assets		-	-	5,604,746	5,604,746
Financial Liabilities					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	96,246	-	96,246
Total Financial Liabilities		-	96,246	-	96,246

31 December 2021		GROUP			
		Fair Value Measurement Using			Total
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	
		Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	
Note		LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	1,338,204	-	1,338,204
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value					
Quoted ordinary shares	25	400,165	-	-	400,165
Investment in private equity fund	25	-	-	847,239	847,239
Non-quoted ordinary shares	25	-	-	126,200	126,200
Investment in unit trusts	25	3,410,520	-	-	3,410,520
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Sri Lanka Government Securities - treasury bills	28	53,030,077	-	-	53,030,077
Sri Lanka Government Securities - treasury bonds	28	33,893,508	-	-	33,893,508
Sovereign Bonds	28	1,607,879	-	-	1,607,879
Quoted ordinary shares	28	1,014,508	-	-	1,014,508
Non quoted ordinary shares	28	-	-	16,568	16,568
Quoted debentures	28	-	144,415	-	144,415
Total Financial Assets		93,356,658	1,482,619	990,007	95,829,283
Non-Financial Assets					
Freehold land	32.1	-	-	919,305	919,305
Freehold buildings	32.1	-	-	1,520,213	1,520,213
Investment property	31	-	-	2,528,228	2,528,228
Total Non-Financial Assets		-	-	4,967,746	4,967,746
Financial Liabilities					
Derivative Financial Instruments					
Forward foreign exchange contracts	24	-	1,048,644	-	1,048,644
Total Financial Liabilities		-	1,048,644	-	1,048,644

55 (b) Movements in level 3 financial instruments and non-financial instruments measured at fair value

The level of the fair value hierarchy of financial instruments and non-financial instruments is determined at the beginning of each reporting period. The following table shows the reconciliation of the opening and closing amounts of Level 3 financial instruments and non-financial instruments which are recorded at fair value.

Included in		BANK			
		As at 01 January 2022	Additions/ Disposals during the year	Total gains/ (losses) and charges recorded in Statement of Profit or Loss	Total gains/ (losses) recorded in Other Comprehensive Income
		LKR '000	LKR '000	LKR '000	LKR '000
Non-Financial Assets					
Freehold land [Note 32.1]	Property, plant & equipment	919,305	-	-	104,695
Freehold buildings [Note 32.1]	Property, plant & equipment	1,034,694	(30,651)	-	144,957

55 (b) Movements in level 3 financial instruments and non-financial instruments measured at fair value (Contd.)

Included in		GROUP				
		As at 01 January 2022	Additions/ Disposals during the year	Total gains/ (losses) and charges recorded in Statement of Profit or Loss	Total gains/ (losses) recorded in Other Comprehensive Income	As at 31 December 2022
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Non-quoted ordinary shares [Note 25]	Financial assets measured at Fair Value through Other Comprehensive Income	126,200	-	-	-	126,200
Private equity fund [Note 25]	Financial assets recognised through Statement of Profit or Loss measured at fair value	847,239	(256,001)	158,430	-	749,668
Non-Financial Assets						
Freehold land [Note 32.1]	Property, plant & equipment	919,305	-	-	104,695	1,024,000
Freehold buildings [Note 32.1]	Property, plant & equipment	1,520,213	36,486	-	144,956	1,701,655
Investment property (Note 31)	Investment property	2,528,228	182,594	168,269	-	2,879,091

Included in		BANK				
		As at 01 January 2021	Additions/ Disposals during the year	Total gains/ (losses) and charges recorded in Statement of Profit or Loss	Total gains/ (losses) recorded in Other Comprehensive Income	As at 31 December 2021
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Non-Financial Assets						
Freehold land [Note 32.1]	Property, plant & equipment	919,305	-	-	-	919,305
Freehold buildings [Note 32.1]	Property, plant & equipment	1,034,695	(22,794)	-	22,794	1,034,695

Included in		GROUP				
		As at 01 January 2021	Additions/ Disposals during the year	Total gains/ (losses) and charges recorded in Statement of Profit or Loss	Total gains/ (losses) recorded in Other Comprehensive Income	As at 31 December 2021
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Non-quoted ordinary shares [Note 25]	Financial assets measured at Fair Value through Other Comprehensive Income	150,000	-	(23,800)	-	126,200
Private equity fund [Note 25]	Financial assets recognised through Statement of Profit or Loss measured at fair value	907,834	(178,482)	117,887	-	847,239
Non-Financial Assets						
Freehold land [Note 32.1]	Property, plant & equipment	919,305	-	-	-	919,305
Freehold buildings [Note 32.1]	Property, plant & equipment	1,511,470	(45,359)	-	54,102	1,520,213
Investment property (Note 31)	Investment property	2,361,535	13,689	153,004	-	2,528,228

55 (c) Unobservable inputs used in measuring the fair value of financial and non financial instruments

The tables below sets out information about significant unobservable inputs used as at 31 December 2022 and as at 31 December 2021 in measuring financial and non-financial instruments categorised as Level 2 and Level 3 in the fair value hierarchy:

As at 31 December 2022

Financial Assets/Liabilities

BANK					
Type of Instrument	Fair Values as at 31 December 2022 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Derivative financial assets - Forward Exchange Contracts	209	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Positive impact to the fair value
Derivative financial assets - Currency SWAP	7,700	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Derivative financial liabilities - Forward Exchange Contracts	96	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Positive impact to the fair value

Non Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2022 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	24	Direct comparison method	Per perch value	Per perch - LKR 16.5 Mn	Positive impact to the fair value
Building	766	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 20,000 per square feet and discount factor- 0.43	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	1,000	Direct comparison method	Per perch value	Per perch - LKR 17.5 Mn	Positive impact to the fair value
Building	383	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 17,500 per square feet and discount factor- 0.55	Positive impact to the fair value from both factors

Financial Assets/Liabilities

GROUP					
Type of Instrument	Fair Values as at 31 December 2022 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Derivative financial assets - Forward Exchange Contracts	209	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Positive impact to the fair value
Derivative financial assets - Currency SWAP	7,700	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Derivative financial liabilities - Forward Exchange Contracts	96	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Positive impact to the fair value
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value					
Private equity fund	750	Net Assets Basis	Net Assets Value of the Fund	-	Positive impact to the fair value
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Quoted debentures	67	Forecasted cash flow valuation method	Average yields of the debt market	Yields applicable for the bonds with same tenure	Positive impact to the fair value

55 (c) Unobservable inputs used in measuring the fair value of financial and non financial instruments (Contd.)

Non Financial Assets

GROUP					
Type of Instrument	Fair Values as at 31 December 2022 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	24	Direct comparison method	Per perch value	Per perch - LKR 16.5 Mn	Positive impact to the fair value
Building	766	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 20,000 per square feet and discount factor- 0.43	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	1,000	Direct comparison method	Per perch value	Per perch - LKR 17.5 Mn	Positive impact to the fair value
Building	383	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 17,500 per square feet and discount factor- 0.55	Positive impact to the fair value from both factors
Nawam Mawatha					
Investment property	3,430 (Including the fair value of owner occupied portion of LKR 551 Mn)	Income Approach	Rent per square feet	Average Rate of LKR 245 per square feet	Positive impact to the fair value

As at 31 December 2021

Financial Assets/Liabilities

BANK					
Type of Instrument	Fair Values as at 31 December 2021 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Derivative financial assets - Forward Exchange Contracts	1,338	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Derivative financial liabilities - Forward Exchange Contracts	1,049	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value

Non Financial Assets

BANK					
Type of Instrument	Fair Values as at 31 December 2021 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	19	Direct comparison method	Per perch value	Per perch - LKR 13.5 Mn	Positive impact to the fair value
Building	707	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 17,250 per square feet and discount factor- 0.425	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	900	Direct comparison method	Per perch value	Per perch - LKR 15 Mn	Positive impact to the fair value
Building	328	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,600 per square feet and discount factor- 0.5	Positive impact to the fair value from both factors

Financial Assets/Liabilities

GROUP					
Type of Instrument	Fair Values as at 31 December 2021 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Derivative financial assets - Forward Exchange Contracts	1,338	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Derivative financial liabilities - Forward Exchange Contracts	1,049	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR	Negative impact to the fair value
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value					
Private equity fund	847	Net Assets Basis	Net Assets Value of the Fund	-	Positive impact to the fair value
Financial Assets measured at Fair Value Through Other Comprehensive Income					
Quoted debentures	144	Forecasted cash flow valuation method	Average yields of the debt market	Yields applicable for the bonds with same tenure	Negative impact to the fair value

Non Financial Assets

GROUP					
Type of Instrument	Fair Values as at 31 December 2021 LKR Mn	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	19	Direct comparison method	Per perch value	Per perch - LKR 13.5 Mn	Positive impact to the fair value
Building	707	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 17,250 per square feet and discount factor- 0.425	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	900	Direct comparison method	Per perch value	Per perch - LKR 15 Mn	Positive impact to the fair value
Building	328	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,600 per square feet and discount factor-0.5	Positive impact to the fair value from both factors
Nawam Mawatha					
Investment property	3,012 (Including the fair value of owner occupied portion of LKR 484 Mn)	Income Approach	Rent per square feet	Average Rate of LKR 240 per square feet	Positive impact to the fair value

55 (d) Fair value of the financial assets and financial liabilities that are not carried at fair value in the financial statements

Set out below is a comparison, by class, of the carrying amounts and fair values of the financial assets and financial liabilities that are not carried at fair value in the Statement of Financial Position. The table does not include the fair values of non-financial assets and non-financial liabilities.

		BANK			
		2022		2021	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Fair Value Classification					
Financial Assets					
Cash and cash equivalents	Note 55 (e)	34,849,521	34,849,521	13,411,819	13,411,819
Balances with the Central Bank of Sri Lanka	Note 55 (e)	18,187,547	18,187,547	16,403,362	16,403,362
Placements with banks	Note 55 (e)	4,108,989	4,108,989	8,299,403	8,299,403
Financial assets at amortised cost -loans and receivables to other customers	Level 2	545,873,027	534,200,332	504,538,968	516,411,135
Financial assets at amortised cost - debt and other instruments	Level 2	135,047,886	121,732,926	54,262,976	48,368,454
Other financial assets	Note 55 (e)	1,963,077	1,963,077	1,446,327	1,446,327
Total Financial Assets		740,030,047	715,042,392	598,362,855	604,340,500
Financial Liabilities					
Due to banks	Note 55 (e)	20,251,657	20,251,657	24,770,644	24,770,644
Financial liabilities at amortised cost					
- due to depositors	Level 2	672,314,023	667,553,388	552,039,792	555,651,037
- due to debt securities holders	Note 55 (e)	130,541	130,541	1,341,060	1,341,060
- due to other borrowers	Note 55 (e)	32,372,265	32,372,265	25,228,865	25,228,865
Debt securities issued	Level 2	27,979,631	28,363,550	27,960,731	29,204,622
Other financial liabilities	Note 55 (e)	2,958,157	2,958,157	2,911,821	2,911,821
Total Financial Liabilities		756,006,274	751,629,558	634,252,913	639,108,049

		GROUP			
		2022		2021	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Fair Value Classification					
Financial Assets					
Cash and cash equivalents	Note 55 (e)	35,727,665	35,727,665	13,765,270	13,765,270
Balances with the Central Bank of Sri Lanka	Note 55 (e)	18,187,547	18,187,547	16,403,362	16,403,362
Placements with banks	Note 55 (e)	4,108,989	4,108,989	8,299,403	8,299,403
Financial assets at amortised cost - loans and receivables to other customers	Level 2	545,919,824	534,245,423	504,374,296	516,242,080
Financial assets at amortised cost - debt and other instruments	Level 2	135,047,886	121,732,926	54,262,976	48,368,454
Other financial assets	Note 55 (e)	2,424,812	2,424,812	2,218,351	2,218,351
Total Financial Assets		741,416,723	716,427,362	599,323,658	605,296,919
Financial Liabilities					
Due to banks	Note 55 (e)	20,298,844	20,298,844	24,821,158	24,821,158
Financial liabilities at amortised cost					
- due to depositors	Level 2	671,713,337	666,959,698	551,256,595	554,866,473
- due to debt securities holders	Note 55 (e)	130,541	130,541	1,341,060	1,341,060
- due to other borrowers	Note 55 (e)	32,372,265	32,372,265	25,228,865	25,228,865
Debt securities issued	Level 2	27,979,631	28,363,550	27,960,731	29,204,622
Other financial liabilities	Note 55 (e)	3,273,911	3,273,911	3,252,900	3,253,195
Total Financial Liabilities		755,768,529	751,398,809	633,861,309	638,715,373

55 (e) Basis of measurement for the fair value of Financial Assets and Financial Liabilities Not Carried at Fair Value

Given below are the methodologies and assumptions used to determine the fair values for financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fixed rate financial instruments include financial assets at amortised cost - loans and receivable to other customers, financial assets at amortised cost - debt and other instruments, financial liabilities at amortised cost - due to depositors, due to other borrowers and debt securities issued.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments issued, the fair values are determined based on quoted market prices. For instruments issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in the required credit spread since the instrument was first recognised.

56. RISK MANAGEMENT

56.1 Introduction

Taking risks is inherent in any bank's strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Bank's risk strategy focuses on managing principal risks faced by the Bank while striking a fair balance between the risk return tradeoff and the efficient capital allocation across the risk exposures.

The Bank is mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure

to country risk and any risks due to changes in environment, technology and industry is managed through the Bank's strategic planning process.

56.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall Risk Management approach and for approving the Risk Management strategies and principles. IRMC meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank's Risk Management policies are established to identify and analyse the risks faced by the Bank/ Group to set appropriate risk limits and controls and to monitor adherence to established limits.

The Bank's Assets and Liabilities Committee (ALCO) reviews all market and liquidity related exposures, excesses on a monthly basis and decisions are made to facilitate the business requirements. These decisions are further reviewed at IRMC and by the Board.

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these committees comprises the CEO, the Heads of Business Units, Finance, Treasury and representatives of the Risk Management Division.

The Committees meet regularly to review the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

The Bank's Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

56.2.1 Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Bank which reflects the business strategy and market environment of the Bank as well as the Bank's risk appetite.

Information compiled is examined and processed in order to analyse, control and identify risks on a timely basis. The compiled information is presented to the Credit and Market Risk Policy Committee,

IRMC and the Board of Directors receives a risk report once a quarter which covers all necessary information to assess and conclude on the risks of the Bank.

56.2.2 Risk Mitigation

The Bank obtains various types of collateral and establishes maximum prudential limits as part of its overall risk management/mitigation.

56.3 Credit Risk

Credit Risk is the risk that the Bank will expect a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual/ group counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of an internally designed Credit Risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit Risk Management verifies and manages the credit process from origination to collection. The Bank has a Credit Policy approved by the Board of Directors. It defines the

- credit culture of the Bank
- specifies prohibited lending which the Bank under no circumstances will entertain
- sets acceptable risk parameters
- sets remedial and recovery actions

56.3.1 Credit Related Commitments Risks

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

56.3.2 Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place in the Bank's Credit Policy Manual covering the accessibility and valuation of each type of collateral.

The main types of collateral obtained are as follow:

- for commercial lending - mortgages over immovable and movable fixed assets, inventory, trade receivables, corporate and personal guarantees
- for retail lending - mortgage over residential property, vehicles, gold stocks, personal guarantees

56.3.3 Consideration of the Stressed Market Conditions

Considering the unprecedented impact of COVID-19 in Sri Lanka and taking into account the current economic factors, Bank performed a detailed analysis of sectors with a view of managing portfolio stresses. In this regard, the Bank's portfolio (considering CBSL sectors) were segmented into four stress segments, i.e Minimal stress, Short Term stress, Medium Term stress & Long Term stress based on the severity of the impact on the business operations due to prevailing situation, ability to recover/ estimated time to recovery, sector GDP contribution, Industry vs Bank's NPL, changes in government policies etc. The stress sector categorisation is reviewed quarterly and clear guidelines were issued to staff regarding managing clients in each of these segments with recommendations for active monitoring in order to avoid accumulation of exposures to sectors with higher risks. The Bank also identified sectors with elevated risk where a stage movement assessment was carried out for collectively assessed customers in such sectors.

Due to the high degree of uncertainty amidst pandemic and the judgement involved in computing the ECL, the Group recorded management overlays to the ECL considering the level of increase in Credit Risk of the identified customers and the existence of Credit Risk mitigants as explained in Note 11 to the financial statements.

56.3.4 Impairment Assessment

At each reporting date, a loss allowance or Expected Credit Loss (ECL) will be recognised based on either 12-month ECLs or lifetime ECLs, depending on whether or not there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

56.3.4.1 Definition of Default and Cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when contractual payments of a customer are past due for more than 90 days (the number of days past due shall be calculated starting from the contractual due date of

the payment) or has remained in excess of the sanctioned limit for more than 90 days, and any other credit facilities classified as Stage 3 under SLFRS 9 (facilities classified as Non performing based on potential risk and impaired assets at origination). The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events (among others) include:

- Contractual payments of a customer are more than 30 days past due, but not in NPL/ default
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/ group of customers, portfolios or instruments and the company has failed to take adequate mitigating factors to overcome negative factors (Customers in elevated risk sectors)
- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/ or when there is a two notch downgrade in the banks internal rating system
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/ group of customers or an instrument
- When the value of collateral is significantly reduced and/ or realisability of collateral is doubtful (20% reduction from original LTV approved)
- When a customer is subject to litigation, that significantly affects the performance of the credit facility
- Frequent changes in the senior management of an institutional customer
- Delay in the commencement of business operations/ projects by more than two years from the originally agreed date
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc

- A fall of 50% or more in the turnover and/ or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year
- The borrower continuously use the loan proceeds for a purpose other than the purpose specified in the loan agreement
- Availability of any other indicators that suggest a significant increase in Credit Risk

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of a higher stage to a lower stage (e.g. from stage 3 to stage 2) other than normal movement of a contract based on the change of DPD on an exceptional basis:

- Credit facilities in Stage 3 other than restructured credit facilities in Stage 3 and rescheduled credit facilities are upgraded if due payments are fully settled by the customer
- Rescheduled and restructured contracts are upgraded only upon satisfactory performance during the relevant monitoring period where customer complies with the applicable terms of repayment

56.3.4.2 PD estimation process

Probability of Default (PD) is the estimate of the likelihood of default over a given time horizon. A default may only happen at a time horizon if the facility has not been previously derecognised and is still in the portfolio.

12 Months PD

This is the estimated probability of default occurring within the next 12 months.

The 12 months PD is applied for the "Current" and "1-30 days" buckets since there is no significant deterioration in Credit Risk.

Ageing Bucket	Probability of Default
Current	12 Months PD
1- 30 Days	12 Months PD

Lifetime PD

This is the estimated probability of default occurring over the remaining life of the financial instrument.

The lifetime PD is applied for the 31-60 days and 61-90 days buckets since there is a significant deterioration in credit risk.

Ageing Bucket	Probability of Default
31 – 60 Days	Lifetime PD
61 – 90 Days	Lifetime PD

The PD for the above 90 days category is 100% since there is objective evidence of impairment as the default has occurred.

Ageing Bucket	Probability of Default
Above 90 Days	100% PD

56.3.4.3 Exposure at Default

The Exposure At Default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 11.

To measure ECLs on revolving facilities, such as credit cards, it will be necessary to estimate several components that make up the EAD

- The contracts which have exceeded 90 days past due
- The Credit Utilisation Rate or Credit Conversion Factor

These components are estimated based on past experience, for sections of the portfolio that are segmented so that they have similar credit characteristics.

56.3.4.4 Loss Given Default

Loss Given Default (LGD) is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed above 90 days at least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan.

Virtually closed contracts are also added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

56.3.4.5 Significant increase in Credit Risk

The Bank continuously monitors all assets subject to Expected Credit Losses (ECL). In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/ facility to the watch list, or the account having been restructured. In certain cases, the Bank may also consider that events explained in Note 56.3.4.1 are a significant increase in credit risk as opposed to a default.

When estimating ECLs on a collective basis for a group of similar assets, the Bank also applies the following in the categorisation of credit facilities/ exposures into stages for computation of expected credit losses.

Stage 1

- All accounts which have not shown any sign of deterioration since origination. All accounts which have been identified as Low Credit Risk (LCR) (under low credit risk expedient) shall be classified as Stage 1. The Bank computes ECLs based on the delinquency method where all facilities which are less than or equal to 30 days past due are considered under Stage 1. 12 months ECL shall be calculated for stage 1 facilities.

Stage 2

- All accounts which have shown a significant deterioration in credit quality since origination. Lifetime losses are computed for all accounts classified as Stage 2. The Bank computes ECLs based on the delinquency method where all facilities which are more than 30 days past due upto 90 days past due are considered under Stage 2.

Stage 3

- All impaired assets (purchased impaired and originally credit impaired assets). Lifetime losses are computed for all accounts classified as Stage 3. The Bank computes ECLs based on the delinquency method.

56.3.4.6 Grouping financial assets measured on a collective basis

As explained in Note 11 dependent on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

An individual impairment assessment is performed for exposures over the Individually Significant Threshold of LKR 100 Mn based on amortised cost amount for Corporate clients (Wholesale Banking and Project Finance) and LKR 25 Mn for others for which there is objective evidence of expected loss based on the current status of the customer, i.e. based on whether customer is performing, non performing, restructured, rescheduled or watch-listed.

Exposures that are assessed for individual impairment and for which an impairment provision has been recognised are not included in the collective assessment of impairment. If it is determined that no objective evidence of expected loss exists for an individually assessed exposure, or assessed for objective evidence and there is no requirement for individual impairment, whether significant or not, this is included in a group of exposures with similar credit risk characteristics that are collectively assessed for impairment under the relevant bucket.

A collective assessment is performed for exposures as follows:

- Exposures that have not been individually assessed i.e. falling below the individually significant threshold
- Exposures that have been assessed for Objective Evidence of Incurred Loss and indicators of increase in Credit Risk and were found to have no such evidence/ indicators
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation

The Bank groups these exposures in to homogeneous portfolios to the extent possible so as to ensure that data points are available for meaningful calculations.

56.3.4.7 Analysis of inputs to the ECL model under multiple economic scenarios

The Bank obtains the data used from Central Bank of Sri Lanka/ Department of Census & Statistics. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios (best case and worst case) as at 31 December 2022 and 31 December 2021.

The tables show the values of the key forward looking economic variables/ assumptions used in each of the economic scenarios for the ECL calculations.

31 December 22 Key Drivers	ECL Scenarios	2023		2024		2025		2026		2027		2028		2029	
		Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value
GDP Growth (%)	Best Case	10	3.54	20	3.76	20	3.99	25	4.20	25	4.41	25	4.41	25	4.41
	Base Case	10	1.62	40	2.74	45	3.12	50	3.18	50	3.21	50	3.21	50	3.21
	Worst Case	80	(3.96)	40	(3.24)	35	(2.57)	25	(2.45)	25	(2.33)	25	(2.33)	25	(2.33)
Inflation (YoY) (CCPI) (%)	Best Case	10	14.57	20	6.13	20	5.37	25	5.11	25	4.59	25	4.59	25	4.59
	Base Case	10	34.56	40	27.10	45	22.21	50	21.09	50	20.57	50	20.57	50	20.57
	Worst Case	80	34.56	40	40.49	35	47.43	25	55.57	25	57.20	25	57.20	25	57.20
Interest Rate (AWPLR) (%)	Best Case	10	17.93	20	13.00	20	9.40	25	7.07	25	5.53	25	5.53	25	5.53
	Base Case	10	25.35	40	22.17	45	19.55	50	18.08	50	16.96	50	16.96	50	16.96
	Worst Case	80	28.19	40	28.19	35	28.19	25	28.19	25	28.19	25	28.19	25	28.19
Exchange Rate (USD/LKR)	Best Case	10	367.25	20	371.37	20	375.54	25	379.76	25	384.03	25	388.35	25	392.71
	Base Case	10	400.00	40	400.00	45	400.00	50	400.00	50	400.00	50	400.00	50	400.00
	Worst Case	80	400.00	40	400.00	35	400.00	25	400.00	25	400.00	25	400.00	25	400.00
Unemployment (%)	Best Case	10	4.83	20	4.74	20	4.65	25	4.63	25	4.68	25	4.68	25	4.68
	Base Case	10	5.32	40	5.31	45	5.31	50	5.31	50	5.31	50	5.31	50	5.31
	Worst Case	80	5.36	40	5.38	35	5.40	25	5.43	25	5.46	25	5.46	25	5.46

31 December 21 Key Drivers	ECL Scenarios	2022		2023		2024		2025		2026		2027		2028	
		Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value	Assigned Probabilities (%)	Value
GDP Growth (%)	Best Case	35	5.26	45	6.06	45	6.79	50	7.19	50	7.34	50	7.34	50	7.34
	Base Case	10	3.81	10	4.63	10	5.15	10	5.57	10	5.54	15	5.54	15	5.54
	Worst Case	55	3.28	45	3.17	45	3.07	40	2.97	40	2.87	35	2.87	35	2.87
	Best Case	35	5.77	45	5.65	45	5.54	50	5.42	50	5.35	50	5.35	50	5.35
	Base Case	10	5.79	10	5.68	10	5.80	10	5.89	10	5.87	15	5.87	15	5.87
Inflation (YoY) (CCPI) (%)	Worst Case	55	6.06	45	6.21	45	6.36	40	6.52	40	6.58	35	6.58	35	6.58
	Best Case	35	7.88	45	7.76	45	7.56	50	7.30	50	7.13	50	7.13	50	7.13
	Base Case	10	8.30	10	8.39	10	8.39	10	8.31	10	8.23	15	8.23	15	8.23
	Worst Case	55	8.76	45	9.10	45	9.37	40	9.54	40	9.59	35	9.59	35	9.59
	Best Case	10	203.66	45	205.95	45	208.26	50	210.60	50	212.97	50	213.36	50	217.78
Exchange Rate (USD/LKR)	Base Case	35	211.96	10	223.07	10	234.76	10	247.06	10	260.01	15	273.64	15	287.98
	Worst Case	55	221.52	45	243.65	45	267.99	40	294.76	40	324.20	35	350.00	35	350.00
	Best Case	35	5.34	45	5.33	45	5.30	50	5.27	50	5.24	50	5.24	50	5.24
	Base Case	10	5.40	10	5.41	10	5.41	10	5.40	10	5.38	15	5.38	15	5.38
	Worst Case	55	5.45	45	5.49	45	5.52	40	5.54	40	5.55	35	5.55	35	5.55

56.3.4.8 Analysis of net exposure on credit risk and impairment

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on the Bank's classification of assets.

	BANK			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
31 December 2022				
Cash and cash equivalents	34,849,521	-	-	34,849,521
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	18,187,547
Placements with banks	4,108,989	-	-	4,108,989
Derivative Financial Instruments	7,909,252	-	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	19,318,483	-	-	19,318,483
Financial assets at amortised cost - loans and receivables to other customers	332,871,893	172,498,796	40,502,338	545,873,027
Financial assets at amortised cost - debt and other instruments	78,993,552	56,054,334	-	135,047,886
Financial assets measured at fair value through other comprehensive income	44,685,230	-	-	44,685,230

	BANK			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
31 December 2021				
Cash and cash equivalents	13,411,819	-	-	13,411,819
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	16,403,362
Placements with banks	8,299,403	-	-	8,299,403
Derivative Financial Instruments	1,338,204	-	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	2,441,833	-	-	2,441,833
Financial assets at amortised cost - loans and receivables to other customers	367,921,139	107,546,651	29,071,178	504,538,968
Financial assets at amortised cost - debt and other instruments	54,017,976	-	245,000	54,262,976
Financial assets measured at fair value through other comprehensive income	89,552,196	-	-	89,552,196

	GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
31 December 2022				
Cash and cash equivalents	35,727,665	-	-	35,727,665
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	18,187,547
Placements with banks	4,108,989	-	-	4,108,989
Derivative financial instruments	7,909,252	-	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	20,788,523	-	-	20,788,523
Financial assets at amortised cost - loans and receivables to other customers	332,918,690	172,498,796	40,502,338	545,919,824
Financial assets at amortised cost - debt and other instruments	78,993,552	56,054,334	-	135,047,886
Financial assets measured at fair value through other comprehensive income	45,454,490	-	-	45,454,490

	GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
31 December 2021				
Cash and cash equivalents	13,765,270	-	-	13,765,270
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	16,403,362
Placements with banks	8,299,403	-	-	8,299,403
Derivative financial instruments	1,338,204	-	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	4,784,124	-	-	4,784,124
Financial assets at amortised cost - loans and receivables to other customers	367,756,466	107,546,650	29,071,180	504,374,296
Financial assets at amortised cost - debt and other instruments	54,017,976	-	245,000	54,262,976
Financial assets measured at fair value through other comprehensive income	89,696,611	-	-	89,696,611

56.3.4.9 Analysis of risk concentration

The Bank's concentrations of risk are managed by customer/ counterparty and industry sector.

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

56.3.4.9.1 Industry analysis

BANK										
Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Governments	Others	Total	
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
-	-	-	-	-	34,849,521	-	-	-	34,849,521	
-	-	-	-	-	-	-	18,187,547	-	18,187,547	
-	-	-	-	-	4,108,989	-	-	-	4,108,989	
-	-	-	-	-	7,909,252	-	-	-	7,909,252	
-	-	-	-	-	-	-	19,318,483	-	19,318,483	
-	-	-	-	-	-	-	-	-	-	
34,163,562	10,767,997	25,315,120	37,369,020	1,261,539	64,354,077	29,307,249	28,476,452	92,122,354	323,137,370	
15,052,191	10,031,437	19,883,511	9,648,274	11,477,827	17,431,355	2,749,994	-	21,626,347	107,900,937	
2,072,873	1,143,815	3,943,334	2,904,750	46,882,496	29,051,546	3,899,172	-	4,219,005	94,116,991	
454,327	534,667	2,460,696	1,066,163	3,887,765	6,853,271	1,036,670	-	2,126,222	18,419,780	
7,168	1,019	94	3,994	7,260	3,810	6,737	-	2,267,868	2,297,949	
51,750,121	22,478,935	51,602,755	50,992,201	63,516,887	117,694,059	36,999,822	28,476,452	122,361,796	545,873,027	
-	-	-	-	-	4,860,813	-	128,687,073	1,500,000	135,047,886	
-	-	-	-	-	785,658	-	43,899,571	-	44,685,230	

BANK										
Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Governments	Others	Total	
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
-	-	-	-	-	13,411,819	-	-	-	13,411,819	
-	-	-	-	-	-	-	16,403,362	-	16,403,362	
-	-	-	-	-	8,299,403	-	-	-	8,299,403	
-	-	-	-	-	1,338,204	-	-	-	1,338,204	
-	-	-	-	-	2,441,833	-	-	-	2,441,833	
-	-	-	-	-	-	-	-	-	-	
41,635,400	8,594,647	19,206,174	28,531,719	1,346,581	59,330,477	23,289,463	27,289,059	74,140,535	283,364,055	
14,885,657	8,857,657	22,467,633	11,552,715	9,536,435	18,666,626	2,742,338	1,749	20,001,098	108,711,908	
2,486,830	1,226,831	2,908,656	3,184,782	41,758,237	31,058,932	4,146,910	-	4,496,541	91,267,719	
433,875	627,047	2,552,277	952,886	6,083,144	6,528,135	1,115,789	-	2,074,048	20,367,201	
31,102	184	4,894	51,736	692,094	15,091	18,185	-	14,799	828,085	
59,472,864	19,306,366	47,139,634	44,273,838	59,416,491	115,599,261	31,312,685	27,290,808	100,727,021	504,538,968	
-	-	-	-	-	4,896,527	-	47,866,449	1,500,000	54,262,976	
-	-	-	-	-	1,020,732	-	88,531,464	-	89,552,196	

	GROUP									
	Agriculture & Fishing	Food & Beverage	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Governments	Others	Total
31 December 2022	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	35,727,665	-	-	-	35,727,665
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	18,187,547	-	18,187,547
Placements with banks	-	-	-	-	-	4,108,989	-	-	-	4,108,989
Derivative financial instruments	-	-	-	-	-	7,909,252	-	-	-	7,909,252
Financial assets recognised through profit or loss- measured at fair value	1,627	17,438	-	13,097	-	1,337,435	14,242	19,318,483	86,201	20,788,523
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	-	-	-
- Corporate Lending	34,163,562	10,767,997	25,315,120	37,369,020	1,261,539	64,354,077	29,307,249	28,476,452	92,122,354	323,137,370
- Small Business Lending	15,052,191	10,031,437	19,883,511	9,648,274	11,477,827	17,431,355	2,749,994	-	21,626,347	107,900,937
- Consumer Lending	2,072,873	1,143,815	3,943,334	2,904,750	46,882,496	29,051,546	3,899,172	-	4,219,005	94,116,991
- Residential Mortgages	454,327	534,667	2,460,696	1,066,163	3,887,765	6,853,271	1,036,670	-	2,126,222	18,419,780
- Others	7,168	1019	94	3,994	7,260	3,810	6,737	-	2,314,665	2,344,746
Net loans and receivables to other customers	51,750,120	22,478,935	51,602,755	50,992,202	63,516,887	117,694,058	36,999,821	28,476,452	122,408,593	545,919,824
Financial assets at amortised cost - debt and other instruments	-	-	-	-	-	4,860,813	-	128,687,073	1,500,000	135,047,886
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	852,227	-	44,602,263	-	45,454,490
31 December 2021	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	13,765,270	-	-	-	13,765,270
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	16,403,362	-	16,403,362
Placements with banks	-	-	-	-	-	8,299,403	-	-	-	8,299,403
Derivative financial instruments	-	-	-	-	-	1,338,204	-	-	-	1,338,204
Financial assets recognised through profit or loss- measured at fair value	-	34,978	-	8,166	-	4,616,603	19,947	-	104,430	4,784,124
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	-	-	-
- Corporate Lending	41,635,400	8,594,647	19,206,174	28,531,719	1,346,581	59,330,477	23,289,463	27,289,059	74,020,221	283,243,741
- Small Business Lending	14,885,657	8,857,657	22,467,633	11,552,715	9,536,435	18,666,626	2,742,338	1,749	19,967,727	108,678,537
- Consumer Lending	2,486,830	1,226,831	2,908,656	3,184,782	41,758,237	31,058,932	4,146,910	-	4,489,039	91,260,217
- Residential Mortgages	433,875	627,047	2,552,277	952,886	6,083,144	6,528,135	1,115,789	-	2,070,588	20,363,714
- Others	31,102	184	4,894	51,736	692,094	15,091	18,185	-	14,774	828,060
Net loans and receivables to other customers	59,472,864	19,306,366	47,139,634	44,273,838	59,416,491	115,599,261	31,312,685	27,290,808	100,562,349	504,374,296
Financial assets at amortised cost - debt and other instruments	-	-	-	-	-	4,896,527	-	47,866,449	1,500,000	54,262,976
Financial assets measured at fair value through Other comprehensive income	-	-	-	-	-	1,165,147	-	88,531,464	-	89,696,611

56.3.4.10 Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally these occurrences relate but are not limited to: sovereign events such as defaults or restructuring, political events such as contested elections, restrictions on currency movements, non-market currency convertibility, regional conflicts, economic contagion from other events such as sovereign default issues or regional turmoil, banking and currency crisis, and natural disasters.

	BANK						Total
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	
31 December 2022	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	9,647,328	7,576,341	5,220,673	7,267,639	26,826	5,110,715	34,849,521
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	-	-	-	18,187,547
Placements with banks	4,108,989	-	-	-	-	-	4,108,989
Derivative financial instruments	7,909,252	-	-	-	-	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	19,318,483	-	-	-	-	-	19,318,483
Financial assets at amortised cost - loans and receivables to other customers	502,718,215	-	-	32,378,448	3,206,763	-	545,873,027
Financial assets at amortised cost - debt and other instruments	135,047,886	-	-	-	-	-	135,047,886
Financial assets measured at fair value through other comprehensive income	44,685,230	-	-	-	-	-	44,685,230
Other financial assets	1,963,077	-	-	-	-	-	1,963,077
Total Financial Assets	743,586,007	7,576,341	5,220,673	39,646,087	3,233,589	5,110,715	811,943,012

	BANK						Total
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	
31 December 2021	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	7,305,647	449,758	3,954,400	1,386,089	9,919	306,006	13,411,819
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	-	-	-	16,403,362
Placements with banks	8,299,403	-	-	-	-	-	8,299,403
Derivative financial instruments	1,338,204	-	-	-	-	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	2,441,833	-	-	-	-	-	2,441,833
Financial assets at amortised cost - loans and receivables to other customers	480,071,267	-	-	17,995,785	2,047,749	-	504,538,968
Financial assets at amortised cost - debt and other instruments	54,262,976	-	-	-	-	-	54,262,976
Financial assets measured at fair value through other comprehensive income	89,552,196	-	-	-	-	-	89,552,196
Other financial assets	1,446,327	-	-	-	-	-	1,446,327
Total Financial Assets	661,121,215	449,758	3,954,400	19,381,874	2,057,668	306,006	691,695,088

56.3.4.10 Country risk (Contd.)

	GROUP						
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Africa
31 December 2022	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	10,525,472	7,576,341	5,220,673	7,267,639	26,826	5,110,715	-
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	-	-	-	-
Placements with banks	4,108,989	-	-	-	-	-	-
Derivative financial instruments	7,909,252	-	-	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	20,788,523	-	-	-	-	-	-
Financial assets at amortised cost - loans and receivables to other customers	502,765,012	-	-	32,378,448	3,206,763	-	7,569,601
Financial assets at amortised cost - debt and other instruments	135,047,886	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	45,454,490	-	-	-	-	-	-
Other financial assets	2,424,812	-	-	-	-	-	-
Total Financial Assets	747,211,983	7,576,341	5,220,673	39,646,087	3,233,589	5,110,715	7,569,601

	GROUP						
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Africa
31 December 2021	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	7,659,098	449,758	3,954,400	1,386,089	9,919	306,006	-
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	-	-	-	-
Placements with banks	8,299,403	-	-	-	-	-	-
Derivative financial instruments	1,338,204	-	-	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	4,784,124	-	-	-	-	-	-
Financial assets at amortised cost - loans and receivables to other customers	479,906,594	-	-	17,995,785	2,047,749	-	4,424,167
Financial assets at amortised cost - debt and other instruments	54,262,976	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	89,696,611	-	-	-	-	-	-
Other financial assets	2,218,351	-	-	-	-	-	-
Total Financial Assets	664,568,723	449,758	3,954,400	19,381,874	2,057,669	306,006	4,424,167

56.3.4.11 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auctions, to settle outstanding debt. Any surplus funds are returned to the customers/ obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded in the Statement of Financial Position and not treated as non-current assets held for sale.

The Bank's Collateral policy is covered in the Bank's Credit Policy Manual and is reviewed annually. There have been no significant changes to the collateral policy.

For its derivative portfolio, the Bank also makes use of master netting agreements and other arrangements not eligible for netting under LKAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance-sheet assets and liabilities (as the conditions for offsetting under LKAS 32 may not apply), they, nevertheless, reduce the Bank's exposure to credit risk, as shown in the tables on the following pages from 265 to 276.

Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

The tables on the following pages from 265 to 276 show the maximum exposure to credit risk by class of financial asset. They also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

Type of collateral or credit enhancement

	BANK									
	Fair value of collateral and credit enhancements held									
	Maximum exposure to credit risk LKR '000	Cash LKR '000	Securities LKR '000	3rd party/ Government guarantees LKR '000	Property LKR '000	Other LKR '000	Surplus Collateral LKR '000	Total Collateral LKR '000	Net Exposure LKR '000	Associated ECLs LKR '000
31 December 2022										
Financial Assets										
Cash and cash equivalents	34,849,521	-	-	-	-	-	-	-	34,849,521	-
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	-	-	-	-	-	18,187,547	-
Placements with banks	4,108,989	-	-	-	-	-	-	-	4,108,989	-
Derivative financial instruments	7,909,252	-	-	-	-	-	-	-	7,909,252	-
Financial assets recognised through profit or loss- measured at fair value	19,318,483	-	-	-	-	-	-	-	19,318,483	-
Financial assets at amortised cost - loans and receivables to other customers										
- Corporate Lending	323,137,370	35,626,004	8,264,300	211,101,075	116,327,340	161,504,549	(323,115,442)	209,707,826	113,429,544	16,971,678
- Small Business Lending	107,900,937	26,688,048	318,293	81,622,967	120,019,683	38,913,769	(181,836,063)	85,726,696	22,174,240	10,691,124
- Consumer Lending	94,116,991	37,421,058	92,179	8,908,404	38,212,567	10,063,395	(65,532,503)	29,165,100	64,951,892	4,969,858
- Residential Mortgages	18,419,780	-	-	-	19,219,104	-	-	19,219,104	-	799,324
- Others	2,297,949	-	-	200	129,876	15,000	(95,774)	49,302	2,248,647	255,952
Net loans and receivables to other customers	545,873,027	99,735,110	8,674,771	301,632,646	293,908,571	210,496,712	(570,579,782)	343,868,028	202,804,323	33,687,937
Financial assets at amortised cost - debt and other instruments	135,047,886	-	-	-	-	-	-	-	135,047,886	20,503,290
Financial assets measured at fair value through other comprehensive income	44,685,230	-	-	-	-	-	-	-	44,685,230	10,344
31 December 2021										
Financial Assets										
Cash and cash equivalents	13,411,819	-	-	-	-	-	-	-	13,411,819	-
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	-	-	-	-	-	16,403,362	-
Placements with banks	8,299,403	-	-	-	-	-	-	-	8,299,403	-
Derivative financial instruments	1,338,204	-	-	-	-	-	-	-	1,338,203	-
Financial assets recognised through profit or loss- measured at fair value	2,441,833	-	-	-	-	-	-	-	2,441,833	-
Financial assets at amortised cost - loans and receivables to other customers										
- Corporate Lending	283,364,055	25,998,811	5,655,500	185,261,843	69,274,244	152,429,017	(260,424,712)	178,194,701	639,753,459	8,552,260
- Small Business Lending	108,711,908	26,777,439	380,122	72,581,016	123,089,933	42,484,935	(178,476,548)	86,836,896	21,875,012	7,616,467
- Consumer Lending	91,267,719	26,497,964	17,437	7,936,692	23,953,930	14,081,122	(47,081,678)	25,405,467	65,862,252	4,671,655
- Residential Mortgages	20,367,201	-	-	-	21,076,260	-	(709,059)	20,367,201	-	648,165
- Others	828,085	-	100,000	880,195	330,293	84,500	(1,313,526)	81,463	746,622	113,528
Net loans and receivables to other customers	504,538,968	79,274,214	6,153,059	266,659,746	237,724,660	209,079,574	(488,005,523)	310,885,728	728,237,345	21,602,075
Financial assets at amortised cost - debt and other instruments	54,262,976	-	-	-	-	-	-	-	54,262,976	2,897,491
Financial assets measured at fair value through other comprehensive income	89,552,196	-	-	-	-	-	-	-	89,552,196	10,344

56.3.4.11 Collateral and other credit enhancements (Contd.)

Type of collateral or credit enhancement

	GROUP									
	Fair value of collateral and credit enhancements held									
	Maximum exposure to credit risk LKR '000	Cash LKR '000	Securities LKR '000	3rd party/ Government guarantees LKR '000	Property LKR '000	Other LKR '000	Surplus Collateral LKR '000	Total Collateral LKR '000	Net Exposure LKR '000	Associated ECLs LKR '000
31 December 2022										
Financial Assets										
Cash and cash equivalents	35,727,665	-	-	-	-	-	-	-	35,727,665	-
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	-	-	-	-	-	18,187,547	-
Placements with banks	4,108,989	-	-	-	-	-	-	-	4,108,989	-
Derivative financial instruments	7,909,252	-	-	-	-	-	-	-	7,909,252	-
Financial assets recognised through profit or loss- measured at fair value	20,788,523	-	-	-	-	-	-	-	20,788,523	-
Financial assets at amortised cost - loans and receivables to other customers	-	-	-	-	-	-	-	-	-	-
- Corporate Lending	323,137,370	35,626,004	8,264,300	211,101,075	116,327,340	161,504,549	(323,115,442)	209,707,826	113,429,544	16,971,678
- Small Business Lending	107,900,937	26,688,048	318,293	81,622,967	120,019,683	38,913,769	(181,836,063)	85,726,696	22,174,240	10,691,124
- Consumer Lending	94,116,991	37,421,058	92,179	8,908,404	38,212,567	10,063,395	(65,532,503)	29,165,100	64,951,892	4,969,858
- Residential Mortgages	18,419,780	-	-	-	19,219,104	-	-	19,219,104	-	799,324
- Others	2,344,746	-	-	200	129,876	15,000	(95,774)	49,302	2,295,444	255,952
Net loans and receivables to other customers	545,919,824	99,735,110	8,674,771	301,632,646	293,908,571	210,496,713	(570,579,783)	343,868,028	202,851,120	33,687,937
Financial assets at amortised cost - debt and other instruments	135,047,886	-	-	-	-	-	-	-	135,047,886	20,503,290
Financial assets measured at fair value through other comprehensive income	45,454,490	-	-	-	-	-	-	-	45,454,490	10,344

	GROUP									
	Fair value of collateral and credit enhancements held									
	Maximum exposure to credit risk LKR '000	Cash LKR '000	Securities LKR '000	3rd party/ Government guarantees LKR '000	Property LKR '000	Other LKR '000	Surplus Collateral LKR '000	Total Collateral LKR '000	Net Exposure LKR '000	Associated ECLs LKR '000
31 December 2021										
Financial Assets										
Cash and cash equivalents	13,765,270	-	-	-	-	-	-	-	13,765,270	-
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	-	-	-	-	-	16,403,362	-
Placements with banks	8,299,403	-	-	-	-	-	-	-	8,299,403	-
Derivative financial instruments	1,338,204	-	-	-	-	-	-	-	1,338,204	-
Financial assets recognised through profit or loss- measured at fair value	4,784,124	-	-	-	-	-	-	-	4,784,124	-
Financial assets at amortised cost- loans and receivables to other customers										
- Corporate Lending	283,243,741	25,998,811	5,655,500	185,261,843	69,274,244	152,429,017	-260,424,712	178,194,701	105,049,040	8,552,260
- Small Business Lending	108,678,537	26,777,439	380,122	72,581,016	123,089,933	42,484,935	-178,476,548	86,836,896	21,841,641	7,616,467
- Consumer Lending	91,260,217	26,497,964	17,437	7,936,692	23,953,930	14,081,122	-47,081,678	25,405,467	65,854,750	4,671,655
- Residential Mortgages	20,363,741	-	-	-	21,076,260	-	-712,519	20,363,741	-	648,165
- Others	828,060	-	100,000	880,195	330,293	84,500	-1,313,526	81,463	746,597	113,528
Net loans and receivables to other customers	504,374,296	79,274,214	6,153,059	266,659,746	237,724,660	209,079,574	-488,008,983	310,882,268	193,492,028	21,602,075
Financial assets at amortised cost - debt and other instruments	54,262,976	-	-	-	-	-	-	-	54,262,976	2,897,491
Financial assets measured at fair value through other comprehensive income	89,696,611	-	-	-	-	-	-	-	89,696,611	10,344

56.3.4.12 Commitments and contingencies

The table below shows maximum credit risk exposure of the Group on commitments and contingencies.

The maximum exposure to credit risk relating to financial commitments and contingencies is the maximum amount the Group has to pay if the commitments and contingencies are called upon.

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Guarantees and bonds	65,946,916	64,823,371	65,800,964	64,677,420
Shipping guarantees	5,180,578	14,097,117	5,180,578	14,097,117
Advance documents endorsed	2,069,245	5,184,785	2,069,245	5,184,785
Letters of credit	7,745,121	24,253,102	7,745,121	24,253,102
Acceptances	6,388,780	27,941,045	6,388,780	27,941,045
Undrawn overdrafts and credit cards	41,241,837	36,290,899	41,241,837	35,931,386
Commitments	137,297,425	89,079,537	138,210,327	89,490,957
Forward exchange contracts	27,739,854	50,402,578	27,739,855	50,402,578
Total	293,609,756	312,072,435	294,376,707	311,978,390

56.3.4.13 Offsetting of financial assets & liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Group have a right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets & liabilities that are not subject to offsetting

Amounts that do not qualify for offsetting in the Statements of Financial Position include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of the predetermined events. Such netting arrangements include repurchase agreements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below.

	2022			2021		
	Gross Amounts LKR '000	Amount Subject to Netting but do not qualify for Offsetting LKR '000	Net Amount LKR '000	Gross Amounts LKR '000	Amount Subject to Netting but do not qualify for Offsetting LKR '000	Net Amount LKR '000
Financial Assets						
Financial assets at amortised cost						
- loans and receivables to other customers	141,388,469	99,735,010	41,653,459	132,658,220	79,274,214	53,384,006
Financial Liabilities						
Due to debt securities holders	130,541	160,802	(30,261)	1,341,060	1,438,595	(97,535)

56.3.4.14 Sensitivity analysis of impairment allowance

The following table depicts the sensitivity of the impairment allowance to feasible changes in various factors used in assessing the Expected Credit Losses including PDs, LGDs and forward looking macro economic information etc.

Changed criteria	Changed factor	BANK & GROUP	
		Sensitivity effect on impairment allowance increase	
		2022 LKR '000	2021 LKR '000
Property realisation timing of facilities under individual impairment assessment	Delay by 1 year	1,403,646	715,116
Loss given default (LGD)	Increase by 2%	231,307	234,073
	Virtually closed points: decrease by 1 year (where require)	1,235,547	404,015
Probability of default (PD) in each stage	Increase by 1%	62,751	72,320
Economic Factor Adjustment	Worst case degrades by 5%	19,784	24,671
	Qualitative scores increase by 1	361,057	376,026
Credit conversion factor (CCF)	Increase by 5% (where applicable)	82,354	69,074

56.4 Market Risk

Market Risk management function is attached to the Risk Management Division and operates with in a well-defined Policy framework which ensures that the Bank operates with in the pre-defined risk appetite of the Bank through portfolio analysis, stress testing and pro-active exposure monitoring. Guided by these policies and Regulatory directions; Bank has set internal prudential limits, taking in to account the size of the statement of financial position , structure and the business model; thereby business units optimise the risk and reward relationship without exposing the Bank to unexpected losses. The responsibility to manage the Market risk primarily rests with the Treasury Unit, which is responsible for ensuring that the Bank's exposures are managed within the Board approved risk appetite and necessary actions are taken in the event of exceptional market conditions.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices. The Bank's market risk exposures are classified into trading and banking book and are managed separately. Sensitivity and scenario analysis of portfolios are carried out together with mark-to-market valuations and duration analysis that reflects the portfolio sensitivity to the market volatility. Further the Bank analyses the Value at Risk (VaR) measurements on the forex and fixed income securities trading books to assess any potential loss which is discussed in detail in Market Risk section under Risk Management. Whilst the financial assets measured at fair value through profit or loss (FVPL) are fair valued through the statement of profit or loss; financial assets measured at fair value through Other Comprehensive Income (FVOCI) are fair valued through equity where realised capital gains/losses are recognised in the statement of profit or loss.

During the year the volatility in the exchange rates and the interest rates were the major contributors for the Market risk of the Bank. Stemming from the downturn in the global and country economic activities, sovereign downgrading, rapid depreciation in the exchange rates and shortage in US dollars in the market exposed the Bank to exchange risk. Further the rising interest rates under a tight monetary policy exposed the Bank to interest rate risk. As such the Bank closely monitored the behaviour of market sentiments and proactive measures were adopted to mitigate any adverse impact to the Bank's statement of financial position and were able to maintain the exposures within the risk parameters.

56.4 (a) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates would affect future cash flows or the fair values of financial instruments. The Board has established limits on trading and banking books of the Bank. The Bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

56.4 (a) (i) Interest rate risk in the trading book

The following table demonstrates the sensitivity to a reasonably possible change in Fixed Income Securities (Treasury Bills & Bonds), with all other variables held constant on the Bank's statement of profit or loss in the year 2022.

Sensitivity of the financial assets measured at fair value through profit or loss - Sri Lanka Government Securities

	Portfolio size LKR '000	Increase/ Decrease in basis Points	Sensitivity of Profit or Loss Bank LKR '000	Sensitivity of Profit or Loss Group LKR '000
31 December 2022				
Financial assets measured at fair value through profit or loss	21,329,524	+100/(100)	(76,714)/77,156	(76,714)/77,156
31 December 2021				
Financial assets measured at fair value through profit or loss	-	+100/(100)	-	-

Fair value of the Financial Assets measured at fair value through Other Comprehensive Income is recognised in the Other Comprehensive Income (OCI) until the asset is derecognised in which case the price sensitivity does not have a direct impact to the Bank's statement of profit or loss.

Sensitivity of the financial assets measured at fair value though Other Comprehensive Income - Sri Lanka Government Securities

	Portfolio size LKR '000	Increase/ Decrease in basis Points	Sensitivity of Profit or Loss Bank LKR '000	Sensitivity of Profit or Loss Group LKR '000
31 December 2022				
Financial assets measured at fair value though Other Comprehensive Income	48,798,117	+100/(100)	(401,218)/413,866	(401,730)/414,380
31 December 2021				
Financial assets measured at fair value though Other Comprehensive Income	89,942,368	+100/(100)	(496,905)/510,652	(496,905)/510,652

56.4 (a) (ii) Interest Rate risk in the banking book

The table below analyses the Bank's and the Group's interest rate risk exposure on financial assets and liabilities as at 31 December 2022.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31.12.2022.

	BANK						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
31 December 2022	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	34,849,521	34,849,521
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	18,187,547	18,187,547
Placements with banks	108,989	4,000,000	-	-	-	-	4,108,989
Financial assets recognised through profit or loss							
- measured at fair value	19,318,483	-	-	-	-	-	19,318,483
Financial assets at amortised cost							
- loans and receivables to other customers	138,909,612	120,338,240	85,999,757	160,843,996	39,781,421	-	545,873,027
Financial assets at amortised cost							
- Debt and other instruments	7,227,664	40,480,771	39,644,609	26,782,319	20,912,524	-	135,047,886
Financial assets measured at fair value through other comprehensive income	43,889,228	-	-	-	-	796,002	44,685,230
Other financial assets	1,963,077	-	-	-	-	-	1,963,077
Total Financial Assets	211,417,053	164,819,012	125,644,366	187,626,315	60,693,945	53,833,070	804,033,760
Financial Liabilities							
Due to Banks	725,657	15,026,000	4,500,000	-	-	-	20,251,657
Financial Liabilities at amortised cost							
Due to depositors	96,246,429	213,038,422	286,483,741	31,497,501	2,346,516	42,701,413	672,314,023
Due to debt securities holders	3,895	120,477	6,170	-	-	-	130,541
Due to other borrowers	247,301	849,181	6,081,784	17,419,815	7,774,184	-	32,372,265
Debt securities issued	738,224	-	3,637,980	23,487,427	116,000	-	27,979,631
Other financial liabilities	1,711,815	-	240,211	747,959	258,172	-	2,958,157
Total Financial Liabilities	99,673,321	229,034,080	300,949,886	73,152,702	10,494,872	42,701,413	756,006,274
Total Interest Sensitivity Gap	111,743,732	(64,215,068)	(175,305,520)	114,473,613	50,199,072	11,131,657	48,027,487

	BANK						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
31 December 2021	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	13,411,819	13,411,819
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	16,403,362	16,403,362
Placements with banks	1,320	8,297,884	-	-	-	-	8,299,204
Financial assets recognised through profit or loss							
- measured at fair value	2,441,833	-	-	-	-	-	2,441,833
Financial assets at amortised cost							
- loans and receivables to other customers	116,246,338	120,637,067	83,255,110	141,290,688	43,109,765	-	504,538,968
Financial assets at amortised cost							
- Debt and other instruments	285,508	9,110,962	4,277,171	28,943,819	11,645,515	-	54,262,975
Financial assets measured at fair value through other comprehensive income	88,521,120	-	-	-	-	1,031,076	89,552,196
Other financial assets	1,446,327	-	-	-	-	-	1,446,327
Total Financial Assets	208,942,446	138,045,913	87,532,281	170,234,507	54,755,280	30,846,257	690,356,684
Financial Liabilities							
Due to Banks	782,758	18,085,885	5,902,000	-	-	-	24,770,644
Financial Liabilities at amortised cost							
Due to depositors	116,370,729	176,073,996	173,886,726	43,538,843	2,484,549	39,684,949	552,039,792
Due to debt securities holders	10,931	1,269,900	60,229	-	-	-	1,341,060
Due to other borrowers	90,723	5,574,997	9,463,486	5,899,264	4,200,394	-	25,228,865
Debt securities issued	738,380	-	-	27,123,603	98,748	-	27,960,731
Other financial liabilities	2,911,821	-	-	-	-	-	2,911,821
Total Financial Liabilities	120,905,342	201,004,778	189,312,441	76,561,710	6,783,691	39,684,949	634,252,912
Total Interest Sensitivity Gap	86,007,594	(62,958,865)	(101,780,160)	93,672,797	47,971,589	(8,838,692)	54,074,460

56.4 (a) (ii) Interest Rate risk in the banking book (Contd.)

	GROUP						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
31 December 2022	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	35,727,665	35,727,665
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	18,187,547	18,187,547
Placements with banks	108,989	4,000,000	-	-	-	-	4,108,989
Financial assets recognised through profit or loss - measured at fair value	20,788,523	-	-	-	-	-	20,788,523
Financial assets at amortised cost - loans and receivables to other customers	138,908,176	120,342,845	86,011,457	160,873,138	39,784,207	-	545,919,824
Financial assets at amortised cost - Debt and other instruments	7,227,664	40,480,771	39,644,609	26,782,319	20,912,524	-	135,047,886
Financial assets measured at fair value through other comprehensive income	44,658,488	-	-	-	-	796,002	45,454,490
Other financial assets	2,424,812	-	-	-	-	-	2,424,812
Total Financial Assets	214,116,652	164,823,616	125,656,066	187,655,457	60,696,731	54,711,214	807,659,736
Financial Liabilities							
Due to Banks	725,657	15,026,000	4,547,187	-	-	-	20,298,844
Financial Liabilities at amortised cost							
Due to depositors	95,974,513	212,709,653	286,483,741	31,497,501	2,346,516	42,701,413	671,713,337
Due to debt securities holders	3,895	120,477	6,170	-	-	-	130,541
Due to other borrowers	247,301	849,181	6,081,784	17,419,815	7,774,184	-	32,372,265
Debt securities issued	738,224	-	3,637,980	23,487,427	116,000	-	27,979,631
Other financial liabilities	1,777,780	-	289,095	948,864	258,172	-	3,273,911
Total Financial Liabilities	99,467,370	228,705,311	301,045,957	73,353,607	10,494,872	42,701,413	755,768,529
Total Interest Sensitivity Gap	114,649,283	(63,881,695)	(175,389,891)	114,301,850	50,201,859	12,009,801	51,891,207

	GROUP						
	On Demand	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non Interest Bearing	Carrying Amount
31 December 2021	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	13,765,270	13,765,270
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	16,403,362	16,403,362
Placements with banks	1,320	8,297,884	-	-	-	-	8,299,403
Financial assets recognised through profit or loss - measured at fair value	4,784,124	-	-	-	-	-	4,784,124
Financial assets at amortised cost - loans and receivables to other customers	116,005,347	120,642,159	83,269,601	141,336,684	43,120,505	-	504,374,296
Financial assets at amortised cost - Debt and other instruments	285,508	9,110,962	4,277,171	28,943,819	11,645,515	-	54,262,976
Financial assets measured at fair value through other comprehensive income	88,521,120	-	-	-	-	1,175,491	89,696,611
Other financial assets	2,218,351	-	-	-	-	-	2,218,351
Total Financial Assets	211,815,770	138,051,005	87,546,772	170,280,503	54,766,020	31,344,123	693,804,392
Financial Liabilities							
Due to Banks	782,759	18,085,885	5,952,514	-	-	-	24,821,158
Financial Liabilities at amortised cost							
Due to depositors	115,805,054	175,856,474	173,886,726	43,538,843	2,484,549	39,684,949	551,256,595
Due to debt securities holders	10,931	1,269,900	60,229	-	-	-	1,341,060
Due to other borrowers	90,723	5,574,997	9,463,486	5,899,264	4,200,394	-	25,228,865
Debt securities issued	738,380	-	-	27,123,603	98,748	-	27,960,731
Other financial liabilities	3,252,900	-	-	-	-	-	3,252,900
Total Financial Liabilities	120,680,747	200,787,256	189,362,955	76,561,710	6,783,691	39,684,949	633,861,307
Total Interest Sensitivity Gap	89,105,513	(62,736,250)	(101,816,183)	93,718,792	47,982,329	-8,340,826	57,913,575

56.4 (b) Mark to market valuation

The Sri Lanka Government Securities portfolio classified as Financial Assets recognised at fair value through profit or loss, Financial Assets measured at fair value through Other Comprehensive Income and the foreign exchange positions are subject to mark to market valuation on a daily basis to derive the economic value of positions.

Mark to Market results are being monitored against the Board approved stop-loss limits on a daily basis and reviewed by ALCO on a monthly basis and at IRMC on a quarterly basis to assess the portfolio performance and investment decisions.

56.4 (c) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument denominated in foreign currency will fluctuate due to changes in exchange rates other than the functional currency in which they are measured. Board approved limits are in place on currency positions and are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to recognised asset or liability or a forecast transaction (cash flow hedge). Refer note 24- Derivative financial instrument.

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 2022 and 31 December 2021 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rate against the Sri Lankan rupee (functional currency) with all other variables held constant in the statement of profit or loss and equity. A negative amount in the table reflects a potential net reduction in Statement of Profit or Loss or Equity, while a positive amount reflects a net potential increase depending on the side of the currency position.

An equivalent decrease in below currencies against the Sri Lankan rupee would have resulted in an equivalent but opposite impact.

Currency	Spot Rate Shock %	2022		2021	
		Effect on profit LKR '000	Effect on equity LKR '000	Effect on profit LKR '000	Effect on equity LKR '000
USD	2.50	(33,268)	(33,268)	(50,646)	(50,646)
GBP	2.50	(124)	(124)	1,916	1,916
EUR	2.50	(2,770)	(2,770)	53	53
JPY	2.50	(179)	(179)	6	6
AUD	2.50	(231)	(231)	(188)	(188)

With regard to the group companies, the investment in the Emerald Fund by NDB capital holdings Ltd would result a potential net reduction or increase of LKR 19Mn to a similar sensitivity depending on the movement of the future exchange rate.

56.4 (d) Price Risk

Equity price risk

Equity price risk is the risk that the fair value of Financial Assets measured at fair value through profit or loss and Financial Assets measured at fair value through Other comprehensive Income, decreases as a result of changes in the level of equity indices and individual stocks. The following table demonstrates the sensitivity to a reasonably possible change in quoted equity indices, with all other variables held constant of the Bank's and the Group's statement of profit or loss.

Entity	2022			
	Magnitude of shock & the fall in Value of Equities - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	779,433	38,972	77,943	116,915
Group	964,027	51,119	102,239	153,358

Entity	2021			
	Magnitude of shock & the fall in Value of Equities - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,014,507	50,725	101,451	152,176
Group	1,345,941	68,036	136,072	204,108

56.4 (d) Price Risk (Contd.)

Sensitivity of the unit trust investments

The Bank and the Group could have the following sensitivity due to an adverse impact in the Unit trust prices. The impact is monitored under three scenarios mild, moderate and severe conditions.

Entity	2022			
	Magnitude of shock & the fall in Value of Units - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	351,215	17,545	35,091	52,636

Entity	2021			
	Magnitude of shock & the fall in Value of Units - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	2,441,833	122,092	244,183	366,275
Group	3,410,520	170,526	341,052	511,578

56.4 (e) Commodity price risk

The Bank did not hold a Commodity trading position as at 31 December 2022, hence the Bank was insensitive for Commodity price risk.

56.4 (f) Liquidity risk

Liquidity risk is defined as the risk that the Bank would encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises due to the Bank's inability to meet its payment obligations when they fall due under both normal and stress circumstances.

The Bank has set forth policies on Liquidity Risk Management and Liquidity Contingency Funding Plan approved by the Board for effective management of liquidity. In addition to the Regulatory limits on liquidity, the Bank's internal prudential limits framework ensures that the exposures are managed and monitored at prudent levels.

In accordance with the Bank's risk management policy, the liquidity positions are assessed /stressed and managed under a variety of scenarios, giving due consideration to stress factors relating to both market and Bank. This ensures the maintenance of liquidity ratios at prudential levels. Liquid assets consist of cash, Call Money lending, Balances with banks, short-term bank deposits and liquid debt securities available for immediate sale. The Bank is in possession of a reciprocal Liquidity Contingency Funding agreement signed up with an identified Licenced commercial Bank to deal in crisis situations.

With the drop in economic activities a lower demand for credit was witnessed that created an excess liquidity position for local currency for the Bank. However due to macro-economic factors the foreign currency liquidity position was under stress and there were many systemic triggers that gave indications of potential stresses on foreign currency liquidity which was managed cautiously. In this back drop, the Bank activated the Liquidity contingency funding plan of the Bank for foreign currency, to manage the situation and decisions were taken on the action required to effectively manage the liquidity position of the Bank.

The table below summarises the maturity profile of the undiscounted cash flows of the Financial Assets and Financial Liabilities of the Bank and Group as at 31 December 2022 and 31 December 2021

56.4 (f)(i) Contractual maturities of undiscounted cash flows of financial assets and liabilities

The bank managed its net funding requirements effectively with deposit rollover rates above 80% in local currency and foreign currency and overall surplus liquidity position

	BANK						Total
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	
31 December 2022							
Financial Assets							
Cash and cash equivalents	34,849,521	-	-	-	-	-	34,849,521
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	-	-	-	18,187,547
Less: Restricted balance	(18,187,547)	-	-	-	-	-	(18,187,547)
Placements with banks	-	-	4,190,067	-	-	-	4,190,067
Derivative Financial Instruments	-	7,909,252	-	-	-	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	19,318,483	-	-	-	-	-	19,318,483
Financial assets at amortised cost - loans and receivables to other customers	134,717,216	-	126,847,275	101,484,627	226,061,726	76,935,170	666,046,014
Financial assets at amortised cost - debt and other instruments	6,678,776	-	43,275,405	48,374,583	48,409,520	37,023,422	183,761,706
Financial assets measured at fair value through other comprehensive income	44,685,230	-	-	-	-	-	44,685,230
Other financial assets	1,963,077	-	-	-	-	-	1,963,077
Total undiscounted financial assets	242,212,304	7,909,252	174,312,747	149,859,210	274,471,246	113,958,592	962,723,351
Financial Liabilities							
Due to Banks	98,666	-	15,764,045	5,827,361	-	-	21,690,072
Derivative Financial Instruments	-	96,246	-	-	-	-	96,246
Financial Liabilities at amortised cost							
due to depositors	138,947,835	-	217,688,224	317,458,926	43,337,962	3,135,211	720,568,158
due to debt securities holders	-	-	124,867	7,126	-	-	131,993
due to other borrowers	250,041	-	962,061	5,530,877	23,500,837	8,394,262	38,638,078
Debt securities issued	-	-	685,602	6,300,528	29,335,622	129,924	36,451,676
Other financial liabilities	1,711,815	-	-	240,211	747,959	258,172	2,958,157
Total undiscounted financial liabilities	141,008,357	96,246	235,224,799	335,365,029	96,922,380	11,917,569	820,534,380
Net undiscounted financial assets and liabilities	101,203,947	7,813,006	(60,912,052)	(185,505,819)	177,548,866	102,041,023	142,188,971

	BANK						Total
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	
31 December 2021							
Financial Assets							
Cash and cash equivalents	13,411,819	-	-	-	-	-	13,411,819
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	-	-	-	16,403,362
Less: Restricted balance	(16,403,362)	-	-	-	-	-	(16,403,362)
Placements with banks	-	-	8,299,403	-	-	-	8,299,403
Derivative Financial Instruments	-	1,338,204	-	-	-	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	2,441,833	-	-	-	-	-	2,441,833
Financial assets at amortised cost - loans and receivables to other customers	120,715,572	-	124,224,123	91,907,746	181,992,256	64,403,271	583,242,968
Financial assets at amortised cost - debt and other instruments	3,062	-	12,307,015	6,175,045	37,713,385	14,568,898	70,767,405
Financial assets measured at fair value through other comprehensive income	89,552,196	-	-	-	-	-	89,552,196
Other financial assets	1,446,327	-	-	-	-	-	1,446,327
Total undiscounted financial assets	227,570,809	1,338,204	144,830,542	98,082,791	219,705,641	78,972,169	770,500,156
Financial Liabilities							
Due to Banks	-	-	18,745,289	6,326,733	-	-	25,072,022
Derivative Financial Instruments	-	1,048,644	-	-	-	-	1,048,644
Financial Liabilities at amortised cost							
due to depositors	145,744,046	-	181,176,756	186,255,054	54,986,623	3,164,824	571,327,304
due to debt securities holders	-	-	1,284,100	64,557	-	-	1,348,657
due to other borrowers	-	-	5,401,275	10,270,882	7,859,602	5,021,668	28,553,427
Debt securities issued	-	-	685,601	2,662,547	36,307,831	143,844	39,799,825
Other financial liabilities	2,911,821	-	-	-	-	-	2,911,821
Total undiscounted financial liabilities	148,655,867	1,048,644	207,293,022	205,579,773	99,154,056	8,330,336	670,061,700
Net undiscounted financial assets and liabilities	78,914,942	289,560	(62,451,115)	(107,496,983)	120,551,585	70,641,833	100,438,456

56.4 (f)(i) Contractual maturities of undiscounted cash flows of financial assets and liabilities (Contd.)

	GROUP						
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2022							
Financial Assets							
Cash and cash equivalents	35,727,665	-	-	-	-	-	35,727,665
Balances with the Central Bank of Sri Lanka	18,187,547	-	-	-	-	-	18,187,547
Less: Restricted balance	(18,187,547)	-	-	-	-	-	(18,187,547)
Placements with banks	-	-	4,190,067	-	-	-	4,190,067
Derivative Financial Instruments	-	7,909,252	-	-	-	-	7,909,252
Financial assets recognised through profit or loss - measured at fair value	20,788,523	-	-	-	-	-	20,788,523
Financial assets at amortised cost - loans and receivables to other customers	134,715,781	-	126,851,903	101,496,497	226,093,346	76,938,191	666,095,717
Financial assets at amortised cost - debt and other instruments	6,678,776	-	43,275,404	48,374,583	48,409,520	37,023,422	183,761,706
Financial assets measured at fair value through other comprehensive income	45,454,490	-	-	-	-	-	45,454,490
Other financial assets	2,424,812	-	-	-	-	-	2,424,812
Total undiscounted financial assets	245,790,047	7,909,252	174,317,374	149,871,080	274,502,867	113,961,613	966,352,233
Financial Liabilities							
Due to Banks	98,666	-	15,764,045	5,827,361	-	-	21,690,072
Derivative Financial Instruments	-	96,246	-	-	-	-	96,246
Financial Liabilities at amortised cost	-	-	-	-	-	-	-
due to depositors	138,675,918	-	217,359,242	317,458,926	43,337,962	3,135,211	719,967,259
due to debt securities holders	-	-	805,929	22,670	-	-	131,993
due to other borrowers	250,041	-	464,251	4,913,716	24,624,895	8,394,262	38,638,078
Debt securities issued	-	-	685,602	6,300,528	29,335,622	129,924	36,451,675
Other financial liabilities	1,777,780	-	-	289,095	948,864	258,172	3,273,911
Total undiscounted financial liabilities	140,802,406	96,246	235,079,069	334,812,296	98,247,343	11,917,569	820,249,234
Net undiscounted financial assets and liabilities	104,987,641	7,813,006	(60,761,695)	(184,941,215)	176,255,523	102,044,045	146,102,999

	GROUP						
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2021							
Financial Assets							
Cash and cash equivalents	13,765,270	-	-	-	-	-	13,765,270
Balances with the Central Bank of Sri Lanka	16,403,362	-	-	-	-	-	16,403,362
Less: Restricted Balance	(16,403,362)	-	-	-	-	-	(16,403,362)
Placements with banks	-	-	8,299,403	-	-	-	8,299,403
Derivative Financial Instruments	-	1,338,204	-	-	-	-	1,338,204
Financial assets recognised through profit or loss - measured at fair value	4,784,124	-	-	-	-	-	4,784,124
Financial assets at amortised cost - loans and receivables to other customers	120,474,581	-	124,229,241	91,922,448	182,041,981	64,414,982	583,083,232
Financial assets at amortised cost - debt and other instruments	3,062	-	12,307,015	6,175,045	37,713,385	14,568,898	70,767,405
Financial assets measured at fair value through other comprehensive income	89,696,611	-	-	-	-	-	89,696,611
Other financial assets	2,218,351	-	-	-	-	-	2,218,351
Total undiscounted financial assets	230,941,999	1,338,204	144,835,659	98,097,493	219,755,366	78,983,880	773,952,600
Financial Liabilities							
Due to Banks	-	-	18,745,289	6,326,733	-	-	25,072,022
Derivative Financial Instruments	-	1,048,644	-	-	-	-	1,048,644
Financial Liabilities at amortised cost	-	-	-	-	-	-	-
due to depositors	145,178,371	-	180,956,206	186,255,054	54,986,623	3,164,824	570,541,079
due to debt securities holders	12,221	-	1,271,879	64,557	-	-	1,348,657
due to other borrowers	-	-	5,401,275	10,270,882	7,859,602	5,021,668	28,553,427
Debt securities issued	-	-	685,602	2,662,548	36,307,831	143,844	39,799,825
Other financial liabilities	3,252,900	-	-	-	-	-	3,252,900
Total undiscounted financial liabilities	148,431,271	1,048,644	207,072,471	205,579,773	99,154,056	8,330,336	669,616,553
Net undiscounted financial assets and liabilities	82,510,728	289,560	(62,236,812)	(107,482,280)	120,601,310	70,653,543	104,336,047

56.4 (f)(ii) Contractual maturities for commitments and contingencies

The Bank's contingencies portfolio decreased by 6% during 2022 and stood at LKR 294 Bn as at 31 December 2022.

The table below summarises the maturity profile of the Commitments and Contingencies for the Bank and Group as at 31 December 2022 and 31 December 2021.

	BANK					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2022						
Undisbursed financing commitments	178,539,262	-	-	-	-	178,539,262
Guarantees and performance bond	-	16,600,209	40,029,321	9,277,914	7,289,294	73,196,738
Documentary credits	-	6,558,094	1,164,595	22,433	-	7,745,122
Forward exchange contracts	-	17,484,366	952,127	6,730,080	2,573,280	27,739,853
Acceptance	-	5,724,709	664,072	-	-	6,388,781
Total	178,539,262	46,367,378	42,810,115	16,030,427	9,862,574	293,609,756

	BANK					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2021						
Undisbursed financing commitments	125,370,436	-	-	-	-	125,370,436
Guarantees and performance bond	-	16,274,536	28,999,636	19,549,198	19,281,902	84,105,273
Documentary credits	-	16,835,816	7,417,286	-	-	24,253,102
Forward exchange contracts	-	38,281,195	12,121,383	-	-	50,402,579
Acceptance	-	20,319,635	7,571,334	50,076	-	27,941,045
Total	125,370,436	91,711,182	56,109,639	19,599,274	19,281,902	312,072,435

	GROUP					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2022						
Undisbursed financing commitments	179,450,161	-	-	-	-	179,450,161
Guarantees and performance bond	-	16,556,260	40,029,321	9,177,914	7,289,294	73,052,789
Documentary credits	-	6,558,094	1,164,595	22,433	-	7,745,122
Forward exchange contracts	-	17,484,366	952,127	6,730,080	2,573,280	27,739,853
Acceptance	-	5,724,709	664,072	-	-	6,388,782
Total	179,450,161	46,323,429	42,810,115	15,930,427	9,862,574	294,376,707

	GROUP					
	On Demand LKR '000	Less than 3 months LKR '000	3 - 12 months LKR '000	1-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
31 December 2021						
Undisbursed financing commitments	125,422,344	-	-	-	-	125,422,344
Guarantees and performance bond	-	16,128,585	28,999,636	19,549,198	19,281,902	83,959,321
Documentary credits	-	16,835,816	7,417,286	-	-	24,253,102
Forward exchange contracts	-	38,281,195	12,121,383	-	-	50,402,579
Acceptance	-	20,319,635	7,571,334	50,076	-	27,941,045
Total	125,422,344	91,565,231	56,109,640	19,599,274	19,281,902	311,978,390

56.5 Capital Management

Managing capital is a key focus area in the NDB Group's strategic plan. All large credit proposals are evaluated with the required capital charge and lending decisions are taken on the basis of sufficient return on capital. Even the expansion projects in terms of property expansions and software purchases are evaluated against sufficient return of capital. The Group always strives to maintain a relatively higher level of capital to support the growth in business operations, by maintaining an effective balance between dividend distributions and retention of profits.

56.5.1 Proposed Debenture Issue to strengthen the Tier II Capital of the Bank

On 25th January 2023 the Bank announced to the Colombo Stock Exchange to issue up to a maximum of LKR 10 Bn Basel III Compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non- Viability Conversion with the objectives of improving and further strengthen the Capital Adequacy Ratio (CAR) in line with the Basel III guidelines of the Central Bank of Sri Lanka and facilitating the future expansion of the business activities of the Bank.

56.5.2 Regulatory capital - BANK

	Actual 2022 LKR '000	Required 2022 LKR '000	Actual 2021 LKR '000	Required 2021 LKR '000
Common Equity Tier 1 Capital	49,187,072	36,883,497	48,441,141	31,441,023
Tier 1 Capital	49,187,072	44,787,103	48,441,141	38,696,644
Tier 2 Capital	21,154,847	21,076,284	26,137,750	19,348,322
Total Capital	70,341,919	65,863,387	74,578,891	58,044,966
Total Risk Weighted Assets	526,907,094		483,708,053	
Common Equity Tier 1 Capital Ratio %	9.34%	7.0%	10.01%	6.5%
Tier 1 Capital Ratio %	9.34%	8.5%	10.01%	8.0%
Total Capital Ratio %	13.35%	12.5%	15.42%	12.0%

The detailed capital adequacy computations are given under Risk Management on pages 310 to 339.

COMPLIANCE WITH DISCLOSURE REQUIREMENTS OF THE CENTRAL BANK OF SRI LANKA

COMPLIANCE WITH THE DISCLOSURE REQUIREMENTS SPECIFIED BY THE CENTRAL BANK OF SRI LANKA FOR PREPARATION OF ANNUAL FINANCIAL STATEMENTS OF LICENSED COMMERCIAL BANKS

1. INFORMATION ABOUT THE SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE

1.1	Statement of Financial Position	Reference
1.1.1	Disclosures on categories of financial assets and financial liabilities	Note No 20 to the Financial Statements
1.1.2	Other disclosures	
	(i) Special disclosures about the financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Note No 55 - Fair value of financial instruments
	(ii) Reclassifications of financial instruments from one category to another.	Note No 28 to the Financial Statements
	(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note No 56.3 to the Financial Statements
	(iv) Reconciliation of the impairment allowance for credit losses by class of financial assets.	Note No 26.6, 27.1(d) and 28.1(c) to the Financial Statements
	(v) Information about derivative financial instruments.	Note No 24 to the Financial Statements
	(vi) Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	(vii) Breaches of terms of loan agreements.	Note No. 50 to the Financial Statements
1.2	Statement of Comprehensive Income	
1.2.1	Disclosures on items of income, expense, gains or losses	Note No 4 to 14 of the Financial Statements
1.2.2	Other disclosures	
	(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit or loss.	Note 5.1 and 5.2 to the Financial Statements
	(ii) Fee income and expense.	Note No 6 to the Financial Statements
	(iii) Amount of impairment losses by class of financial assets	Note No 11 to the Financial Statements
	(iv) Interest income on impaired financial assets.	Note No 5.4 to the Financial Statements
1.3	Other Disclosures	
1.3.1	Accounting policies for financial instruments	Accounting Policies for each type of Financial Instrument presented in the Statement of Financial Position is disclosed under the respective Notes. Pages 164 to 276
1.3.2	Information on hedge accounting	Note No 24 to the Financial Statements
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	
	(i) Comparable carrying amounts.	Note No 55 - Fair value of financial instruments
	(ii) Description of how fair value was determined.	Note No 55 - Fair value of financial instruments
	(iii) The level of inputs used in determining fair value.	Note No 55 - Fair value of financial instruments
	(iv) Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments which fair value is determined using level 3 inputs.	Note No 55(b) - Fair value of financial instruments
	(v) Information if fair value cannot be reliably measured.	Note No 28.3 to the Financial Statements

2. INFORMATION ABOUT THE NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

2.1	Qualitative Disclosures	Reference
2.1.1	Risk exposures for each type of financial instrument	Note 56 - Risk Management of the Financial Statements
2.1.2	Management's objectives, policies, and processes for managing those risks	Note 56 - Risk Management of the Financial Statements
2.1.3	Changes from the prior period	N/A
2.2	Quantitative Disclosures	
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Note 56 - Risk Management of the Financial Statements
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Note 56 - Risk Management of the Financial Statements
	(i) Credit Risk (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. (b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. (c) Information about collateral or other credit enhancements obtained or called. (d) Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	 Note 56.3 - Risk Management of the Financial Statements and page 310 on Risk Management
	(ii) Liquidity Risk (a) A maturity analysis of financial assets and liabilities. (b) Description of approach to risk management. (c) Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	 Note 56.4.(f) - Liquidity Risk of the Financial Statements and page 310 on Risk Management
	(iii) Market Risk (a) A sensitivity analysis of each type of market risk to which the entity is exposed. (b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure. (c) Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	 Note 56.4 - Market Risk of the Financial Statements and page 310 on Risk Management
	(iv) Operational Risk Refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Note 56.5 - Capital Management and page 310 on Risk Management
	(v) Equity risk in the Banking Book (a) Qualitative disclosures • Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. • Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. (b) Quantitative disclosures • Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. • The types and nature of investments • The cumulative realised gains/ (losses) arising from sales and liquidations in the reporting period.	 Note 56.4.(d) - Equity Price Risk of the Financial Statements
	(vi) Interest rate risk in the Banking Book (a) Qualitative disclosures • Nature of interest rate risk in the banking book (IRRBB) and key assumptions (b) Quantitative disclosures • The increase/ (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, breakdown by currency (as relevant).	 Note 56.4(a) - Interest Rate Risk of the Financial Statements
2.2.3	Information on concentration of risk	Note 56.3.4.9 - Risk Management of the Financial Statements

3. OTHER DISCLOSURES

3.1	Capital	Reference
3.1.1	Capital structure	
	(i) Qualitative disclosures Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. (ii) Quantitative disclosures (a) The amount of Tier 1 capital, with separate disclosure of: • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital (b) The total amount of Tier 2 capital (c) Other deductions from capital (d) Total eligible capital	Pages from 310 on Risk Management
3.1.2	Capital adequacy	
	(i) Qualitative disclosures A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities. (ii) Quantitative disclosures (a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier 1 capital ratio (iii) Disclosure requirement under Banking Act Direction No. 10 of 2019 on framework for dealing with Domestic Systemically Important Banks. (iv) Disclosure requirement under Banking Act Direction No. 8 of 2018 on Net Stable Funding Ratio under Basel III Liquidity Standards.	Pages from 310 on Risk Management

4. DISCLOSURES APPLICABLE FOR REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS OF DEALER DIRECT PARTICIPANTS IN SCRIPLESS TREASURY BONDS AND SCRIPLESS TREASURY BILLS

4.1	Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Directions No. 1 of 2019 dated 20th December 2019 issued by the Monetary Board	Reference
	(i) The carrying value of securities allocated for repurchase transactions as at the period end date. (ii) The market values of securities received for reverse repurchase transactions as at the period end date. (iii) The dealer direct participant policy on haircut for repurchase and reverse repurchase transactions. (iv) Any penalties imposed for non compliance with this Direction.	Note No 56.3.4.13 offsetting of Financial Assets and Liabilities and Note No 27.1(c)

5. DISCLOSURES APPLICABLE ON TREASURY OPERATIONS OF THE BANK

5.1	Banking Act Directions No 06 of 2019 dated 29 August 2019 issued by the Monetary Board on Market Conduct and Practices for Treasury Operations of Banks	Reference
	Disclose as a separate item in the Bank's audited Financial Statements, the profit generated through all interbank foreign exchange transactions including end user transactions where one leg is in the interbank market.	Note No 07

SUPPLEMENTARY INFORMATION

A UNIQUE STRUCTURE

Built on a distinctive, balanced structure, NDB is poised to deliver value to its stakeholders in the years to come.

Armed with the ability to adopt a multifaceted, yet symmetrical structure, water holds the power to create a unique outcome from variable conditions.

KEY EVENTS

January

- NDB's Project Finance Unit recognised as the Renewable Energy (RE) Financier of the Year at the PV Invest Tech Sri Lanka 2021 and Sri Lanka Annual Solar Awards 2021

May

- NDB launches campaign to encourage inward remittances

September

- NDB together with the Ministry of Education rewards top A/L students
- NDB introduces NEOS Stock Trading - the latest revolutionary feature from NDB NEOS

February

- NDB clinches top Integrated Annual Report Award at SAFA BPA Awards
- NDB partners ICTA to support tech start-ups under 'NDB Jayagamu Sri Lanka'
- NDB joins hands with the Central Bank of Sri Lanka to launch the National Remittance Mobile Application 'Lanka Remit'

June

- NDB continues partnership with CR&FC to empower Sri Lankan rugby
- NDB joins hands with Trinity Rugby once again

October

- NDB shines as the only local Bank to be among the Best Workplaces in Asia 2022

March

- NDB appoints Dimuth Karunaratne and Charith Asalanka as Brand Ambassadors
- NDB assists inventor – EMSOL Liquid Fuel Additive
- NDB wins nine awards at the National Business Excellence Awards 2021 - National Chamber of Commerce
- NDB joins hands with Women's Chamber of Industry and Commerce for 'NDB Jayagamu Sri Lanka'
- NDB Privilege Banking partners Quintessentially to provide exclusive concierge services
- Sri Lanka Vanithabhimana 2021/2022 Grand Finale - NDB pays tribute to female trailblazers on International Women's Day

July

- Sriyan Cooray takes over the role of Chairman at NDB
- NDB wins Silver for Best Investor Relations at CFA Sri Lanka Capital Market Awards 2022
- NDBIB crowned as Best Investment Bank in Sri Lanka for sixth consecutive year by Asiamoney Magazine

November

- NDB partners The Friends of Sri Lanka (FoSLA) -UK
- NDB provides grant aid to women entrepreneurs
- NDB Bank named as 2022 Non-Financial Services Champion by Financial Alliance for Women
- NDB donates essential medicines to the Kurunegala Teaching Hospital Psychiatric Ward

April

- NDB signs MOU with Sri Lanka Climate Fund to ascertain the Bank's carbon footprint

August

- NDB felicitates Youngest Commonwealth Medalist Nethmi Ahinsa
- NDB launches Custody and Trustee Services
- NDB continues its partnership with Royal Rugby and the Bradby Shield

December

- NDB takes action to preserve the unique biodiversity of Pitawalapathana
- NDB installs RO plant in Veheragalagama Matale for clean drinking water

AWARDS & ACCOLADES 2022

AWARDS AND ACCOLADES - BANK

Performance aspect	Award/s won	Performance aspect	Award/s won
Overall Excellence	- Global Finance USA - Best Bank in Sri Lanka 2022 - Euromoney Awards for Excellence - Best Bank in Sri Lanka 2022 - National Business Excellence Awards 2021 - National Chamber of Commerce of Sri Lanka - Overall Winner - Silver Award - Winner - Banking Sector - Winner - Excellence in Performance Management - Winner - Excellence in Capacity Building - First Runner-Up - Extra Large Category - Runner - Up - Excellence in Corporate Governance - Runner - Up - Excellence in Local Market Reach - Business Today Rankings - Ranked 12th at Business Today Top 40 - Global Business Review Magazine UAE - Best Domestic Bank Sri Lanka 2022 - Global Economics Awards UK - Most Innovative Private Bank Sri Lanka 2022 - Gazet International Annual Awards - Best Private Banking Brand Sri Lanka 2022 - International Business Magazine Awards - UAE - Most Sustainable Domestic Bank Sri Lanka 2022 - Most Awarded Corporate in Sri Lanka 2021 – LMD Magazine – Annual Ranking	Excellence in Retail Banking Products/ Services	- Asian Banking & Finance Magazine Singapore - Retail Banking Awards - Domestic Retail Bank of the Year Sri Lanka 2022 - Daraz Payment Partner Performance Awards - Tactical Campaign Innovator on the Daraz Platform - Global Business Review Magazine UAE - Best Retail Customer Service Bank Sri Lanka 2022 - World Economic Magazine USA - Best Retail Bank Sri Lanka 2022
		Excellence in SME Banking	- Euromoney Market Leaders 2022 - SME Banking (Highly Regarded) Sri Lanka - Asian Banking & Finance Magazine Singapore - Retail Banking Awards - SME Bank of the Year Sri Lanka 2022 - Global Banking & Finance Awards UK - Best SME Bank Sri Lanka 2022 - World Economic Magazine USA - Best SME Bank Sri Lanka 2022
		Excellence in Corporate Banking	- Asiamoney Best Bank Awards - Best Corporate Bank Sri Lanka 2022 - Euromoney Market Leaders 2022 - Corporate Banking (Market Leader) Sri Lanka - Asian Banking & Finance Magazine Singapore - Wholesale Banking Awards - Domestic Cash Management Bank of the Year Sri Lanka 2022 - Global Banking & Finance Awards UK - Best Supply Chain Finance Provider - Bank Sri Lanka 2022
Excellence in Digital Financial Services	- Asiamoney Best Bank Awards - Best Bank for Digital Solutions Sri Lanka 2022 - Global Banking & Finance Awards UK - Best Bank for Digital Banking Services Sri Lanka 2022 - The Next 100 Global Awards 2022 - Digital Banking - Euromoney Market Leaders 2022 - Digital Solutions (Market Leader) Sri Lanka - Lanka Pay Technovation Awards 2022 - Bank of the Year for Financial Inclusivity - Gold Award - Best Common ATM Enabler of the Year - Gold Award - Excellence in Customer Convenience - Merit Award - SLIM DIGIS 2.2 - Gold winner - Banking and Finance category - Global Business Magazine Award UAE - Best Bank for Digital Transformation Sri Lanka 2022 - World Economic Magazine USA - Best Digital Bank Sri Lanka 2022 - International Business Magazine Awards - UAE - Most Reliable Digital Banking Services Provider Sri Lanka 2022 - Cosmopolitan The Daily Business Awards UK - Best Digital Transformation Bank Sri Lanka 2022 - Finance Derivative Awards - The Netherlands - Best Digital Bank Sri Lanka 2022 - Most Innovative Digital Financing Solutions Provider Sri Lanka 2022	Excellence in Project Financing	- Asian Banking & Finance Magazine Singapore - Wholesale Banking Awards - Domestic Project Finance Bank of the Year Sri Lanka 2022 - Corporate & Investment Banking Awards - Mergers and Acquisitions Deal of the Year Sri Lanka 2022 - Corporate & Investment Banking Awards - Project Infrastructure Finance Deal of the Year - Sri Lanka - Global Business Review Magazine UAE - Excellence In Project and Infrastructure Financing Sri Lanka 2022 - Global Banking & Finance Awards UK - Best Renewable Energy Financing Sri Lanka 2022 - Cosmopolitan The Daily Business Awards UK - Excellence in Infrastructure Financing Sri Lanka 2022
		Excellence in Customer Service	- World Economic Magazine USA - Best Customer Service Bank Sri Lanka 2022 - Global Business Review Magazine UAE - Best Customer Service Bank Sri Lanka 2022 - International Business Magazine Awards - UAE - Best Customer Friendly Bank Sri Lanka 2022

Performance aspect	Award/s won
Excellence in Empowering the Women's Market Segment	- Global Banking & Finance Awards UK - Best Financial Institution for Empowering Women in Business Sri Lanka 2022 - Financial Alliance For Women - Non-Financial Services Champion Award 2022 - Global Business Review Magazine UAE - Best Financial Institution for Empowering Women in Business Sri Lanka 2022
Excellence in Corporate Sustainability/ ESG	- Ceylon Chamber of Commerce - Winner - 10 Best Corporate Citizens 2022 - National Business Excellence Awards 2021 - National Chamber of Commerce of Sri Lanka - Winner - Excellence in Corporate Social Responsibility - Winner - Excellence in Environmental Sustainability - Euromoney Market Leaders 2022 - CSR (Highly Regarded) Sri Lanka - ESG (Market Leader) Sri Lanka - Finance Derivative Awards - The Netherlands - Best CSR Practice Bank Sri Lanka 2022 - Retail Banker International Asia Trailblazer Awards - Winner - Best CSR Initiative - Environmental Impact 2022
Excellence in Best HR Practices	- Great Place To Work - Great Place To Work Certification - Winner - Sri Lanka's 50 Best Work Places / Large corporates category - Winner/Recognised as Asia's Best Large Workplaces 2022 - CIMA Sri Lanka and Satynmag.com - Women Friendly Work Place Awards 2022 – Honourable Mention - Euromoney Market Leaders 2022 - Diversity & Inclusion (Highly Regarded) Sri Lanka
Excellence in Marketing, Branding & Sales	- Brands Annual 2022 Edition of LMD - Ranked within the Top 20 brands in Sri Lanka at number 16 - Global Brand Awards UK - Most Innovative Digital Banking Brand, Sri Lanka 2022 - Leading SME Banking Brand, Sri Lanka 2022 - Best Banking Brand for Women Empowerment, Sri Lanka 2022
Excellence in Investor Relations	- Global Economics Awards UK - Best Investor Relations In Banking Sri Lanka 2022 - Global Business Review Magazine UAE - Best Investor Relations Bank Sri Lanka 2022 - Cosmopolitan The Daily Business Awards UK - Best Investor Relations Sri Lanka 2022 9th CFA Sri Lanka Capital Market Awards - Silver Award for Best Investor Relations 2022

Performance aspect	Award/s won
Excellence in Islamic Banking	- Sri Lanka Islamic Banking & Finance Industry Awards - Islamic Finance Window / Unit of the Year - Silver Award 2022 - IFFSA Awards - Islamic Finance Forum of South Asia - Bronze Award - Islamic Finance Window / Unit of the Year - 2021/2022
Excellence in Annual Reports Presentation	- CA Sri Lanka - TAGS Awards 2022 - Gold award winner - Private Banks sector - Silver Award winner - Corporate Governance Disclosure - Transparency in Corporate Reporting Assessment 2022 by Transparency International Sri Lanka – Rank Fifth - SAFA Best Presented Annual Report Awards, Integrated Reporting Awards & SAARC Anniversary Awards for Corporate Governance Disclosures Competition 2021 - Joint Bronze Winner - Private Sector Banks - Certificate of Merit - Integrated Reporting - CMA Excellence in Integrated Reporting Awards 2022 - Winner - Ten Best Integrated Reports - Best Integrated Report - Banking Sector - Best Disclosure on Value Creation

NDB Investment Bank Limited

- Euromoney Magazine Awards for Excellence - 2022 - Sri Lanka's Best Investment Bank [Eleventh consecutive year]
- Asiamoney Banking Awards - 2022 - Best Investment Bank, Sri Lanka [Sixth consecutive year]
- Asian Banking & Finance Magazine Singapore - Corporate & Investment Banking Awards - Corporate & Investment Bank of the Year - Sri Lanka [fourth consecutive year]
- Global Brands Magazine - 2022 - Most Trusted Investment Banking Brand, Sri Lanka [Eighth year]
- Global Business Magazine Awards 2022
 - Best Investment Bank Sri Lanka 2022
 - Most Trusted Investment Banking Brand Sri Lanka 2022
- International Business Magazine Awards 2022
 - Best Investment Bank Sri Lanka 2022 [third year]
 - Most Trusted Investment Banking Brand Sri Lanka 2022 [third year]
- Gazet International Annual Awards 2022
 - Most prestigious Investment Bank Sri Lanka 2022
 - Most Promising Investment Bank Sri Lanka 2022
 - Best Cross Border Transactions Investment Bank Sri Lanka 2022

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE - DIRECTION NO. 11 OF 2007 (AS AMENDED) ON CORPORATE GOVERNANCE ISSUED BY THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA (THE CORPORATE GOVERNANCE DIRECTION)

The Corporate Governance Direction provides processes and practices deemed to be the framework that facilitates the conduct of the banking business in a responsible and accountable manner so as to promote the safety and soundness of the Bank, thereby leading to the stability of the overall banking sector. The disclosures below reflect the Bank's compliance with the Corporate Governance Direction under the following key principles:

1. The responsibilities of the Board;
2. The Board's composition;
3. Criteria for the assessment of the fitness and propriety of Directors;
4. Management functions delegated by the Board;
5. The Chairman and Chief Executive Officer;
6. Board appointed subcommittees;
7. Related Party Transactions; and
8. Disclosures;

Rule No.	Corporate Governance Principles	Compliance Status
3 (1)	Responsibilities of the Board	
3 (1) (i)	The Board has strengthened the security and the soundness of the Bank in the following manner:	
a.	Setting and communicating strategic objectives and corporate values The Bank's strategic plan for 2021-2025, Voyager 25 strategy (V 25) was reviewed and formally approved by the Board in August 2020 after detailed discussions had with the Senior Management of the Bank. For this exercise, the Bank formed a cross functional team of internal staff to obtain their views. The new strategy was formally rolled out within the Bank during 2020. Alignment of staff to the V 25 strategy was ensured through regularly updating a dedicated website with all communications, milestones etc relating to the Strategy and its rollout. Given the rapidly evolving market conditions locally and globally, the senior management engaged in a critical evaluation of the Strategic Plan in 2022 and revised same to better position the Bank to face new challenges and also to benefit from the evolving changes in the landscape, with the advice of the Board. These changes and thinking were cascaded down to all staff to ensure alignment of the Bank as a whole with the updated Strategic Plan. During 2022 train the trainer programs were also launched to educate all staff on the concept, goals and objectives relating to V 25. The Corporate values of the Bank are embedded in the Bank's Compliance Policy and Code of Conduct which is communicated to all employees via the Bank's intranet, through the induction programmes and refresher trainings.	☒
b.	Approving overall business strategy including risk policy and risk management After detailed discussions held with The Leadership Team of the Bank the Bank's overall business strategy for 2021-2025 was reviewed and approved by the Board in August 2020. In 2022 the Bank's strategy was further reviewed. The Bank has established an Integrated Risk Management Framework approved by the Board covering all risks. There are separate risk policies and risk management procedures with regard to credit risk, operational risk, and market and liquidity risk. The strategic risk is embedded in each of these procedures based on applicability. Further the Bank has a Board approved risk appetite statement which is monitored by the Integrated Risk Management Committee (IRMC) and the Board on a quarterly basis. This has been further reviewed by the IRMC during the year 2022. The Bank has a Board approved Strategic Plan for 5 years with measurable Key Performance Indicators.	☒
c.	Risk management The Board is responsible for the overall risk framework of the Bank. The IRMC appointed by the Board, reviews and recommends to the Board, the Bank's risk policies and procedures defining the Bank's risk appetite, identifying principal risks, setting governance structures and implementing policies and systems in line with the Integrated Risk Management Framework to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by this Direction. The following reports provide further insight in this regard: The Risk Management Report on pages 310 to 329 The Board Integrated Risk Management Committee Report on pages 135 to 137	☒

Rule No.	Corporate Governance Principles	Compliance Status
d.	Communication with all stakeholders The Bank has in place a Board approved Communication Policy aimed to encourage effective communication of corporate information relating to the Bank on its behalf covering all stakeholders including employees, customers, creditors, shareholders, general public and the regulators. This policy is reviewed regularly in order to reflect the best practices in communications. Please refer page 123 of the Corporate Governance Report which illustrates the effective communication with the Bank's stakeholders.	☒
e.	Internal control system and management information systems The Board is assisted by the Board Audit Committee (BAC), which evaluates the adequacy and effectiveness of the internal control systems, and reviews internal control issues identified by the Bank's Audit, External Auditor, regulatory authorities and the Management. The MIS process of the Bank is continuously being improved. The Board also reviews the adequacy of the Bank's Management Information Systems, based on the monthly MIS pack submitted to the Board each month.	☒
f.	Key Management Personnel (KMP) Key Management Personnel (KMPs) of the Bank have been identified by the Board having considered the Banking Act Determination No. 1 of 2019 on officers performing executive functions of the Bank, and presently are The Leadership Team whose names are detailed on pages 28 to 30 of this Report.	☒
g.	Define areas of authority and key responsibilities for Directors and KMP The Bank's internal Code of Corporate Governance sets out a clear division of authority and responsibilities between the Directors and the KMPs. The Directors have set goals and targets for the year 2022. The duties and responsibilities of KMPs are documented in their respective job descriptions and scorecards. The Board through the HRRC evaluated the performance of the KMPs against set goals and targets.	☒
h.	Oversight of affairs of the Bank by KMP To enable the Board to discharge its stewardship and fiduciary responsibilities effectively it delegates authority to the Board committees to oversee specific responsibilities based on clearly defined terms of reference. The Board has delegated its authority in operational areas to the Senior Management led by CEO within clearly defined limits. The Board regularly interacts with the Bank's KMPs through reports tabled at both Board and subcommittee meetings. KMPs make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. Banking operations carried out in line with the Banks' strategic objectives including any issues faced by the Bank are discussed on an ongoing basis at Board meetings and also at special meetings scheduled with directors based on the exigencies of times through which directors provide the required oversight and guidance to the Key Management Personnel. The CEO at weekly meetings held with The Leadership Team updates them on key decision points taken by the Board.	☒
i.	Assess effectiveness of own governance practices The Nominations Committee (NC) has been delegated the function of selection, nomination and election of Directors to the Board and KMPs. The Bank's internal Code of Corporate Governance clearly provides guidance on avoiding, managing and disclosing conflicts of interests. The Directors are required to provide a declaration yearly. The Directors' interests are disclosed to the Board and Directors who have a particular interest have stepped out from discussions and abstained from voting in such a situation and he/she is not counted in the quorum. Determination of weaknesses in the Board of Directors own governance practices and implementation of changes are addressed through the annual self-evaluation process among the Board members. Self-evaluations for the year 2022 have been collected and summarised by the Company Secretary and submitted to the Chairman for his review. The Chairman then discusses areas of weaknesses and recommends changes where necessary at a Board meeting in order to ensure that governance practices are continuously improved throughout the year. Where necessary, the chairman may engage directors on a one on one basis to discuss their feedback/address any concerns etc.	☒
j.	Succession plan for KMP The Succession Plan of the Bank was reviewed and approved by the Board at its meeting held in March 2022.	☒

Rule No.	Corporate Governance Principles	Compliance Status
k.	Regular meetings with KMP The KMPs make regular presentations or are called in for discussions at the meetings of the Board and its subcommittees on policy and other matters relating to their areas. Progress made towards corporate objectives is a regular agenda item for the Board and KMPs are regularly involved in Board level discussions on the same.	☒
l.	Regulatory environment and maintaining an effective relationship with the regulator Circulars, directions and guidelines issued by the regulators are circulated to the Directors on a quarterly basis for their information. In 2022 all new CBSL laws and regulations that were issued and relevant to banking business were made available on the BoardPac together with explanatory notes which detailed the key areas of impact. Further a snap shot of key regulatory changes during each quarter with the status of compliance was provided to the Board. The CEO meets with Central Bank officials at the monthly CEO's meeting. The Chairman of the Bank and the Chairpersons of the Board subcommittees also meet with the CBSL officials. Further, the Directors, the CEO and KMPs of the Bank maintain dialogue with the regulators on an ongoing basis and attend the Director's forum arranged by the CBSL.	☒
m.	Hiring and oversight of External Auditors Audit Committee Charter includes the functions of hiring and overseeing of the External Auditor. The Board Audit Committee (BAC) carries out the necessary due diligence regarding the hiring/evaluation of the External Auditor and makes recommendations to the Board. The appointment/re-appointment of the External Auditor is made at the Annual General Meeting. Oversight of the External Auditor is carried out by the BAC and the Board is been briefed of any concerns in this regard if required. A formal evaluation of the external auditors' performance is assessed annually by the BAC by also considering the evaluation done by VP - Finance/ Chief Financial Officer and conclusions together with any recommendations are discussed at Board level.	☒
3 (1) (ii)	Appointment of Chairman and CEO and defining and approving their functions and responsibilities In line with the Direction, the Bank's Board approved internal Code of Corporate Governance documents the functions and responsibilities of the Chairman and the CEO. The Board has appointed the Chairman and CEO and has approved their functions. There is a clear division of responsibilities between the Chairman and the CEO.	☒
3 (1) (iii)	Regular Board meetings Regular monthly Board meetings are held and special Board meetings are scheduled as and when the need arises. There have been 15 Board meetings during 2022 which included 3 special meetings. In addition, the subcommittees of the Board meet as and when necessary. Each member of the Board brings different areas of expertise, skills and experience to the table which encourages a robust exchange of alternate views and ways of thinking. Circulation of Board papers to obtain Board's consent is minimised and resorted to only when absolutely necessary. These decisions are in any event later confirmed by the Board at the immediately succeeding Board meeting. 12 circular resolutions have been passed during 2022. Please refer page 120 and 121 for Board and Board subcommittee meeting attendance respectively.	☒
3 (1) (iv)	Arrangements for Directors to include proposals in the agenda All Directors are entitled to include matters and proposals in the agenda for Board meetings and this right has been entrenched in the Bank's internal Code of Corporate Governance. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals in the agenda for regular meetings. This process supports the requirement detailed in this Direction and a Director may include a proposal (if required) in the agenda of a Board meeting.	☒

Rule No.	Corporate Governance Principles	Compliance Status
3 (1) (v)	Notice of Meetings Monthly meetings for a calendar year are scheduled and informed to the Board at the end of the previous calendar year to provide Directors ample notice and an opportunity to participate. Formal notice of meetings, the agenda and Board papers related to each Board meeting are circulated at least 7 days in advance of the Board meeting. These documents are uploaded through a secure connection to the tablets of all Directors.	☑
3 (1) (vi)	Directors' attendance The Company Secretary monitors the attendance register to ensure compliance. All Directors have attended at least two thirds of the meetings held during the year 2022 and no Director has been absent for three consecutive meetings during 2022, if eligible to attend. Attendance of Directors at Board meetings is detailed on page 120	☑
3 (1) (vii)	Appointment and setting responsibilities of the Company Secretary The internal Code of Corporate Governance includes the responsibilities of the Company Secretary as specified in the statutes and other regulations. The Company Secretary appointed by the Board is an Attorney at Law who satisfies the provision of Section 43 of the Banking Act. Please refer page 27 for a detailed profile and page 114 for duties and responsibilities of the Company Secretary.	☑
3 (1) (viii)	Directors' access to advice and services of Company Secretary The internal Code of Corporate Governance of the Bank includes a provision to enable all Directors to have access to the advice and services of the Company Secretary. For the year 2022, the Company Secretary has provided assistance to the Directors when requested.	☑
3 (1) (ix)	Maintenance of Board minutes The Company Secretary maintains detailed Board minutes and circulates minutes to all Directors. The minutes are approved at the subsequent Board meetings. The Bank's internal Code of Corporate Governance also provides that minutes are open for inspection at any reasonable time, upon reasonable notice given by any Director. Additionally, the Board has access to the past Board papers and Board minutes in their Board Pac.	☑
3 (1) (x)	Maintaining minutes with sufficient details to serve as a reference for regulators and supervisory authorities A Board approved procedure is in place for recording the Board minutes by the Company Secretary. The minutes contain adequate details appropriate to the matters dealt with. The minutes are read together with the corresponding Board papers, which supplement information in the minutes. All matters required to be minuted in terms of 3(1) (x) (a)–(f) are recorded in the minutes.	☑
3 (1) (xi)	Directors' ability to seek independent professional advice There is a process for Board members to obtain independent professional advice at the expense of the Bank. The Board has obtained professional advice during the year.	☑
3 (1) (xii)	Dealing with conflicts of interest The Directors are conscious of their obligations to deal with situations where there is a conflict of interest in accordance with the Articles of Association of the Bank and the Corporate Governance Direction No 11 of 2007 (as amended). The internal Code of Corporate Governance adopted by the Board, requires each Board member to determine whether he/she has a potential or actual conflict of interest. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present. Further Directors abstain from participating in the discussion and voting on Board resolutions in relation to which such Directors or any of their close relation/s or a concern in which such Directors or any of their close relation/s have substantial interest, and/or are interested in. Further their votes are not counted in the quorum for the relevant agenda item at the Board meeting.	☑

Rule No.	Corporate Governance Principles	Compliance Status
3 (1) (xiii)	Formal schedule of matters reserved for Board decision Board has a formal schedule of matters specifically reserved to it for decision to ensure that direction and control of the Bank is firmly under its authority.	☒
3 (1) (xiv)	Inform Central Bank on probable solvency issues The Bank is aware of the requirement but the situation has not arisen within the year. A Solvency Statement is prepared quarterly and tabled at the IRMC and the Board. The Bank also has an IRMC approved Liquidity Contingency Funding Plan in place.	☒
3 (1) (xv)	Capital adequacy Monthly and quarterly compliance reports have been submitted to the Board which contains the Capital Adequacy Ratio (CAR). The Bank is fully compliant with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka. Also the Internal Capital Adequacy Assessment Process (ICAAP) covers capital planning over the next 4 years.	☒
3 (1) (xvi)	Publish Corporate Governance Report in this Annual Report This Report forms part of the Corporate Governance Report of the Bank which is set out on pages 108 to 124 and pages 284 to 297.	☒
3 (1) (xvii)	Self-assessment of Directors In accordance with the Direction, the Board annually assesses the effectiveness of the Director's own governance practices and therefore the Board has adopted a scheme of self-assessment to be undertaken by each Director annually. The evaluation covers a range of issues including Board composition, timeliness and quality of information provided to the Board and their individual goals and responsibilities. The Chairman reviews the responses based on the summarised responses for the previous year's self-assessment of the Directors to the self-assessment questionnaire and reports to the Board on any identified weaknesses and lapses and recommends an action plan for approval of the Board if necessary. The Board periodically reviews the progress made on the action plan. Where necessary, the chairman may engage directors on a one on one basis to discuss their feedback/address any concerns etc.	☒
3 (2)	Board Composition	
3 (2) (i)	Number of Directors The number of Board Directors during the year 2022 was in compliance with the thresholds detailed in this Direction. As at 31 December 2022, the Board comprised nine (9) Directors.	☒
3 (2) (ii)	Period of service of a Director None of the Directors have exceeded 9 years of service during the year 2022. The Company Secretary monitors this requirement. Details of tenure of service is given in page 113.	☒
3 (2) (iii)	Board balance The CEO of the Bank is the only Executive Director and thus the Bank complies with this requirement.	☒
3 (2) (iv)	Independent Non-Executive Directors The Board through Nominations Committee assesses the independence or non-independence of each Non-Executive Director based on a declaration made by each Director to the Company Secretary each year. As at 31 December 2022 there were 4 Independent Non-Executive Directors on the Board which is above the regulatory requirement. The Non-Executive Directors are detailed on page 109 of this report.	☒
3 (2) (v)	Alternate Independent Directors Directors appoint alternate Directors in line with this direction and the Articles of the Bank as and when required for a particular meeting. During the year 2022, Alternate Directors appointed by independent Directors for a particular meeting met the criteria that apply to an Independent Director.	☒
3 (2) (vi)	Criteria for Non-Executive Directors A Board approved procedure to select and appoint Non-Executive Directors is in place. The Non-Executive Directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance, risks and resources. Please refer the profiles of Non-Executive Directors on pages 22 to 27 of this Report.	☒

Rule No.	Corporate Governance Principles	Compliance Status
3 (2) (vii)	More than half the quorum to comprise of Non-Executive Directors All Board meetings have met this requirement.	☒
3 (2) (viii)	Identify Independent Non-Executive Directors in communications and disclose categories of Directors in this Annual Report The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive Director, Non-Executive Directors and Independent Non-Executive Directors are given on page 109 of this Report.	☒
3 (2) (ix)	Formal and transparent procedure for appointments to the Board There is in place a formal, considered and transparent procedure for the appointment of new Directors to the Board. In practice, Directors are appointed based on recommendations made by the Nominations Committee.	☒
3 (2) (x)	Election of Directors filling casual vacancies Appointment to fill a casual vacancy is made by the Board on the recommendations of the Nominations Committee. A person so appointed would stand for re-election at the next Annual General Meeting in accordance with the Articles of Association. Ms. Kasturi Wilson was appointed in 2022 to fill a casual vacancy and upon being recommended by the Board, she will stand for re-appointment by the shareholders at the forthcoming Annual General meeting to be held in 2023.	☒
3 (2) (xi)	Communication of reasons for removal or resignation of Director There was only one resignation during 2022 and same complied with the disclosure requirements detailed in the Direction.	☒
3 (2) (xii)	Prohibition of Directors or employees of a Bank becoming a Director of another bank No Directors or employees of the Bank are a Director of another Bank. The Nominations Committee takes into account this requirement in their deliberations when considering the appointments of Directors. The Banks "Compliance Policy and Code of Conduct" further incorporates this requirement for employees.	☒
3 (3)	Criteria to assess fitness and propriety of Directors	
3 (3) (i)	Age of Director should not exceed 70 There are no Directors who are over 70 years of age.	☒
3 (3) (ii)	Directors should not be Directors of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. No Director holds Directorships of more than 20 companies. The Directorships of each of the Directors are disclosed on pages 24 to 27 of the Annual Report.	☒
3 (3) (iii)	Director or CEO of the Bank shall not be appointed before the expiry of a period of 6 months from the date of cessation of his/her office at another licensed bank The Company Secretary monitors this requirement.	☒
3 (4)	Management functions delegated by the Board	
3 (4) (i)	Understand and study delegation arrangements	☒
3 (4) (ii)	Extent of delegation should not hinder the Board's ability to discharge its functions	
3 (4) (iii)	Review delegation arrangements periodically to ensure relevance to operations of the Bank The Board periodically reviews and approves the delegation arrangements in place to ensure they are relevant and addresses the needs of the Bank. Delegation papers are prepared in detail and recommended by the IRMC to the Board. Terms of Reference (TOR) of each of the Board subcommittees which are incorporated in the respective charters of each Board subcommittee are approved by the Board. In addition it is to be noted that by delegating, the Board does not lose the authority to deal with matters that have been delegated when necessary.	

Rule No.	Corporate Governance Principles	Compliance Status
3 (5)	The Chairman and Chief Executive Officer	
3 (5) (i)	Separation of roles The roles of Chairman and CEO of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the CEO thereby maintaining the balance of power between the two roles.	☒
3 (5) (ii)	A Non-Executive Independent Director as the Chairman or if not independent, designation of an Independent Director as the Senior Director The Articles of Association of the Bank mandates that the Chairman of the Bank must be an Independent Director. As such, a Non-Independent Director cannot be appointed as the Chairman and hence the need to appoint a Senior Independent Director cannot arise. Currently Mr. Sriyan Cooray, Independent Non-Executive Director is the Chairman.	☒
3 (5) (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members In accordance with this Direction the Company Secretary obtain a declarations from each Directors to identify the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and the relationships among members of the Board. Based on the said declarations there were no material relationships between the Chairman and the CEO and among the Board members.	☒
3 (5) (iv)	Chairman to provide leadership to the Board The Chairman is responsible for the running of the Board, preserving order and ensuring that proceedings at meetings are conducted in a proper manner. Further, he ascertains the views of the Directors on the issues being discussed before decisions are taken. The self - evaluation process carried out by the members of the Board each year assists the Chairman to effectively carry out his responsibilities by providing him the required feedback.	☒
3 (5) (v)	Responsibility for agenda lies with the Chairman but may be delegated to the Company Secretary The Chairman draws up the agenda in consultation with the CEO and Company Secretary. The Bank's internal Code of Corporate Governance also casts this responsibility with the Chairman.	☒
3 (5) (vi)	Ensure that Directors are properly briefed and provided adequate information The Directors are adequately briefed in the course of discussions by the Chairman, CEO and officers of management in respect of matters that are taken up by the Board. The following procedures are in place to ensure this: Board papers are circulated in advance among the Directors. Management information is provided on a regular basis to enable Directors to assess the performance and stability of the Bank. Relevant KMPs are on hand for explanations and clarifications. Directors are able to seek independent professional advice on a need basis at the Bank's expense.	☒
3 (5) (vii)	Encourage active participation by all Directors and lead in acting in the interests of the Bank The Chairman ensures that all members effectively participate as a team in Board decisions and Directors concerns and comments are duly recorded in the minutes.	☒
3 (5) (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors All Directors of the Board except the CEO are Non-Executive Directors which encourages active participation. Further, Non-Executive Directors participate in Board-appointed subcommittees providing further opportunity for active participation. In addition, the feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contributions of Non-Executive Directors.	☒
3 (5) (ix)	Refrain from direct supervision of KMP and executive duties Chairman is a Non-Executive Director and he does not directly get involved in the supervision of KMPs or any other executive duties.	☒

Rule No.	Corporate Governance Principles	Compliance Status
3 (5) (x)	Ensure effective communication with shareholders Shareholders are encouraged to provide their feedback to the Company Secretary using feedback forms made available with the Annual Report. In addition, there is an e-mail address dedicated for investor relations and the link is available on the Bank's website. The Bank also has a dedicated Investor Relations Team. The Chairman together with the CEO ensures effective communication with shareholders through investor's forums held each quarter and through continuous engagement with our institutional investors. Members of the Board are apprised of the views of major investors and other key stakeholders pursuant to these meetings.	☒
3 (5) (xi)	CEO functions as the apex executive in charge of the day-to-day operations The CEO is responsible for providing the leadership, expertise and professional environment within the Bank for the implementation of the Board's policies and the achievement of the Bank's goals and objectives. The operations of the Bank are carried out in conformity to this requirement.	☒
3 (6)	Board appointed committees	
3 (6) (i)	Establishing Board Committees, their functions and reporting The Board has established a Strategic Issues Committee, Board Credit Committee, Related Party Transactions Review Committee and Digital Transformation Committee in addition to the Board Audit Committee, Human Resources and Remuneration Committee, Nominations Committee and Integrated Risk Management Committee, which are mandated by these regulations. Minutes of Board subcommittee meetings are shared with the main Board and the Chairmen of Board subcommittees update the Board on recommendations made and any matters of importance that are discussed at the respective Board subcommittee. This Annual Report includes individual reports of each such subcommittee on pages 132 to 144 which reports include a summary of duties, roles and performance of each subcommittee.	☒
3 (6) (ii)	Board Audit Committee (BAC) a. Chairman of the committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit Mr. Sujeewa Mudalige the Chairman of the BAC is an Independent Non-Executive Director and a Fellow Member of the Chartered Institute of Management Accountants, UK, Institute of Chartered Accountants of Sri Lanka, Association of Chartered Certified Accountants UK and CPA – Australia).	☒
b.	Committee to comprise solely of Non-Executive Directors All members of the BAC are Non-Executive Directors.	☒
c.	Board Audit Committee functions The following matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC; (i) Re-appointment of the External Auditor for audit services has been recommended to the Board by the BAC; The BAC has discussed the audit plan and methodology with the External Auditor. (ii) - (iii) BAC has discussed the implementation of the Central Bank guidelines issued to Auditors from time to time and the application of the relevant accounting standards; (iv) In order to ensure the independence of the Auditor to comply with the requirements of this Direction the External Audit Partner was rotated as per the five-year rotation requirement. The BAC evaluates and makes recommendations to the Board with regard to the audit fee. Refer the 'Report of the Board Audit Committee' given on pages 138 to 139.	☒
d.	Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes The BAC reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with the applicable standards and best practices through the representations from the External Auditor.	☒

Rule No.	Corporate Governance Principles	Compliance Status
e.	Provision of non-audit services by External Auditor A Policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this Direction. This Policy is reviewed and the relevant amendments are approved by the BAC and Board. Assigning such non-audit services to External Auditor is discussed at BAC meetings and the required approval is obtained to that effect. Further, relevant information is obtained from the External Auditor to ensure that their independence is not impaired, as a result of providing any non-audit services.	☒
f.	Determines scope of audit The BAC Charter requires the BAC to discuss and finalise with the External Auditor the nature and scope of the audit. In order to comply, the External Auditor makes a presentation at the BAC meeting detailing the proposed audit plan and scope. The Committee discussed and finalised the audit plan, methodology and scope with the External Auditor to ensure that it includes: An assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and Internal Controls over Financial Reporting; The preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for coordinating activities with other Auditors.	☒
g.	Review financial information of the Bank The BAC reviews the quarterly Financial Statements as well as year-end Financial Statements. The review focuses on the following: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) compliance with relevant Accounting Standards and other legal requirements. The BAC makes their recommendations to the Board of Directors on the above on a quarterly basis.	☒
h.	Discussions with External Auditor on interim and final audits The Committee met the External Auditor twice during 2022, without the presence of the Executive Management, to discuss issues, concerns and reservations arising from their audits.	☒
i.	Review of management letter and Bank's response The BAC reviewed the External Auditor's Management Letter for the year ended 2021 and the Management's responses thereto.	☒
j.	Review of internal audit function The BAC has oversight of the Internal Audit Department (IAD) of the Bank and carries out the following duties: (i) Reviews and discusses with the Head of Internal Audit (HIA) the annual Audit Plan covering the Group, the adequacy of the scope and functions and the resources of IAD. (ii) The Audit Plan for the year is approved by the BAC and the progress is tabled at the BAC meetings. The BAC reviews the internal audit reports and discusses the Management Action Plans to resolve the issues raised by IAD. Further, BAC Chairman is kept informed of "Critical" and "Significant" issues arising from ongoing audits, as a "Heads up". All audit findings are sent to Operational Risk Department to identify any process improvements required and to follow up on implementing controls. (iii) Evaluates the performance of the HIA, based on the feedback given by the CEO and BAC Chairman. Further HIA discusses the senior audit team members' performance with the BAC. (iv) The BAC is kept informed of the senior staff member appointment/resignations. (v) Any outsourced internal audit services are done with the approval of BAC. (vi) Ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The IAD staff reports directly to the HIA who in turn reports directly to the BAC.	☒

Rule No.	Corporate Governance Principles	Compliance Status
k.	Internal investigations Major findings of internal investigations and management's responses thereto are reviewed by the BAC. Also the status of implementation of the recommendations made during investigations is discussed at Committee meetings.	☒
l.	Attendees at Board Audit Committee meetings Head of Internal Audit and VP/ Chief Financial Officer attended all meetings as a permanent invitee. The CEO attended meetings as well on invitation and other members of the Senior Management were invited to attend meetings on a need basis. On the invitation of the Committee, the Bank's External Auditor, Ernst & Young attended all meetings during the year. The BAC met the External Auditor twice during the year (i.e. in February and November 2022) without the presence of KMPs.	☒
m.	Explicit authority, resources and access to information The Charter of the BAC clearly defines the authority and terms of reference of the Committee, which is in compliance with this Direction.	☒
n.	Regular meetings The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met eight times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by HGIA who functions as the Secretary to the BAC.	☒
o.	Disclosure in Annual Report Please refer 'Board Audit Committee Report' on pages 138 to 139 for the details of the activities of the Audit Committee. Attendance of the Committee members at each of these meetings is given in the table on page 121 of the Annual Report.	☒
p.	Maintain minutes of meetings The Head of the Internal Audit functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these approved minutes have been tabled at Board Meetings.	☒
q.	Whistle-blowing policy and relationship with External Auditor The Bank has in place a Board approved Whistle Blowing Policy to make it easier for members of staff to be able to report irregularities in good faith, without having to fear that their actions may have adverse consequences on themselves. This Policy is reviewed and approved by the BAC and the Board of Directors. The Employees of the Bank may, in confidence, raise concerns about possible improprieties in Financial Reporting, Internal Controls or other matters. A process has been established to track such whistle blowing and take necessary action. The BAC is the key representative body for overseeing the Bank's relations with the External Auditor.	☒
3 (6) (iii)	Board Human Resources and Remuneration Committee (HRRC) Composition & Responsibilities Please refer pages 133 to 134 for the composition and responsibilities of the Human Resources and Remuneration Committee (HRRC).	☒
a.	Determine the Remuneration policy relating to Directors, CEO and KMPs The HRRC reviews and where necessary makes recommendations on remuneration payable to Directors and KMPs of the Bank. A Board approved Remuneration Policy and process is in place for Directors, CEO and KMPs.	☒
b.	Set goals and targets for the Directors, CEO and KMPs The goals and targets set for the CEO and KMPs were reviewed and approved by the HRRC and noted/approved by the Board. Further the goals and targets of KMPs who head control functions were reviewed and approved by their respective subcommittee. The goals and targets for the Directors for the year 2022 have been deliberated in detail and approved at HRRC and Board level.	☒

Rule No.	Corporate Governance Principles	Compliance Status
c.	Evaluate the performance of the CEO and KMPs against the set goals and targets and determine remuneration benefits The performance of KMPs against set goals and targets are evaluated by the HRRC in March of every year and recommendations are then discussed and approved by the full Board. Further the performance of KMPs who head control functions goes to their respective subcommittee prior to being submitted to the Board. The CEO's performance is evaluated by the full Board. The above process was complied within 2022 for the year 2021.	☒
d.	The CEO attendance at Committee meetings The CEO was present at all meetings as invited by the HRRC and steps out when matters relating to the CEO were discussed.	☒
3 (6) (iv)	Board Nomination Committee (NC) Please refer page 132 for the composition and responsibilities of the NC.	☒
a.	Appointment of Directors, CEO and KMPs The NC has in place a procedure to select new Directors. A Board-approved procedure to select CEO and KMPs has been in place since December 2008.	☒
b.	Re-election of Directors This is a requirement of the Nominations Committee Charter. The NC determines the Directors who will be re-elected every year pursuant to taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. The Committee in February 2022 has considered and recommended the re-election of Mr. Sujeewa Mudalige and Mr. Bernard Sinniah.	☒
c.	Eligibility criteria for appointments to key managerial positions including CEO The NC has set a procedure to assess eligibility including criteria such as qualifications, experience and key attributes, for appointment or promotion to Key Management Positions including the position of the CEO. The committee is guided by applicable statutes in considering the suitable criteria for each appointment/promotion.	☒
d.	Fit and proper persons The Company Secretary obtains the declarations for the year 2022 from the Directors. The said annual declarations are submitted to the NC to ensure that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the statutes. Thereafter the required affidavits of Directors are submitted to CBSL. The required affidavits are obtained from KMPs at the time of appointment, promotions, extensions, lateral moves as required by the regulation. This process has been followed for the year 2022.	☒
e.	Succession plan and new expertise The NC considers Board vacancies based on the expertise required by the Bank and recommends suitable candidates when necessary in accordance with the Board approved procedure for selection and appointment of Directors. The NC also recommended the Succession Plan for KMPs to the Board. The Succession Plan for KMPs was reviewed and approved by the Board in 2022.	☒
f.	Committee to be chaired by an independent Director The NC is chaired by the Chairman of the Bank who is an Independent Director. The CEO is present only if invited.	☒
3 (6) (v)	Board Integrated Risk Management Committee (IRMC) Please refer pages 135 to 137 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2022.	☒
a.	Composition of IRMC Please see detailed Report on pages 135 to 137 of this report.	☒
b.	Risk assessment The IRMC assesses all risks of the Bank and Group on a monthly basis through Key Risk Indicators, Risk Dashboards and through quarterly Risk Assessment reports done for the Bank and Group. The Bank has formed management committees to assess risks on a monthly/quarterly basis and their findings are submitted to the IRMC and a summary of the minutes of the IRMC and quarterly risk assessment reports are submitted to the main Board.	☒

Rule No.	Corporate Governance Principles	Compliance Status
c.	Review of management level committees on risk The adequacy and effectiveness of all management level Committees against the respective TORs based on an independent assessment was reviewed at an IRMC meeting and the result was satisfactory. Further all members carried out self-assessments for the year 2022 and the findings were at a satisfactory level.	☒
d.	Corrective action to mitigate risks exceeding prudential levels The IRMC takes prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by IRMC on the basis of the Bank's policies and regulatory and supervisory requirements. The Risk Appetite of the Bank decided through the ICAAP was approved by the Board.	☒
e.	Frequency of meetings The Committee has met 05 times in the year 2022.	☒
f.	Actions against officers responsible for failure to identify specific risks or implement corrective action If the need arises the IRMC shall take action appropriate to the relevance of the situation as per the Bank's Human Resources Policy.	☒
g.	Risk Assessment Report to the Board A detailed report is submitted to the Board subsequent to the IRMC meeting seeking the Board's views, concurrence and/or specific directions.	☒
h.	Compliance function The Bank has appointed a dedicated Compliance Officer who is a KMP to head the compliance function of the Bank. The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and all measures taken to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.	☒
3 (7)	Related Party Transactions	
3 (7) (i)	Avoid conflict of interest The Bank has in place a Board approved Related Party Transactions (RPT) Policy which has set out the procedure to be followed when transacting with related parties. The RPT Policy was adopted by the Bank to identify, approve, monitor and disclose transactions with related parties of the Bank. The Bank has in place a list of related parties which is updated as and when changes occur and reviewed on a quarterly basis to ensure all related parties are listed accurately. The list of related parties is circulated to all relationship managers of business units and branch managers together with an internal circular which describes the regulations that would apply when dealing with related parties. Further every quarter a sign off is obtained from the business lines confirming that they have complied with the related party policy when entering into a transaction with a related party. These processes are in place to remind business lines of the regulatory requirements in relation to related party transactions thereby ensuring that the Bank avoids conflicts of interests with related parties of the Bank. The Bank has obtained the annual declarations in 2022 from the individual Directors confirming that they have avoided conflicts of interests	☒
3 (7) (ii)	Types of Related party transactions covered by the direction The RPT Policy of the Bank covers all transactions that come within the scope of this Direction.	☒

Rule No.	Corporate Governance Principles	Compliance Status
3 (7) (iii)	No more favourable treatment to Related Parties of the Bank A list identifying Related Parties of the Bank in line with this Direction is shared with business lines on a quarterly basis. The regulations and process that needs to be complied with is explained in an internal circular which accompanies the related party list. Business lines are requested to ensure compliance with the required regulation and to refrain from granting related parties of the Bank “more favourable treatment”. Further the Compliance Department reviews transactions with related parties periodically to determine if “more favourable treatment” have been offered to them. Any deviations are required to be reported to the Related Party Transactions Review Committee, and the Integrated Risk Management Committee.	☒
3 (7) (iv)	Granting accommodation to a Director or close relation of a Director This requirement has been included in the Bank’s RPT Policy. The Company Secretary upon being informed of a transaction with a related party shall ensure compliance with this requirement. All relationship managers of business units and branch managers also ensure compliance with this requirement.	☒
3 (7) (v)	Accommodations granted to persons, concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank Prior to the appointment of a Director, the Bank is required to submit an affidavit disclosing all their interests with the Bank. The Company Secretary is aware of the requirement in this direction and will take necessary action to inform the relevant Director and the business unit in this regard.	☒
3 (7) (vi)	No favourable treatment or accommodation to Bank employees or their close relations No favourable treatment/accommodation is provided to Bank employees other than staff benefits. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.	☒
3 (7) (vii)	Remittance of accommodation subject to Monetary Board approval Such a situation has not arisen in the Bank to date.	☒
3 (8)	Disclosures	
3 (8) (i)	Publish annual and quarterly financial statements The Financial Statements for the year ended 31 December 2022 and quarterly Financial Statements are in conformity with all rules and regulations. These Statements have been published in the newspapers in all three languages.	☒
3 (8) (ii)	Disclosures in Annual Report a. A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures Compliance with applicable accounting standards and regulatory requirements have been reported under the ‘Directors’ Responsibility for Financial Reporting on page 145, the Responsibility Statement of Chief Executive Officer and Vice President/ Chief Financial Officer on page 148 and Note 2.1 (Statement of Compliance) to the Financial Statements on page 165.	☒
b.	Report by the Board on the Bank’s internal control mechanism The Directors’ Report on the effectiveness of the internal control system over Financial Reporting is given under the “Statement of Internal Control” on pages 146 to 147.	☒
c.	External Auditors Certification on the Effectiveness of the Internal Control Mechanism The Assurance Report issued by the External Auditor on the internal control over Financial Reporting based on the auditing framework issued by ICASL, is detailed on page 149 of this report.	☒

Rule No.	Corporate Governance Principles	Compliance Status												
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank Please refer “Board Directors” on pages 22 to 27 “Directors’ Interest in Contracts with the Bank” on page 130 and page 131 for Directors’ remuneration. The Executive Director is an ex officio Director on account of being the CEO of the Bank and as such is not paid any additional remuneration or benefits by virtue of him being an Executive Director. Details of Directors’ transactions with the Bank are given below: <table><tr><th>Transactions</th><th>Outstanding balance as at 31 December 2022 LKR’000</th></tr><tr><td>Accommodation</td><td>1,500</td></tr><tr><td>Deposits</td><td>227,491</td></tr><tr><td>Investments</td><td>-</td></tr></table>	Transactions	Outstanding balance as at 31 December 2022 LKR’000	Accommodation	1,500	Deposits	227,491	Investments	-	☒				
Transactions	Outstanding balance as at 31 December 2022 LKR’000													
Accommodation	1,500													
Deposits	227,491													
Investments	-													
e	Total accommodation granted to each category of related party and as a percentage of the Bank’s regulatory capital Total Net Accommodation granted to related parties as a percentage of the Bank’s regulatory capital are given below: <table><tr><th>Category of Related Parties</th><th>Net Accommodation as at 31 December 2022 LKR’000</th><th>% of Regulatory Capital</th></tr><tr><td>Directors*/Close Family Members/Substantial Interest concerns</td><td>1,500</td><td>0.002%</td></tr><tr><td>Key Management Personnel/Close Family members</td><td>143,773</td><td>0.204%</td></tr><tr><td>The Bank’s subsidiaries and associate companies</td><td>650,000</td><td>0.924%</td></tr></table> * Include both Non- Executive Directors and Executive Director	Category of Related Parties	Net Accommodation as at 31 December 2022 LKR’000	% of Regulatory Capital	Directors*/Close Family Members/Substantial Interest concerns	1,500	0.002%	Key Management Personnel/Close Family members	143,773	0.204%	The Bank’s subsidiaries and associate companies	650,000	0.924%	☒
Category of Related Parties	Net Accommodation as at 31 December 2022 LKR’000	% of Regulatory Capital												
Directors*/Close Family Members/Substantial Interest concerns	1,500	0.002%												
Key Management Personnel/Close Family members	143,773	0.204%												
The Bank’s subsidiaries and associate companies	650,000	0.924%												
f.	Aggregate values of remuneration to and transactions with KMPs Aggregate values of remuneration paid by the Bank and transactions of the Bank with its KMPs <table><tr><th>Transaction type</th><th>Aggregate values/Outstanding balances as at 31 December 2022 in LKR ’000</th></tr><tr><td>Remuneration Paid</td><td>431,231</td></tr><tr><td>Accommodation</td><td>143,773</td></tr><tr><td>Deposits</td><td>536,476</td></tr><tr><td>Investments</td><td>-</td></tr></table>	Transaction type	Aggregate values/Outstanding balances as at 31 December 2022 in LKR ’000	Remuneration Paid	431,231	Accommodation	143,773	Deposits	536,476	Investments	-	☒		
Transaction type	Aggregate values/Outstanding balances as at 31 December 2022 in LKR ’000													
Remuneration Paid	431,231													
Accommodation	143,773													
Deposits	536,476													
Investments	-													
g.	External Auditors Certification of Compliance Complied by this Report.	☒												
h.	Report confirming compliance with prudential requirements, regulations, laws, and internal controls There are no material non-compliance to prudential requirements regulations, laws and internal controls affecting the Bank, except for the incident outlined in page 325.	☒												
i.	Non-compliance Report There were no supervisory concerns on lapses in the Bank’s Risk Management System or non-compliance with this Direction, that have been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.	☒												
3 (9)	Transitional and other general provisions The Bank has complied with the transitional provisions, where applicable.	☒												

STATEMENT OF COMPLIANCE - CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE 2017 (THE CODE) ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA).

The Code is intended to provide a corporate governance framework that supports strong business ethics, sound policies and procedures and an effective monitoring system which is in line with international best practices. The Code is broadly divided into two areas, namely the Company and shareholders.

I. The Company

Key principles are detailed under the following broad areas viz. Directors, Directors' Remuneration, Relations with shareholders, Accountability and Audit

II. SHAREHOLDERS

Key principles are detailed under the following broad areas viz. Institutional Investors, Other Investors, Internet of Things and Cyber-security and Environment, Society and Governance (ESG).

The Bank's adherence with the code is detailed below with explanatory comments as follows;

Rule No.	Corporate Governance Principles	Compliance Status
A.	Directors	
A.1	The Board	
	As at 31 December 2022 the Board comprised of nine Directors, eight of whom, including the Chairman, functioned in a non-executive capacity. The members of the Board consists of professionals in the fields of banking, finance, management, treasury, law, accounting, auditing, IT, economics, investments, private sector exposures and possess the skills, experience and leadership required to direct, lead and control the Bank. The Chief Executive Officer (CEO) is the only Executive Director. The Board has appointed several Board subcommittees to assist in the discharge of their collective responsibilities.	☑
	The Bank is mindful of the need to maintain an appropriate mix of skills and experience in the Board through a regular review of its composition in ensuring that the skill representation is in alignment with current and future needs of the Bank. Additionally, individual Directors are encouraged to seek expert opinion and/or professional advice on matters where they may not have full knowledge or expertise.	
A.1.1	Regular Board meetings	☑
	The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary. The Board met fifteen (15) times during the year which included three (3) special meetings. Scheduled Board and Board subcommittee meetings are arranged at the end of the previous calendar year. Attendance at Board and subcommittee meetings are provided on pages 120 to 121.	☑
A.1.2	Role and responsibilities of the Board	
	Business Strategy	☑
	The Board is responsible to stakeholders for creating and delivering sustainable shareholder value through the management of the Bank and Group's businesses. It determines the strategic objectives and policies of the Bank and Group to deliver such long term value, providing overall strategic direction within a framework of rewards, incentives and controls. The Bank's overall business strategy for 2021-2025 was approved by the Board in August 2020 and further reviewed in 2022 as detailed under Section 3(1)(i)(b) of the CBSL table on page 284 of this report.	
	Senior Independent Director	☑
	In terms of the Bank's Article of Association the Bank's Chairman is mandatorily an independent Director therefore the need to appoint a Senior Independent Director does not arise.	
	The CEO and Management Team skills, experience and knowledge to implement the strategy	☑
	The Human Resources and Remuneration Committee (HRRC) and the Nominations Committee (NC) ensure that the CEO and Key Management Personnel (KMP) have the required skills, experience and knowledge to implement strategy.	
	The CEO and The Leadership Team consist of senior bankers with an average experience of 24 years in the field of banking and finance. The profiles of The Leadership Team are available on the pages 28 to 30.	
	Succession strategy of CEO and Key Management Personnel (KMP)	☑
	The succession plan of the Bank was reviewed and approved by the Board at its meeting held in March 2022.	
	Budgets and major capital expenditure	☑
	Annual budget is approved before the commencement of the year. Major capital expenditure requires the approval of the Board.	

Rule No.	Corporate Governance Principles	Compliance Status
	Delegation of Authority To enable the Board to discharge its stewardship and fiduciary responsibilities effectively it delegates authority to the Board Subcommittees to oversee specific responsibilities based on clearly defined terms of references which are also detailed under Section 3(1)(i)(h) of the CBSL table on page 285 of this report.	☑
	Integrity of information, internal controls, business continuity and risk management The Board is responsible for the overall risk framework of the Bank. There is in place an adequate system of internal controls. Policies relating to securing information, business continuity and risk management have been approved by the Board. These policies have been reviewed by either the Integrated Risk Management Committee (IRMC) or the Board Audit Committee (BAC). The BAC reviews Internal Audit reports submitted by the Internal Audit Department and monitors follow up action. Further, based on the assessment of Internal Control Over Financial Reporting (ICOFR), Directors concluded that the Bank's Internal Control Over Financial Reporting is effective. The IRMC appointed by the Board, reviews and recommends to the Board, the Bank's risk policies and procedures defining the Bank's risk appetite, identifying principal risks, setting governance structures and implementing policies and systems in line with the Integrated Risk Management Framework to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by Regulation. The following reports provide further insight in this regard: The Risk Management Report (pages 310 to 329) The Board Integrated Risk Management Committee Report on (pages 135 to 137) The Directors' Statement on Internal Control (pages 146 to 147) The Board Audit Committee Report (pages 138 to 139)	☑
	Compliance with laws, regulations and ethical standards The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and take measures to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.	☑
	All stakeholder interests are considered in corporate decisions The Board of Directors consider the views/impact on all stakeholders of the Bank when decisions are made at Board meetings.	☑
	Sustainable business development and "integrated reporting" Sustainable business development is one of the key areas of focus considered by the Board when taking decisions. Please refer to the Bank's Sustainability Report on pages 54 to 56 for more details. The Bank's Annual Report is presented in line with the integrated reporting guidelines issued by the Institute of Chartered Accountants of Sri Lanka.	☑
	Accounting Policies and fostering compliance with financial regulations The BAC and the Board reviews accounting policies annually to ensure that the Financial Reporting Model of the Bank is in line with such policies, financial regulations, evolving international and local accounting standards and industry best practices. The Board ensures that the Financial Statements of the Bank are prepared in accordance with the approved accounting policies.	☑
	Monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks The Management monitors budgets on frequent intervals (daily/weekly/monthly) and is reviewed by the Board on a monthly basis. Strategy is approved by the Board Strategic Issues Committee and the Board. The Board also reviews the implementation progress regularly.	☑

Rule No.	Corporate Governance Principles	Compliance Status
	Corporate reporting relevant to the Bank The Bank is listed in the Colombo Stock Exchange and conforms to the Listing Rules issued by the Colombo Stock Exchange and also adhere to the regulations applicable to Licensed Commercial Banks. Therefore corporate reporting on an annual and quarterly basis is carried out in line with the regulations	☒
	Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned The Board makes every endeavour to fulfill its stewardship obligations on behalf of all stakeholders. The Board is committed to fulfilling their functions in line with laws, regulations and good governance practices adopted by the Bank.	☒
A.1.3	Act in accordance with laws There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations. In order to preserve the independence of the Board and to strengthen the decision making, the Board seeks independent professional advice when deemed necessary. The Board approved internal Code of Corporate Governance contains the procedure to be followed when a Director or the Board wishes to obtain independent professional advice on any matter.	☒
A.1.4	Access to advice and services of Company Secretary The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. All Directors have access to the Company Secretary and she possesses the required qualifications as set out in the Companies Act and the Banking Act. For the year 2022 the Company Secretary has provided assistance to the Directors when requested. Please refer page 114 for more details on the role of the Company secretary. The Bank has in place an insurance cover for the Directors and its Officers.	☒
A.1.5	Independent judgment The Board combines an appropriate and diverse balance of skills, industry experience and perspective to objectively discharge its responsibilities. All Directors bring their independent judgment to matters discussed at Board meetings. Details of Directors deliberations are contained in the minutes maintained by the Company Secretary.	☒
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company Every member of the Board has dedicated adequate time and effort for the affairs of the Bank by attending Board meetings, Board Subcommittee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with the Management when required. Board papers are circulated to the Board at least seven days prior to each Board meeting. Any request for additional information is made to the Company Secretary. The relevant member of staff is informed by the Company Secretary and the requisite information is forwarded. All matters that require follow up are discussed at the immediately succeeding Board meeting under 'Matters Arising'. Business heads regularly update the Board on the status and development in their respective fields. The CEO on a regular basis updates the Board on business changes, operational risks and controls relevant to the Bank. Please refer page 118 which illustrates how the Board spent its time in 2022.	☒
A.1.7	Call for a resolution to be presented to the Board All Directors are entitled to include matters and proposals in the agenda for Board meetings and this right has been entrenched in the Bank's internal Code of Corporate Governance. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals in the agenda for regular meetings. This process supports the requirement detailed in this code and a Director may include a proposal (if required) in the agenda of a Board meeting.	☒
A.1.8	Board induction and training The Board policy on Directors' training is to provide adequate opportunities for continuous development, appropriate for each Director. The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and awareness of the Bank's policies and procedures as required to fulfill their roles both on the Board and on Committees appointed by the Board. New Directors are provided with a comprehensive induction pack on appointment to the Board. During the year several Directors engaged in training sessions relevant to the Group's strategy and emerging risks. Please refer the section on "Induction and Training of Directors" on page 114 for more details.	☒

Rule No.	Corporate Governance Principles	Compliance Status
A.2	Separating the business of the Board from the executive responsibilities for management of the Bank	
A.2.1	Divisions of Responsibilities between the Chairman and CEO The posts of Chairman and CEO of the Bank are held by two separate persons and there is a clear division of responsibilities between them thereby maintaining the balance of power between the two roles.	☑
A.3	Chairman's role in preserving good corporate governance	
A.3.1	Conducting Board proceedings in a proper manner The Board approved internal Code of Corporate Governance formally details the role of the Chairman. The Chairman ensures that the affairs of the Board are conducted in an effective manner. He encourages Directors to share their views on matters discussed and ensures the participation of both Executive and Non-Executive Directors thereby maintaining a balance of power between Executive and Non-Executive Directors. The Chairman approved the agenda for each meeting in consultation with the CEO and the Company Secretary and ensured that all Board proceedings were conducted in a proper manner. All Directors are encouraged to seek information considered necessary to discuss matters on the agenda of meetings. The views of Directors on issues under consideration are ascertained and records of such deliberations are reflected in the minutes.	☑
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance	
A.4.1	Financial Acumen and Knowledge The Chairman of the BAC who is an Independent Non-Executive Director is a Fellow Member of the CA Sri Lanka ensuring a sufficiency of financial acumen within the Board on matters of finance. Further, 8 of the 9 Directors have a vast experience on matters of finance	☑
A.5	Board balance	
A.5.1	Board to have a balance of Executive and Non-Executive Directors 8 of the 9 Directors on the Board are Non-Executive Directors. The CEO is the only Executive Director. The Chairman is a Non-Executive Independent Director.	☑
A.5.2 – A.5.5	Board Independence Annual declarations of independence or non-independence have been obtained from the Directors for 2022 with the criteria set out in this Code. Based on the annual declarations, there were 8 Non-Executive Directors on the Board as at 31 December 2022. Of them 6 are independent of management and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. The details of Non-Executive Independent Directors are given in pages 109 and 120 of this report. Accordingly, the number of Independent Non-Executive Directors exceeds two-thirds of the total number of Directors on the Board.	☑
A.5.6	Appointing an Alternate Director Directors appoint Alternate Directors within the rules and Articles of the Bank and the Banking Act as and when required for a particular meeting. An Alternate Director of an Independent Director is also Independent. During the year 2022 an independent director appointed another independent director as his/ her alternate for a meeting.	☑
A.5.7 - A.5.8	Appointment of a Senior Independent Director (SID) The CEO and Chairman are not one and the same person. The Chairman is a Non-Executive Independent Director. As such there is no requirement to appoint a SID.	☑
A.5.9	Chairman to meet only with Non- Executive Directors as necessary and at least once each year As and when needed the Chairman discusses matters related to the Executive Director only in the presence of Non-Executive Directors.	☑
A.5.10	Recording of a dissenting view Dissenting views are recorded in the Board Minutes in detail. Directors' concerns regarding matters which are not resolved unanimously are also recorded in the minutes.	☑

Rule No.	Corporate Governance Principles	Compliance Status
A.6	Supply of Information	
A.6.1 - A.6.2	Provision of providing appropriate and timely information to the Board The Management provides comprehensive information including both quantitative and qualitative information for the monthly Board meetings generally 7 days prior to the Board meetings. Members of The Leadership Team make presentations to Directors on important issues relating to financial performance, strategy, risk management, investment proposals, systems and procedures, where necessary. The Directors also have access to the Management to obtain further information or clarify any concerns they may have. As described above, they also have the right to seek independent professional advice at the Bank's expense.	☑
A.7	Appointments to the Board	
A.7.1 - A.7.2	Ensure Board appointees are fit and proper The Board has established a Nominations Committee to make recommendations on new appointments to the Board. There is in place a Board-approved policy and process for appointments of Directors to the Board. The Nominations committee also assess the Board composition against pre-defined criteria of skills and knowledge to ensure that Board appointees are fit and proper. Please refer page 132 for the report of the Nominations Committee.	☑
A.7.3	Disclosure to shareholders on new appointments to the Board Disclosures are made to shareholders in terms of the Listing Rules issued by the Colombo Stock Exchange (CSE).	☑
A.8	Re-Election	
A.8.1- A.8.2	Re-election of Directors at regular intervals Directors to retire at the Annual General Meeting (AGM): As per the Articles of the Bank, 1/3rd of the Directors (except the CEO, any Director appointed to fill a casual vacancy and any Nominee Director of the Ministry of Finance) should retire at each AGM and be subject to re-election. Such Directors who retire are those who held office for the longest time period since the election/re-appointment. In accordance with this provision, The Nominations Committee in February 2022 has considered and recommended the re-election of Mr. Bernard Sinniah and Mr. Sujeewa Mudalige. Prior to recommending the above re-election/re-appointments of Directors the Nominations Committee considered the fitness and propriety of each Director and made recommendations for re-election.	☑
A.8.3	Resignation of a Director There was only one resignation during 2022. The Bank made the relevant disclosures as required under Section 3(2)(xi) of the CBSL table on page 289 of this report and the Listing rules.	☑
A.9	Appraisal of Board and Committee Performance	
A.9.1 - A.9.4	Self-evaluation process of Board Members & Sub Committees The Board carried out its self-evaluation process in respect of the year 2022. The process is led by the Chairman. All Directors were required to complete a detailed questionnaire. The processes adopted is detailed on page 114 of this report. All Subcommittees also carried out a self-evaluation process in 2023 to determine the effectiveness of their performance in 2022 and to identify areas for improvement which are subsequently discussed at their respective meetings, the minutes of which are submitted to the Board.	☑

Rule No.	Corporate Governance Principles	Compliance Status																						
A.10	Disclosure of Information in Respect of Directors																							
A.10.1	Annual Report to disclose specified information regarding Directors <table><thead><tr><th>Information Required</th><th>Page Reference</th></tr></thead><tbody><tr><td>Name, qualification and brief profile</td><td>24 - 27</td></tr><tr><td>Nature of his/her expertise in the relevant functional areas</td><td>120</td></tr><tr><td>Immediate family and/or material business relationships with other Directors of the Bank</td><td>290 Item 3 (5 (iii))</td></tr><tr><td>Whether Executive, Non-Executive and/or Independent Director</td><td>109 and 120</td></tr><tr><td>Names of listed companies in which the Director concerned serves as a Director</td><td>24 - 27</td></tr><tr><td>Names of other companies or companies in a group in Sri Lanka in which the Director concerned serves as a Director</td><td>24 - 27</td></tr><tr><td>Board meeting attendance</td><td>120</td></tr><tr><td>The total number of Board seats held by each Director</td><td>24 - 27 and 289 Item 3 (3) (ii)</td></tr><tr><td>Board committee served as the Chairman/member</td><td>121</td></tr><tr><td>Committee meeting attendance</td><td>121</td></tr></tbody></table>	Information Required	Page Reference	Name, qualification and brief profile	24 - 27	Nature of his/her expertise in the relevant functional areas	120	Immediate family and/or material business relationships with other Directors of the Bank	290 Item 3 (5 (iii))	Whether Executive, Non-Executive and/or Independent Director	109 and 120	Names of listed companies in which the Director concerned serves as a Director	24 - 27	Names of other companies or companies in a group in Sri Lanka in which the Director concerned serves as a Director	24 - 27	Board meeting attendance	120	The total number of Board seats held by each Director	24 - 27 and 289 Item 3 (3) (ii)	Board committee served as the Chairman/member	121	Committee meeting attendance	121	☑
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A.11	Appraisal of the CEO																							
A. 11.1 - A.11.2	Setting annual targets and the appraisal of the CEO The Board discussed and set financial and non-financial targets to be achieved during the year by the CEO with reference to the short, medium and long term objectives of the Bank at the beginning of 2022. The HRRC/Board will evaluate the performance of the CEO against the goals and targets set for 2022 at the Board meeting scheduled to be held in March 2023.	☑																						
B	Directors' remuneration																							
B.1	Remuneration procedure																							
B.1.1	Establishment of a Remuneration Committee The Board has established a Human Resources and Remuneration Committee (HRRC) to develop policy and determine remuneration for the Directors and KMPs. No Director is involved in deciding his/her own remuneration.	☑																						
B.1.2 - B.1.3	Composition and disclosures of the Remuneration Committee The HRRC consists exclusively of Non-Executive Directors. The Chairman Mr. Sriyan Cooray is an Independent Non-Executive Director. Please refer pages 133 to 134 for the report of the HRRC for more details on the composition and activities carried out by the HRRC for the year 2022.	☑																						
B.1.4	Determination of remuneration for Non-Executive Directors A Board approved Remuneration Policy is in place for Directors and KMPs. Non-Executive Directors are remunerated in line with prevailing regulations and market practices and approvals obtained from the shareholders at the AGM.	☑																						
B.1.5	Seek professional advice The HRRC has access to professional advice from within and external consultants. During the year, the HRRC reviewed the information provided by the Bank's Human Resources Department to determine market and industry trends with regard to remuneration and perquisites for its Senior Management team.	☑																						
B.2	Level and make-up of Remuneration																							
B.2.1	Remuneration for Executive Directors The Executive Director is an ex-officio Director on account of being the CEO of the Bank and as such is not paid any additional remuneration or benefits by virtue of him being an Executive Director. The CEO's remuneration is linked to the Bank's performance as well as his individual performance. The Executive Director does not participate in the HRRC when matters pertaining to his remuneration are discussed.	☑																						
B.2.2	Executive Directors' remuneration The CEO's remuneration is linked to the Bank's performance as well as his individual performance.	☑																						
B.2.3	Positioning the Bank's remuneration levels relative to other companies in the industry The HRRC reviews information relating to remuneration and prerequisites of CEO and Senior Management of the Bank and due care is taken to ensure that remuneration is commensurate with industry standards and both the Bank's and individual performance. Regular salary surveys are carried out and the HRRC is informed of the results of the survey. The Bank took part in several industry and cross industry salary surveys in 2022.	☑																						

Rule No.	Corporate Governance Principles	Compliance Status
B.2.4	Comparison of Remuneration levels with other Companies in the Group Size and scale of the Bank are not comparable with Group Companies.	☒
B.2.5	Performance related remuneration of Executive Directors The goals and targets of the CEO are set at the beginning of the year and cascaded to the rest of the Bank. Executive remuneration and performance bonuses are decided based on achievement of the goals and targets agreed upon.	☒
B.2.6	Employee Share Options An employee share scheme was established in 2016 which was approved by the shareholders in line with the listing rules of the CSE. However no shares were issued under this scheme in 2022. Details are given in the Financial Statements on pages 230 to 231 .	☒
B.2.7	Designing schemes of performance related remuneration No remuneration or benefits are paid to the only Executive Director who is the CEO on account of his Executive Directorship. Please refer pages 133 to 134 for the report of the HRRC for more details on remuneration.	☒
B.2.8 - B.2.9	Early termination of Executive Director Termination of service of the Executive Director will be in accordance with his contract of employment as he is an ex-officio Director.	☒
B.2.10	Levels of remuneration of Non-Executive Directors Non-Executive Directors are remunerated in line with the prevailing regulations and market practices. However they are not entitled to receive any performance-based remuneration which includes shares under the existing Share Option Scheme of the Bank.	☒
B.3	Disclosure of remuneration	
B.3.1	Disclosures related to remuneration in Annual Report Please refer page 124 of the Annual Report for Directors Remuneration. Also refer Note 14 on page 183 of the Financial Statements for aggregate remuneration paid to Executive and Non-Executive Directors.	☒
C	Relations with shareholders	
C.1	Constructive use of the AGM and conduct of General Meetings	
C.1.1	Notice of the AGM The AGM provides a forum for all shareholders to participate in decision making matters reserved for the shareholders. Notice of the AGM is circulated 15 working days in advance with the Annual Report and Accounts. A summary of the procedures governing voting at General Meetings is included on page 373 of this Annual Report.	☒
C.1.2	Separate resolutions for substantially separate issues Separate resolutions are obtained for substantially separate matters to provide shareholders with an opportunity to deal with each significant matter separately. The Annual Report of the Board of Directors and Accounts are laid before the shareholders of the Bank for their consideration as a separate item on the agenda at the AGM.	☒
C.1.3	Valid proxy appointments The Bank has in place an effective mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against each resolution. As a matter of practice, proxy votes together with the votes of shareholders present at the AGM are considered for each resolution and duly recorded in the minutes.	☒
C.1.4	Board subcommittee Chairmans available at AGM The Chairman of the Board functions as the Chairman of the Nominations Committee, Human Resources and Remuneration Committee, Strategic Issues Committee and the Related Party Transactions Review Committee. He ensures that the Chairpersons of the other Board Subcommittees are also present at the AGM to answer all queries that may be raised. The Chairpersons of the Board Subcommittees participated at the AGM held in 2022.	☒
C.1.5	Adequate notice of all meetings to shareholders The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM. Summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to shareholders together with the notice of meeting 15 working days prior to the AGM. The Board encourages all shareholders to actively participate in the AGM. The shareholders may raise any queries they have with the Directors.	☒

Rule No.	Corporate Governance Principles	Compliance Status
C.2	Communication with shareholders	
C.2.1	Effective communication with shareholders The Bank has in place a Communication Policy which sets out many channels of communication to reach all shareholders of the Bank in order to disseminate timely information. The effective communication with shareholders are detailed in Section 3(1)(i)(d) of the CBSL table on page 285 of this report. Also please refer pages 340 to 355 on “Investor Relations” for more details on communication with our shareholders.	☒
C.2.2- C.2.3	Disclosure of the policy and methodology for communication with shareholders and implementation There is in place a Board approved Disclosure Policy and Shareholder Communication Policy that deals with communications with shareholders. Please refer the “corporate governance report” on page 123 for details of the policy and methodology adopted for communication.	☒
C.2.4 – C.2.7	Contact person for communication with shareholders matters and process for Directors awareness of major concerns/issues. Details of the contact personnel are provided in the “Corporate Information” section on page 374 of this Report. In addition, shareholders are encouraged to provide their feedback to the Chairman and/or the Board Secretary. The Bank’s website’s Investor Relations page also carries contact details of the Board Secretary and a dedicated e-mail for investor relations is also provided. The principal forum for shareholders is the AGM, while matters can also be raised through the Company Secretary. The Company Secretary keeps the Board apprised of issues raised by the shareholders to ensure that they are addressed in an appropriate manner keeping in line with the corporate values of the Bank. Matters raised in writing are responded by the Company Secretary in writing. Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as and when necessary.	☒
C.3	Major and material transactions	
C.3.1	Disclosure of major and material transactions During 2022 there were no major transactions as defined by Section 185 of the Companies Act No. 7 of 2007 which materially affected the Bank’s net asset base. Further all material transactions will be disclosed in the Quarterly/Annual Financial Statements as well as the disclosure made to the CSE.	Not Applicable
C.3.2	Disclosure requirements and shareholder approval by special resolution The Bank being a public listed company complies with the disclosure requirements and shareholder approval by special resolution as required by the rules and regulation of the Securities Exchange Commission and by the Colombo Stock Exchange as well as the Companies Act and the Bank’s Articles of Association.	☒
D	Accountability and audit	
D.1	Financial and business reporting	
D.1.1	True, fair, balanced and understandable presentation of Annual Report including Financial Statements with the relevant laws and regulations Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on page 145 in the ‘Statement of Directors’ Responsibilities for Financial Reporting’.	☒
D.1.2.	Balanced and understandable assessment of interim and other price-sensitive public reports to regulators The Board is aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner. A statement to this effect is provided on page 145 of this report. The Interim Accounts and Annual Financial Statements were published in a timely basis in 2022. Regulatory reports were filed by the Bank on or before the due dates in 2022. Price sensitive information was disclosed to the Colombo Stock Exchange on a timely basis in accordance with the Bank’s Board approved Disclosure Policy. The Bank makes every effort to provide a detailed and transparent analysis of strategies, performance and future strategies to support investors in making an informed decision. In addition to the information provided in the reports mentioned above, a summary of the Interim Accounts and a section on understanding our financials in Financial Capital are provided in the Annual Report. Please refer pages 353 to 354 and 58 to 60 of this Report.	☒

Rule No.	Corporate Governance Principles	Compliance Status																										
D.1.3	Declarations by the CEO, CFO and the Board on Financial Statements Please refer the Responsibility Statement of Chief Executive Officer and Vice President/ Chief Financial Officer on page 148 and the Directors' Statement on Internal Control over Financial Reporting on pages 146 to 147.	☒																										
D.1.4	Declarations by the Directors' in the Directors' Report Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on pages 125 to 129 in the 'Annual Report of the Board of Directors on the affairs of the Bank'.	☒																										
D.1.5	Preparation of Financial Statements and reporting responsibilities of auditors The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 146 to 147 and 149 respectively in the Annual Report.	☒																										
D.1.6	Inclusion of a "Management Discussion and Analysis" report in the Annual Report. <table><tr><th>Information Required</th><th>Page Reference</th></tr><tr><td>Business Model</td><td>40 - 41</td></tr><tr><td>Industry structure and developments</td><td>45 - 47</td></tr><tr><td>Opportunities and threats</td><td>45 - 47</td></tr><tr><td>Risk management</td><td>310 - 329</td></tr><tr><td>Internal control systems and their adequacy</td><td>146 -147</td></tr><tr><td>Governance</td><td>108 - 124</td></tr><tr><td>Stakeholder relationships</td><td>42 - 44</td></tr><tr><td>Social and environmental protection activities carried out by the Bank</td><td>88 - 94</td></tr><tr><td>Financial performance</td><td>151 - 276</td></tr><tr><td>Investment in physical and intellectual capital</td><td>80 - 81 and 86 - 87</td></tr><tr><td>Human resources/industrial relations activities carried out by the Bank</td><td>80 - 85</td></tr><tr><td>Prospects for the future</td><td>100</td></tr></table>	Information Required	Page Reference	Business Model	40 - 41	Industry structure and developments	45 - 47	Opportunities and threats	45 - 47	Risk management	310 - 329	Internal control systems and their adequacy	146 -147	Governance	108 - 124	Stakeholder relationships	42 - 44	Social and environmental protection activities carried out by the Bank	88 - 94	Financial performance	151 - 276	Investment in physical and intellectual capital	80 - 81 and 86 - 87	Human resources/industrial relations activities carried out by the Bank	80 - 85	Prospects for the future	100	☒
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D.1.7	Notify serious loss in Net Assets In the unlikely event of the net assets of the Company falling below 50% of shareholders' Funds, the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken. This situation has not arisen during 2022.	☒																										
D.1.8	Disclosure of Related Party Transactions A detailed Board approved documented process is available and has been circulated to all staff through the NDB Cloud for compliance. Accordingly, each related party has submitted signed and dated quarterly declarations in 2022 mentioning whether they have related party transactions with the Bank as required under regulations applicable to the Bank to comply with the disclosure requirements; The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly; A record on related party and related party transactions are maintained by the Bank to capture information to comply with the respective related party disclosure requirements imposed by CBSL/SEC/Accounting Standards/Auditing Standards and similar regulations. Please refer section 3(7) (i) - 3(7) (vii) of the CBSL table on pages 295 to 296 for more details on the process adopted.	☒																										
D.2	Risk management and internal control																											
D.2.1	Annual review of Risk Management and Internal Control systems The Board is responsible for formulating and implementing appropriate and adequate internal control systems. The BAC has responsibility to the Board to ensure that the system of internal controls are sufficient and effective. The Board's Statement on the effectiveness of Bank's Internal Control Mechanism as reviewed by the BAC is presented under the caption "Directors' Statement on Internal Control" in this Annual Report on pages 146 and 147. The Board also reviewed the External Auditor's Assurance Report in this regard, pursuant to the independent audit conducted by them in accordance with Sri Lanka Standards on Assurance Engagement SLSAE 3050-Assurance Report for Banks on Directors' Statement on Internal Control as given in the Annual Report on page 149.	☒																										

Rule No.	Corporate Governance Principles	Compliance Status
D.2.2	Assessment of the principal risks and managing or mitigating the risks The Board is responsible for determining the risk appetite for achieving the strategic objectives and formulates and implements appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Bank. The IRMC assists the Board in the discharge of its duties with regard to risk management and the BAC assists the Board in the discharge of its duties in relation to internal controls. Their responsibilities are summarised in the respective Subcommittee Reports and have been formulated with reference to the requirements of the Code, the Banking Act Direction No. 11 of 2007 on Corporate Governance and the Bank's business needs.	☑
D.2.3	Internal audit function The Bank has a fully-fledged Audit Department over which the BAC has oversight. The BAC reviews the Internal Audit function at regular intervals.	☑
D.2.4	The Audit Committee to review the process and effectiveness of risk management and internal controls, and document to the Board The BAC reviewed the internal controls and procedures at eight meetings held during 2022. The minutes of the BAC meetings are tabled at the meetings of the Board. The Internal Audit Department carries out regular reviews on the internal control system including internal control over financial reporting. The BAC reviews and evaluates the effectiveness of the internal control system including the internal controls over financial reporting. The IRMC reviews processes relating to the risk management framework of the Bank. The BAC Report and the IRMC Report are detailed on pages 138 to 139 and 135 to 137 of this Annual Report.	☑
D.2.5	Maintaining a sound system of internal control and the contents of the Statement of Internal Control Please refer pages 138 to 139 for the BAC Report and refer pages 146 to 147 for Directors' Statement of Compliance on Internal Controls in the manner in which the Board complied with this requirement.	☑
D.3	Board Audit Committee	
D.3.1	Composition of Audit Committee The Board Audit Committee consists of three Non-Executive Directors, majority of who are Independent. The Chairman is an Independent Non-Executive Director who has relevant experience in financial reporting and control. Members are selected to provide a broad set of financial, commercial and other relevant experience to meet the Committee's objectives. Other Members also have financial, commercial and other relevant experience to meet the Committee's objectives.	☑
D.3.2	Terms of reference of the Audit Committee Terms of Reference of the BAC is clearly defined in the Charter of the Board Audit Committee approved by the Board of Directors, which was last revised and updated in February 2022. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with matters pertaining to statutory and regulatory compliance in financial reporting and matters with regard to the External Auditors and Internal Audit.	☑
D.3.3	Disclosures regarding Audit Committee. Please refer pages 138 to 139 of the BAC report	☑
D.4	Related party transactions review committee	
D.4.1	Related party and related party transactions will be as defined in LKAS 24 The Bank has in place a Board approved Related Party Policy which ensures that necessary processes are implemented by the Bank to identify, approve, monitor and disclose related party transactions as required under Corporate Governance Direction No. 11 of 2007 (as amended), Section 9 of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions and identification and disclosure requirements in accordance with LKAS 24.	☑
D.4.2	Composition of the Related Party Transactions Review Committee In terms of Section 9 of the Listing Rules issued by the Colombo Stock Exchange (CSE) the Bank has constituted a Board appointed Related Party Transactions Review (RPTR) Committee. The RPTR Committee consists exclusively of Non-Executive Directors and majority of whom are Independent.	☑

Rule No.	Corporate Governance Principles	Compliance Status
D.4.3	Terms of Reference of the Related Party Transactions Review Committee The Bank has a Board approved TOR and a Board approved Related Party Transactions Policy in place which addresses requirements under this Code.	☒
D.5	Code of business conduct and ethics	
D.5.1	Code of Conduct for Directors and Senior Management The Bank has in place an internally developed Board approved internal Code of Corporate Governance applicable to the Board and Key Management Personnel setting out best practices relating to their business conduct and ethics. In addition the Board approved Compliance Policy and Code of Conduct ensures that the Bank stays ahead of the best practices related to business conduct and ethics. Please refer page 117 of the Corporate Governance Report on this aspect.	☒
D.5.2	Identification and reporting of material and price sensitive information The Bank has in place a Board approved Disclosure Policy which ensures that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations.	☒
D.5.3	Monitoring and disclosure of shares purchased by any Director, KMP or any other employee involved in financial reporting The Bank has in place a Board approved Group Securities Trading Policy which restricts Directors and employees from trading in the NDB share during certain specified blackout periods to ensure that they do not trade based on price sensitive information. Further this policy ensures that there is no speculative trading on the NDB share and a minimum holding requirement. All share trades carried out by the Directors and employees of the Bank are monitored to ensure compliance.	☒
D.5.4	Affirmative declaration by the Chairman of compliance with Code of Business Conduct & Ethics Please refer page 108 of the Bank's Corporate Governance Report where the Chairman has affirmed that there has been no violations of the internal Code of Corporate Governance during 2022 by any of the Directors or any member of The Leadership Team and there have been no material violations of the Compliance Policy and Code of Conduct against the employees of the Bank.	☒
D.6	Corporate governance disclosures	
D.6.1	Disclosure of Corporate Governance The Bank's Corporate Governance practices are in accordance with the Banking Act Direction No. 11 of 2007 (as amended) issued by CBSL, the Code of Best Practice on Corporate Governance 2017 issued by the ICASL as well as the Corporate Governance Rules for Listed Companies issued by the CSE. The requirement is met with the presentation of this Corporate Governance Report from pages 108 to 124 of the Annual Report and its relevant annexures on pages 284 to 309.	☒
Section 2	Shareholders	
E	Institutional investors	
E.1	Shareholder voting	
E.1.1	Encourage voting at AGM All shareholders are encouraged to participate at General Meetings and cast their votes. The AGM is used as an effective channel to create a dialogue between the shareholders and the Board of Directors. Also the Chairman and CEO have regular structured meetings with institutional shareholders. Board members are briefed about the matters discussed at such meetings. Please refer the Investor relations section on pages 340 to 355.	☒
E.2	Evaluating the corporate governance initiatives of the Bank Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.	☒

Rule No.	Corporate Governance Principles	Compliance Status
F.	Other investors	
F.1	Independent advice for decision making when investing or divesting directly in shares of the Bank The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis. The following reports aim to provide a balanced overall assessment of the Bank's activities, performance and prospects. Reflections from the Chairman on pages 17 to 18 CEO's Review on pages 19 to 21 Management Discussion and Analysis on page 58 onwards Annual Financial Statements on pages 151 to 276 Further, Interim Financial Statements provided each quarter, provide sufficient information to enable the Retail Investors to make informed judgments regarding the performance of the Bank. Additionally, there is a separate part of the Bank's website dedicated to Investor Relations which provides this information online to all investors/shareholders.	☒
F.2	Encourage voting by individual shareholders in General Meetings Individual shareholders are encouraged to participate at the General meetings of the Bank and exercise their voting rights.	☒
G.	Internet of Things and Cyber-security	
G.1	Process to identify how in the organisation's business model will mitigate the Cyber-security risks As per the Bank's Information Security Governance structure, the Information Security Unit defines the policies required to control the Bank's information security. IT Department is responsible in implementing required security standards and monitoring the same while escalating any anomalies to the Bank's Senior Management which are then escalated to the IRMC and towards regulatory authorities as defined. As per the Information Security Policy in the Bank, access via external devices access to the Bank's network has been restricted where any exceptional requirement will be approved by the higher management following industry standard security measures.	☒
G.2	Appointment of Chief Information Security Officer (CISO) and Policies for Cyber-security risk management The Bank's Information Security Unit has implemented board approved information security policies and performs periodic reviews in line with regulatory requirements and industry best practices.	☒
G.3	Allocate regular and adequate time on the Board meeting agenda for discussions about cyber-risk management Cyber security risks are discussed at IT Steering Committee as and when required and quarterly at BIRMC as an agenda item of Information Technology Risk and Cyber Risk.	☒
G.4	Independent periodic review and assurance on effectiveness of the Cyber-security risk management In 2022, Vulnerability Assessment, Penetration Testing and a Security review were done by independent industry experts mainly on publicly open services and channels. This will be further expanded in 2023.	☒
G.5	Disclosure of the process to identify and manage Cyber-security risks Please refer page 127 of the Board of Directors report on the affairs of the Bank and page 122 of the Corporate Governance Report which details the process to identify and manage cyber-security risks.	☒
H	Environment, society and governance (ESG)	
H.1.1	ESG reporting Please refer pages 54 to 56 for details	☒
H.1.2	Environmental factors Please refer pages 55 and 95 to 99 for details	☒
H.1.3	Social factors Please refer pages 54 to 56 for details	☒
H.1.4	Governance Please refer page 56 for details	☒
H.1.5	Board's role on ESG factors Please refer page 129 for details	☒

RISK MANAGEMENT

MANAGING RISKS AMIDST A CRISIS – FACING THE UNKNOWN AND UNEXPECTED

In 2022 Sri Lanka experienced unprecedented balance of payments pressure, which plunged the country into the worst socio-economic crisis since independence. The pandemic jeopardised the key engines of the country's economic growth, including domestic demand and the tourism sector, while the subsequent balance of payments crisis had broad-based and ripple effects across the economy.

Key economic and other developments that shaped the Group's risk landscape during the year are summarised below:

Acute shortages in energy supply crippled economic activity, resulting in a contraction of the country's GDP. While the economic contraction led to shrinking revenues, the country had to increase spending to safeguard people from health and energy crisis, inserting further fiscal pressures. As the COVID-19 induced global economic downturn led to a significant fall in the price of Sri Lanka's International Sovereign Bonds and the loss of international market access, the Government was compelled to rely mostly on domestic financing. As the energy crisis exacerbated the need for foreign currency to finance essential imports, the scarcity of available funding sources triggered the depletion of foreign reserves. This, together with overshooting by market

participants following the floating of the Rupee in March 2022, resulted in the collapse of the Sri Lankan Rupee, which in turn fuelled inflation. As forex debt servicing became unfeasible due to the extremely weak foreign currency liquidity position, the Authorities announced Interim Debt Policy in April 2022 to address this situation, whereby Sri Lanka suspended the servicing of affected external public debt obligations.

These dynamics presented unprecedented challenges for banks, with CROs, risk functions and key decision makers being required to navigate their organisations through volatility and extraordinary uncertainty.

DRIVING RESILIENCE

The conditions that prevailed during the year had broad-based impacts on the banking sector, through increased pressure on customers' repayment capabilities, shortage of foreign currency and disruptions to operations stemming from the fuel crisis. In managing these challenges, the Bank proactively sought to adopt a more holistic approach to risk management and strategic decision-making.

Key developments in 2022 are listed below and detailed in subsequent sections of the Report.

MARKET RISK MANAGEMENT

- Proactive monitoring of Interest rate risk & exchange rate risk continuously to ensure positions are maintained within prudential levels
- More intensive stress testing and scenario analysis
- Prudent management of government debt including cut loss measures
- Timely pricing strategies of asset and liabilities
- Review and update broad framework of policies and limits

OPERATIONAL RISK MANAGEMENT

- Stringent security measures and raised staff and customer awareness on avoiding cyber-attacks/ security threats
- Implemented security solutions for the prevention of data leakage and privileged account monitoring
- Close monitoring of potential areas at risk/ revisit the vulnerable processes and strengthen/ introduce new controls as appropriate

LIQUIDITY RISK MANAGEMENT

- Cautious management of net open positions and foreign currency liquidity levels
- Regular cash flow projections
- Strengthening of key liquidity ratios including securing a long-term USD funding line
- Enhanced engagement through ALCO to manage liquidity constraints
- Structural balance sheet management
- Strengthen stress testing and reviewing related parameters and economic triggers

CYBER RISK MANAGEMENT

- Deployment of technical controls to mitigate cyber risks such as multi-layer firewalls, network separation and intrusion prevention systems
- Continuous monitoring & security hardening of online channels & related infrastructure as per industry best practices
- Subscribed to threat intelligent services as a defence at perimeter & host level against emerging threats. (Ex: Sandboxing, IPS/IDS)
- Internal and external penetration tests by employing external service providers

RISK APPETITE FRAMEWORK

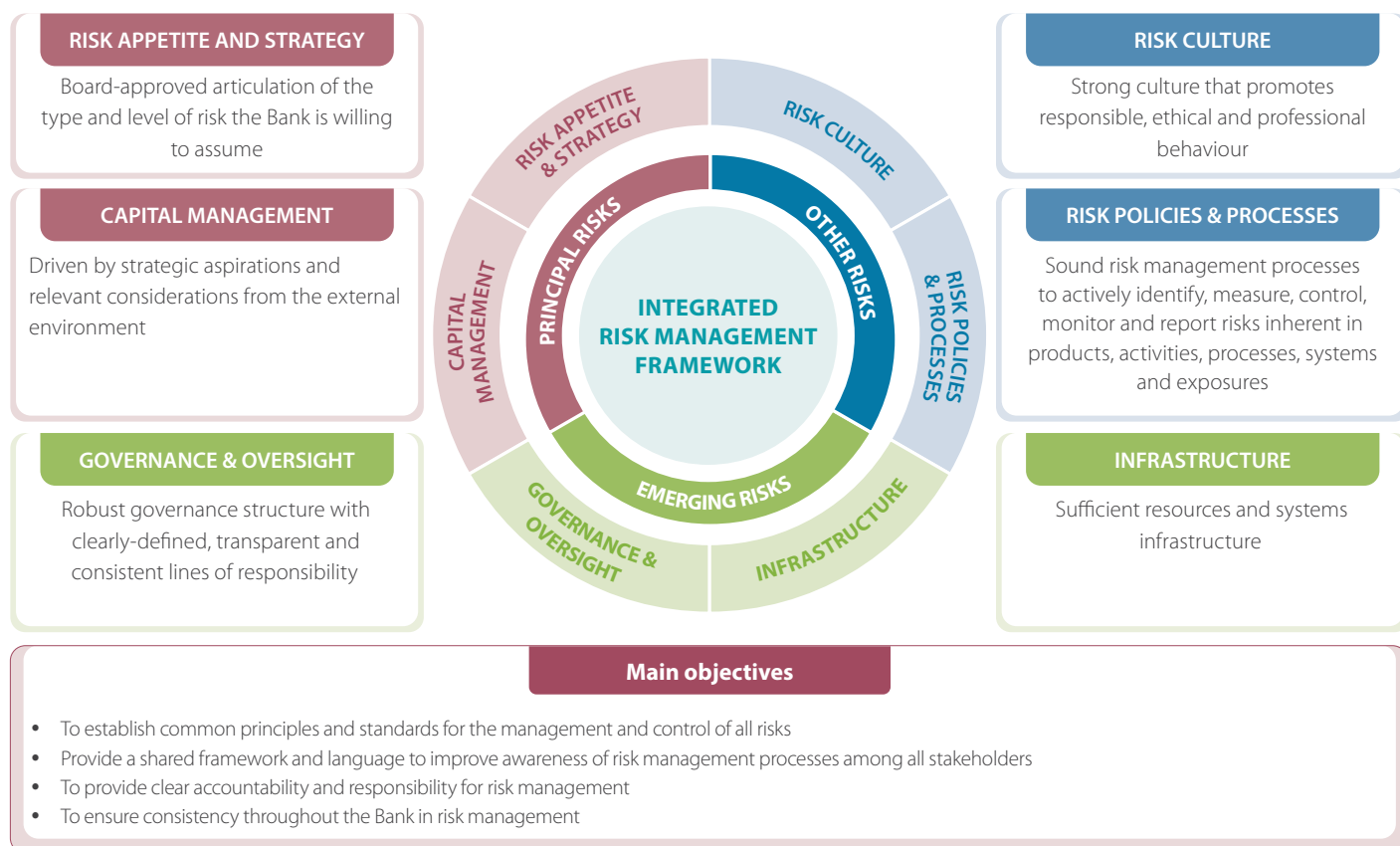
- Inclusion of top-level statements stating the Bank's risk appetite objectives
- Expanding the limit framework for key areas

CREDIT RISK MANAGEMENT

- Establish a dedicated remedial management unit to rehabilitate financially distressed borrowers
- Automation of staging requirements
- Segregation of portfolio into four stress segments and increasing monitoring
- Tightening underwriting standards of retail considering the deteriorating economic environment
- Frequent portfolio reviews in view of emerging conditions
- Continuous monitoring and update to the Board/ IRMC of loans under moratorium on a monthly/ quarterly basis

BANK'S RISK MANAGEMENT APPROACH

The unprecedented challenges during the year necessitated an increasingly robust and forward-looking approach in the management of risks. The Bank's approach to risk management is underpinned by a comprehensive Integrated Risk Management (IRM) Framework, which is regularly reviewed and strengthened to remain relevant in an increasingly dynamic operating landscape. The Board-approved framework clearly defines governance structures and the process for identifying, measuring, monitoring and controlling the Bank's risk exposures. The framework was reviewed and revised during the year, in view of the rapid changes in the operating environment.



RISK UNIVERSE

In addition to the main risks (viz. Credit risk, Market Risk and Operational Risk) the Bank considers several other material risks such as Liquidity Risk, Interest Rate Risk in the Banking Book, Sovereign Risk, Cyber Risk, Underestimation of Credit Risk in Standardised Approach, Residual Credit Risk, Concentration Risk, Compliance Risk, Legal Risk, Strategic Risk, Governance Risk, Cross-border Risk, Settlement Risk, Reputational Risk, Model Risk, Risk in Off Balance Sheet items, Environmental and Social Responsibility Risk and Group Risk. The framework permeates all levels of the organisation and has underpinned the creation of a risk-conscious culture.

The Risk Management narrative set out in the subsequent pages has been structured in accordance with the 6 key elements of the Bank's Integrated Risk Management Framework.

RISK APPETITE & STRATEGY

Risk Appetite is defined as the quantum of risk the Bank is willing to assume in achieving its strategic objectives and ensuring maintenance of the desired risk profile. Bank's risk appetite is twofold. The top level risk appetite statement indicates the objectives that the Bank is trying to achieve, which is followed by the sum of mechanisms linking this top level statement to the firm's day-to-day risk management operations. The Risk Appetite framework and Risk Tolerance limits are defined by the Board in consultation with the management and are articulated through limits or qualitative checkpoints.

The top level statement which is set to guide management and to inform investors about the Bank's risk appetite is given below.

Risk Appetite Statement of NDB

The Bank's risk appetite statement defines the amount of risk we are willing to assume in pursuit of our strategic and financial objectives. The year 2022 presented unprecedented economic, political and social challenges to the Bank's businesses and financial outcomes. We are cognisant of these complexities and have incorporated these concerns to our risk approach and capital planning for year 2022 and beyond and strive to maintain resilience amidst extraordinary macro-economic conditions.

Our guiding principle is to practice sound risk management, supported by optimal capital and funding positions, as we pursue our client focused strategy. In defining our risk appetite, we take into consideration our vision, values, strategy and Corporate Social Responsibility along with our risk capacity (defined by regulatory framework).

Our risk appetite defines how we conduct business in a manner that is consistent with the objectives specified under each risk category.

Credit Risk

We take credit risk primarily in our core activity of lending. We aim to maintain a high quality loan portfolio, while acknowledging that some of our lending involves greater risks arising from external economic factors. The majority of our lending would be domestic. We acknowledge the credit risk in our FCY investment portfolio and strive to manage same at acceptable levels, through appropriate provision cover.

Concentration Risk

We diversify lending across customer groups and industries to avoid excessive risk concentrations.

Market Risk

We consider that Market Risk parameters provide valuable insight in optimising the risk/return to capitalise on market opportunities. The risk and delegated approval parameters ensure that Bank is not exposed to excessive risks and it operates within the pre-defined framework of risk whilst safeguarding and enhancing the shareholder value.

Liquidity Risk

We maintain a liquidity portfolio where a significant majority of the assets are of high quality to support the Bank's operations and liquidity position. Having a sound liquidity position enables us to manage our core activities under severely stressed market conditions.

We diversify borrowings in terms of currencies, maturities, instruments and investor types in order to avoid excessive reliance on individual markets and funding sources.

Interest Rate Risk in the Banking Book (IRRBB)

We manage the IRRBB effectively as the economic value of the banking book positions change with the change in interest rates thereby safeguarding the Bank's capital and earnings.

Operational Risk

We aim to maintain a strong operational risk management framework and use operational risk tools such as Incident/ Loss data management, RCSA, KRI monitoring and scenario analysis to minimise losses at all times. The Bank has a zero tolerance policy to internal fraud and theft, and any significant or high residual exposures shall always be deemed beyond tolerance.

Compliance Risk

We comply with policies, regulations and procedures, in both the letter of law and spirit.

Environmental & Social Risk

We give priority for sustainability, high ethical and social standards, and protection of the environment in our lending operations. We do not finance projects that are undesirable from a sustainability or social standards perspective. This includes potential deterioration of the physical, natural, or cultural environment, the surrounding community, or the health and safety of workers directly resulting from the business activity to be financed.

The Risk appetite framework is aligned to the Bank's overall business strategy and reviewed and updated based on emerging developments thereby, providing clear direction for on-going operations and risk management. In the event of a breach of a risk appetite threshold, risk management strategies and controls are implemented to normalise the exposures to the accepted range.

During the year, the risk appetite of the Bank was reviewed considering the challenges in operating environment and further strengthened by expanding on the top level statement to clearly articulate the objectives in terms to risk appetite and further strengthening the limit framework in order to achieve risk appetite objectives.

CAPITAL MANAGEMENT

Effective capital management through proactively managing the Bank's capital position, capital mix and capital allocation is crucial in protecting the Bank against insolvency while safeguarding the financial position and reputation of the Bank. Bank's approach to capital management is driven by strategic objectives and guided by the BASEL principles.

BASEL III FRAMEWORK

Basel III capital standards endeavour to strengthen the quantity and quality of capital in Banks.

PILLAR I – MINIMUM CAPITAL REQUIREMENT

The objective of minimum capital requirements under Pillar I of the BASEL III framework is to ensure that banks hold sufficient capital for Credit, Market and Operational Risks.

Credit Risk

- Currently using Standardised Approach for Credit Risk minimum capital computation purposes
- Rolled out rating models with the assistance of CRISIL Limited India in 2014
- The internal rating models were validated by KPMG

Market Risk

- Use of Standardised Measurement Approach to compute minimum capital requirement
- Already rolled out its VaR models and will consider moving to advanced approach of capital computation for Market Risk on receipt of guidelines from the regulator

Operational Risk

- Use of the Basic Indicator Approach (BIA) to compute the capital charge
- Alternative Standardised Approach (ASA) is also used

PILLAR II – SUPERVISORY REVIEW PROCESS

The Pillar II (Supervisory Review Process - SRP) requires banks to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP), for assessing capital adequacy in relation to the risk profiles as well as a strategy for maintaining capital levels. The Pillar II also requires the supervisory authorities to subject all banks to an evaluation process/ SRP. The Bank has in place an ICAAP since January 2013 which has strengthened its' risk management practices and capital planning process.

The Bank's capital management objectives can be summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Banks' risk appetite
- Allocate capital to businesses to support the Group's strategic objectives
- Ensure that the Bank maintains capital in order to withstand the impact of potential stress events

The Bank identified twenty one material risks based on directions given by CBSL and self-assessment of most important risk categories which require a separate mention from an ICAAP perspective. These risks are Credit Risk, Market Risk, Operational Risk, Concentration Risk, Interest Rate Risk in Banking Book, Liquidity Risk, Sovereign Risk, Cyber Risk, Under-estimation of Credit Risk, Residual Risk, Strategic Risk, Reputational Risk, Legal Risk, Compliance Risk, Governance Risk, Model Risk, Settlement Risk, Environmental and Social Responsibility Risk, Group Risk, Cross-border Risk and Risks in off balance sheet exposures.

The annual Capital Planning process involves detailed planning of the strategic capital plan over at least a three-year horizon. The plan highlights the capital projections, capital requirements, levels of capital and capital mix to support the Bank's business plan and strategic objectives. The projected capital also takes into consideration the Bank's organic growth. The Bank also has the option to raise capital under normal and stressed scenarios by way of equity/capital infusion, issue of innovative perpetual debt instruments, issue of sub-ordinate bonds or hybrid capital instruments.

Given the unprecedented economic, political and social crisis in the country, raising capital during this period would be a challenge for all banks. Considering the extraordinary circumstances caused by the current macro-economic conditions banks were allowed by the Regulator to draw down on the capital conservation buffers built over the years to absorb unexpected losses during this challenging time.

Bank would continue to focus on efficient capital and balance sheet management. Capital retention would happen through profit capitalisation and based on the Bank's dividend policy. Further, in Jan 2023, Bank announced to the Colombo Stock Exchange its plan to raise up to a maximum of Rs. 10 billion within a year from the date of obtaining shareholder approval via a BASEL III compliant debenture issue.

STRESS TESTING

The Bank's comprehensive stress testing policy has been formulated in line with regulatory guidelines and global best practices. Stress tests are conducted at various frequencies in line with the Board approved framework and results are reported to Board. Considering the

changes in the operating environment, the Bank carried out a comprehensive review of its stress testing policy and framework where the adequacy of stress tests, frequency, shock levels and assumptions were critically reviewed and changes were incorporated to policy and framework as required. Reverse stress testing is also included in stress testing policy and framework to overcome the possibility of a false sense of security that might arise from regular stress testing in which Bank may identify manageable impacts. The outcome of stress testing process is proactively monitored and remedial actions taken in case of breaches. Bank also carried out certain adhoc stress tests to understand the impact of specific scenarios on capital adequacy/ liquidity given the challenges.

The Stress Tests carried out as at 31.12.2022 are given below.

Credit Risk

- Impact of increase in the Non-Performing Assets on Capital Adequacy Ratio (CAR)
- Impact of default of large borrowers on CAR

Credit Concentration Risk

- Impact of default by the largest Group on CAR
- Impact of default in specific sector/ region on CAR

Interest Rate Risk

- Impact of change in Interest Rates - Trading Book (Debt Securities)
- Impact of change in Interest Rates on CAR for Banking Book
- Impact of change in Interest Rates of Sovereign Bonds on CAR

Exchange Rate Risk

- Impact of Exchange Rate movements of Banks (DBU and FCBU) Net Open Position on CAR
- Impact of Exchange Rate movements of Domestic Banking Unit (DBU) Net Open Position on profits
- Impact of Exchange Rate movements of Forex Trading on CAR

Liquidity Risk

- Market Specific Stress Test - Adverse impact on Money Market & Institutional Borrowings/ Drop in Market Liquidity - on Liquid Asset Ratio (LAR)
- Bank Specific - Run down on CASA & Time Deposits - on LAR
- Market/ Bank Specific - Adverse Impact on Total Liquid Liabilities - on LAR
- Impact of loss of large depositors on LAR
- Impact of exchange rate movement on LAR - DBU
- Impact of funding cost on balance sheet mismatches on CAR
- Impact on CAR due to higher interest paid in a deposit run off scenario

Adhoc Stress Tests

- Impact of additional Impairment on International Sovereign Bonds and Sri Lanka Development Bonds on CAR
- Impact of LKR depreciation on CAR

Reverse Stress Tests

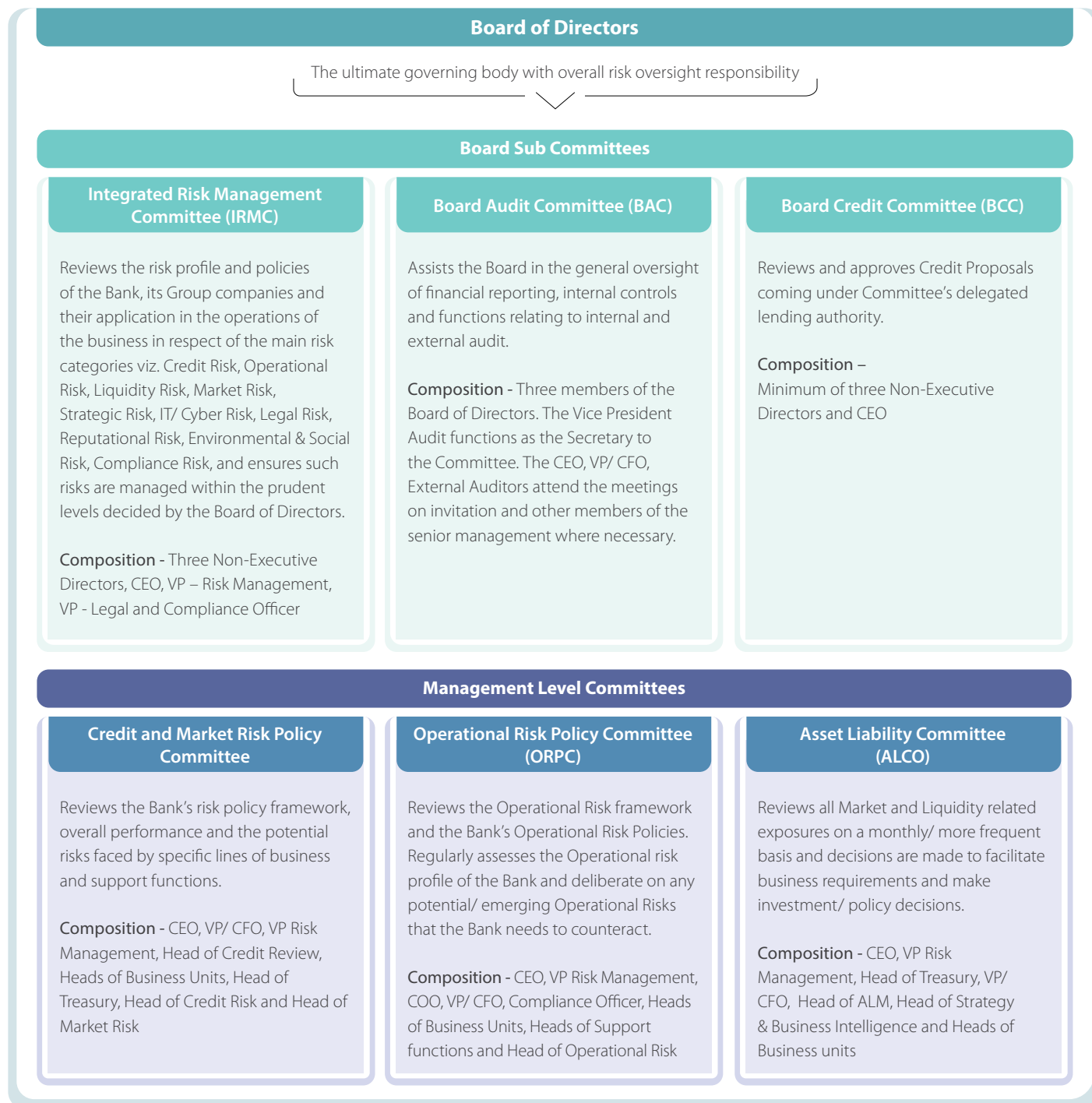
- Reverse Stress Testing on CAR
- Reverse Stress Testing on LAR

PILLAR III – DISCLOSURES

Bank provides enhanced quantitative and qualitative disclosures in line with the BASEL III requirements in Annual Report, website and press to provide a meaningful assessment of the extent and nature of various risks that the Bank is exposed to and the efficiency of Banks' risk management practices.

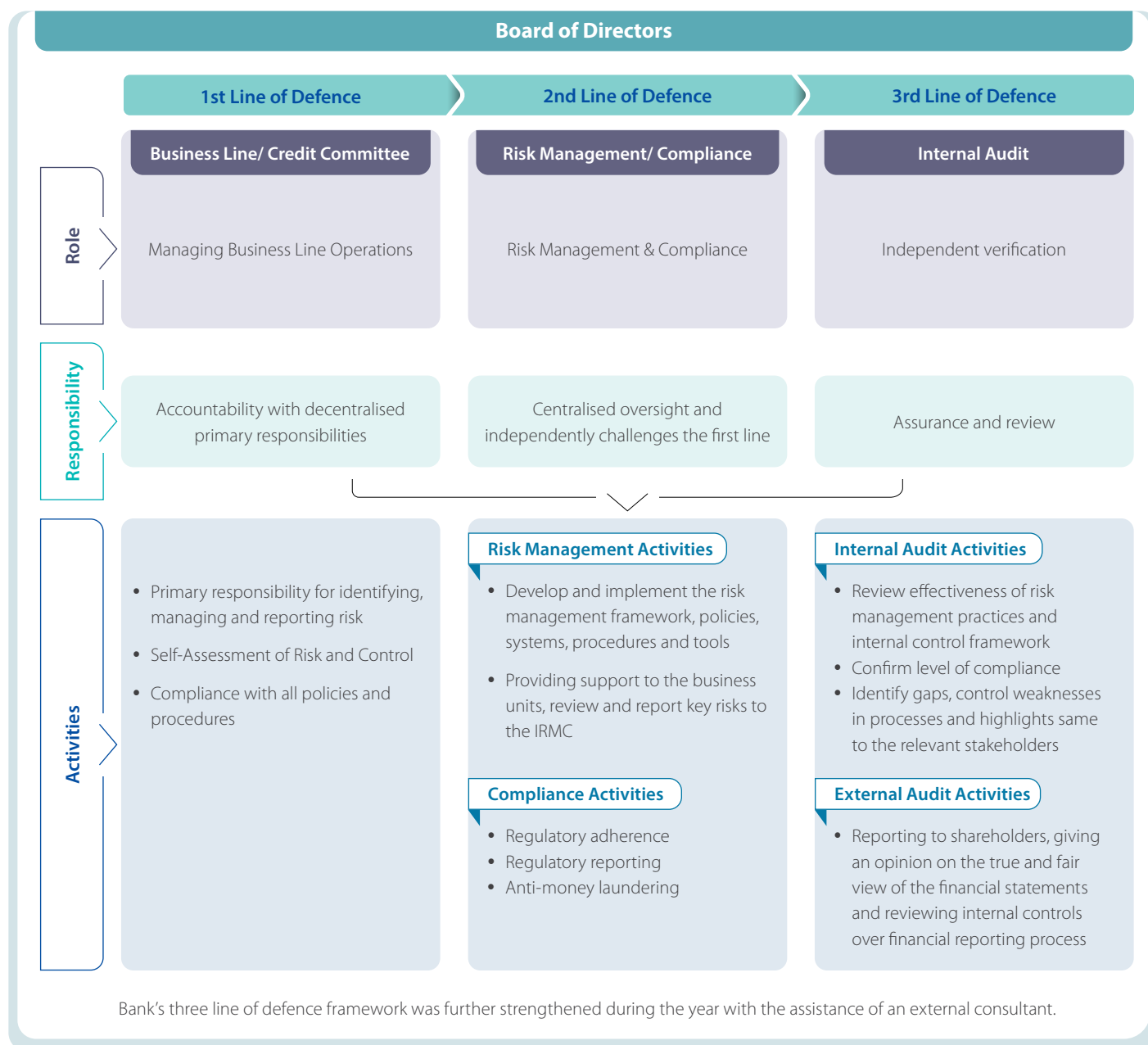
GOVERNANCE AND OVERSIGHT

The Bank's Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. In discharging its risk-related responsibilities, it is supported by two key committees, namely the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) which have been formed in compliance with the CBSL Direction No. 11 of 2007 on Corporate Governance.



GOVERNANCE STRUCTURE

The risk governance structure ensures accountability and ownership, whilst facilitating an appropriate level of independence and segregation of duties. The structure is based on the three lines of defence and defines the lines of authority, roles and responsibilities to efficiently manage risk across the Bank. The activities carried out during the year by the above mentioned Board Sub-committees is covered in detail in the Board Sub-committee Reports.



RISK MANAGEMENT DIVISION

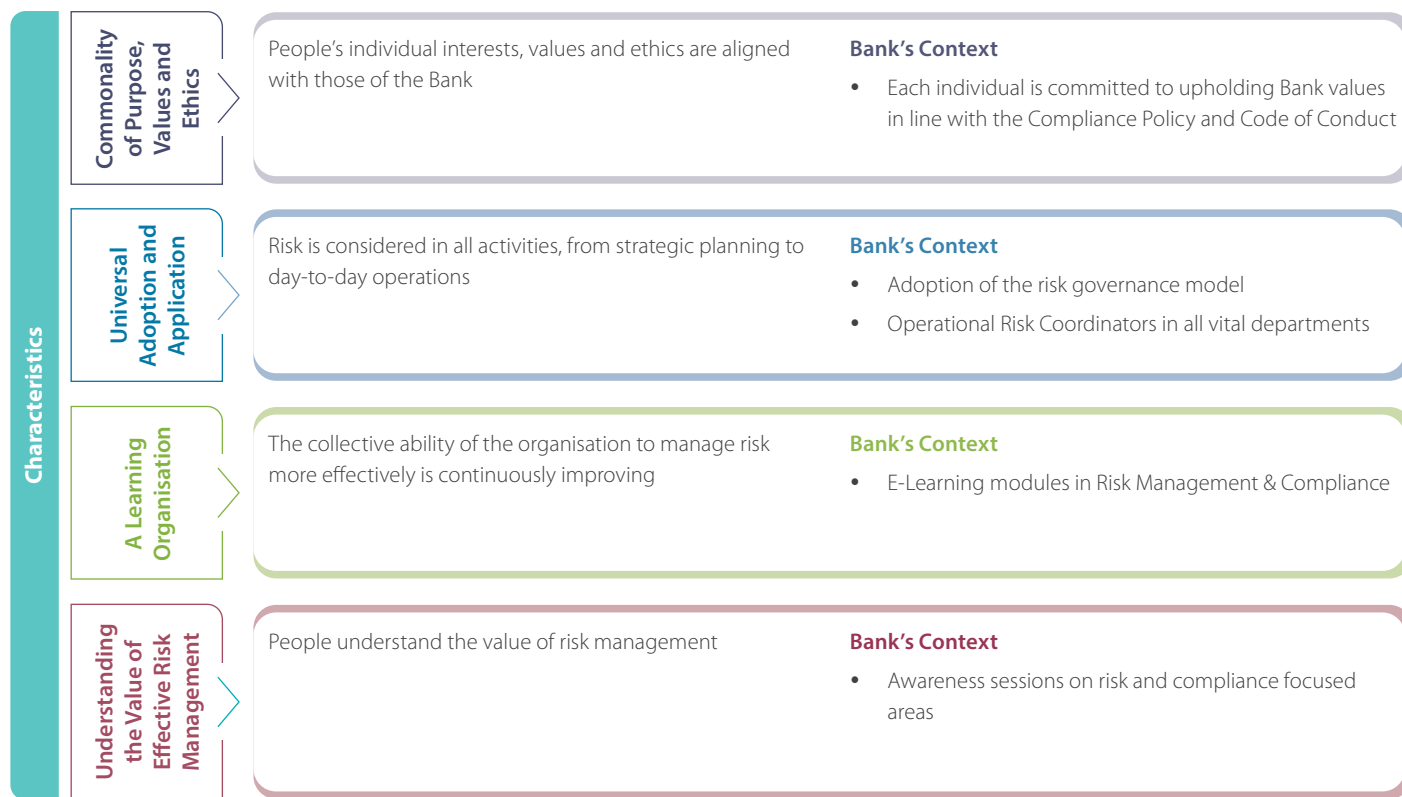
The Bank's Risk Management Division is independent of the business units and profit targets and reports directly to the Integrated Risk Management Committee. Each unit within the Risk Division contributes to the management of risk and co-ordinates with business functions to ensure that risk considerations are proactively integrated into the Bank's culture.

Further, the Loan Review unit within the Risk Management Division carries out Loan Review Mechanism (LRM) activities as prescribed by the regulator. Its responsibilities extend to identifying potential problematic loans/ facilities (post approval/ granting) and providing rational, objective and professional recommendations for remedial action for implementation by

line management. In order to ensure the independence and to strengthen the pre-approval process the Credit Review Division which handles the pre credit review/ approvals was taken under the Risk Management Division.

RISK CULTURE

A culture of risk awareness is fundamental to the effective management of risks within the Bank and serves as the foundation upon which a strong risk management structure is built. The Bank's commitment is clearly demonstrated through the establishment of strong policies and guidelines and ensuring that non-compliance risks are effectively managed. The key characteristics of a strong risk culture are identified as follows:



RISK POLICIES & PROCESSES

CREDIT RISK

Definition: Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, and from off-balance sheet products such as letters of credit and guarantees. As the Bank's most significant risk exposure, credit risk generates the largest regulatory capital requirement.

OBJECTIVES OF CREDIT RISK MANAGEMENT

The objectives of Credit Risk Management are:

- Ensure optimal risk-reward pay-off for the Bank to maximise returns
- Maintain the quality of the portfolio by minimising the non-performing loans and probable losses
- Maintain a well-diversified portfolio by prudently managing the risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimised

- Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines
- Avoid all situations of conflict of interest and report all insider-related credits to appropriate bodies

Key Developments in 2022 included the following:

- In November 2022, the Bank set up a dedicated Remedial Management Unit under the purview of the Risk Management Division with the strategic objective of preserving financially distressed or sick borrowers, businesses (with viable business plans for revival) in order to minimise losses to the Bank by providing orderly coordinated, timely and pre-emptive rehabilitation solutions enabling such borrowers/ businesses to finally become competitive and productive
- Segregation of the portfolio into four stress segments, i.e. Minimal Stress, Short Term Stress, Medium Term Stress and Long Term Stress, to have a more focused

approach to managing portfolio stresses. Multiple quantitative as well as qualitative factors such as sector GDP contribution, Industry vs Bank NPL, estimated recovery time, changes in government policies etc. were used in arriving at the stress sectors

- Lending to clients in Long Term Stressed sectors were curtailed whilst delegated lending authority levels required for lending to clients in Medium Term Stressed sectors were increased. The stressed sectors were reviewed on a quarterly basis and business lines were accordingly guided through internal circulars
- Leveraged the strong watch listing process for identification and monitoring of stressed accounts. Stressed clients are closely monitored to understand their plans for recovery and customised solutions are offered to safeguard both the client and the Bank. The Board directly reviews quarterly management reports on Non-Performing Loans
- Staging requirements were automated in line with SLFRS 9 with the implementation of core banking system

CREDIT PROCESS

1

A WELL-DEFINED CREDIT POLICY APPROVED BY THE BOARD OF DIRECTORS

- Set the credit culture of the Bank
- Specify target markets for lending
- Specify prohibited lending
- Set acceptable risk parameters
- Set remedial and recovery actions

2

STRUCTURED AND STANDARDISED CREDIT APPROVAL

- Credit is extended only to suitable and well-identified customers
- The primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements
- Adopt a pricing mechanism that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns
- The financial performance of borrowers is to be continuously monitored and frequently reviewed

3

DELEGATION OF AUTHORITY

- Three Credit Committees representing the Business Lines
- The delegated authority limits are reviewed periodically and the Bank follows the four-eye principle
- Lending decisions are based on detailed credit evaluation

5

RISK PRICING

- Price the credit risk using scientific methods

4

RISK RATING

- System driven obligor risk rating, facility risk rating and retail score cards to suit the diverse client portfolios of the Bank
- Incorporating both quantitative and qualitative parameters

6

POST SANCTION REVIEW AND MONITORING

- Warning signals are identified
- Watch listing process
- Non-performing assets are identified at an early stage

7

PRUDENTIAL LIMITS

- Maximum exposure limits on;
- Single Borrower/ Group Exposures
 - Prudential Group Exposure Limits
 - Substantial Exposures
 - Industry/ Economic Sector Limits
 - Cross-border/ Country Exposure Limits

8

PORTFOLIO MANAGEMENT

- Evaluates exposures on the basis of industry concentration, rating quality, internally established pre specified early warning indicators
- Regular portfolio reviews, stress tests and scenario analysis
- The exposures in off balance sheet products are treated with utmost care
- Rapid portfolio reviews in case of any geopolitical or natural disaster events

9

CREDIT RISK MITIGATION

- Ways out analysis
- Comprehensive and legally enforceable documentation of credit transactions
- Obtaining of collateral in line with the Bank's policy and ensuring enforceability

10

IMPAIRMENT

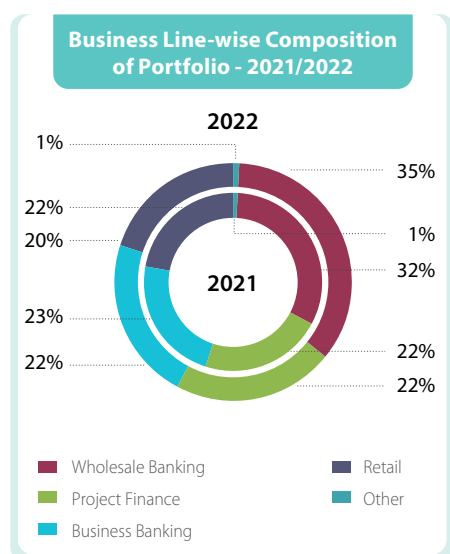
- Board approved policy
- Clearly defined process
- Impairment based on Expected Credit Loss

PORTFOLIO AT A GLANCE

Credit Risk Exposure – 31 December 2022

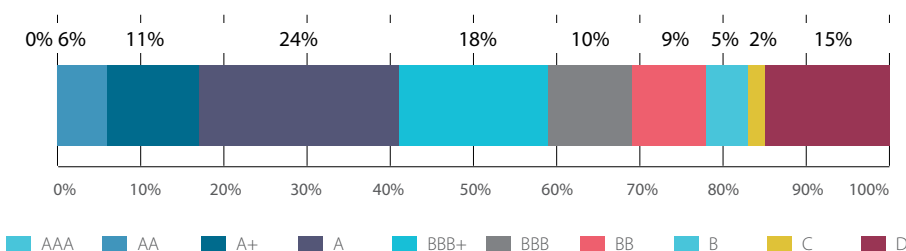
	On-Balance Sheet Exposure (LKR '000)	Off-Balance Sheet Exposure (LKR '000)	Total Exposure (LKR '000)	Individual Impairment (LKR '000)	Collective Impairment (LKR '000)	Net exposure (LKR '000)
Financial investments	219,565,233	-	219,565,233	255,344	20,258,290	199,051,599
Loans and Receivables to Other Customers	579,560,964	293,609,754	873,170,718	21,736,659	13,320,163	838,113,896

Business Segment wise Composition



Bank managed portfolio growth cautiously during the year due to stresses in operating environment. The growth in Wholesale banking portfolio composition from 32% to 35% over the year is mainly attributed to the depreciation of local currency as a significant portion of Wholesale banking portfolio is in foreign currency.

Rated Portfolio Concentration



Rated portfolio composition also reflected the impact of economic downturn. 68% of Bank's rated portfolio was in investment grade as at year end.

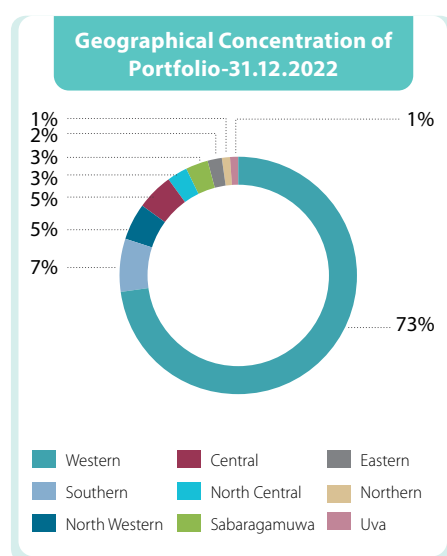
Group/ Single Borrower Concentration

- Bank was in compliance with regulatory limits and internal limits set by the Board on Group/ Single Borrower concentrations which are more stringent than those prescribed by the regulator
- The aggregate of the substantial exposures of the Bank accounted for only 157% of the capital base and was well within the internal limit

Sector Concentration

Bank maintained a well-diversified portfolio with no over concentration to any particular sector. Sector concentrations were managed carefully during the year considering the stresses seen in certain sectors. Bank was also in compliance with the minimum lending requirement of 10% to Agricultural sector.

Geographical concentration



Based on Sri Lanka's economic activity, the highest concentration of domestic portfolio was in the Western Province with a contribution of 73% during the year.

NPL and Impairment

Bank's Impairment (Stage 3) to Stage 3 Loans Ratio increased to 37.44% (2021: 32.81%) whilst Impaired loans (Stage 3) Ratio stood at 6.24%. Significant increase in impairment was seen in the year affected by macro-economic shocks. Bank's Rs. 29.3 Bn impairment charges were on account of exposure to foreign currency denominated government securities and the Bank's loan book. The former comprised the greater portion of impairment, factoring in the revisions to the sovereign rating of the country to Restricted Default in May 2022 on account of the country's debt restructuring measures and the impact arising from rupee depreciation.

Exposures under Moratorium/ Concessions

Concessions under various moratorium schemes based on CBSL Circular No. 08 of 2021 and CBSL Circular No. 10 of 2021 aimed at supporting businesses and individuals affected by COVID-19 pandemic including the tourism sector ended on 31 December 2021 and 30 June 2022. During the third quarter of 2022, the Bank granted concessions to businesses and individuals in various economic sectors based on the CBSL Circular No. 02 of 2022 with a view to meeting challenges faced due to the prevailing extraordinary macroeconomic circumstances.

MARKET RISK

Definition: Market risk is the risk to earnings or capital due to changes in market driven variables that affect the value of trading and accrual positions. Bank's portfolios are exposed to these variables and correlations in varying magnitudes.

Market risk categories

Key Market risk category	Risk component	Description	Measurement tools	Severity	Impact	Probability
Interest rate		Risk of loss arising from movements or volatility in interest rates				
	Re-pricing	Holding assets and liabilities and off-balance sheet positions with different principal amounts, maturity dates or re-pricing dates, which creates exposure to Interest rate changes.	Re-pricing gaps and Interest rate sensitivity limits	Moderate	Major	Likely
	Yield curve	Arises when unanticipated shifts occur in the slope and the shape of the yield curves.	Rate shocks, VaR (Value at Risk) analysis, Duration, holding period limit, PVBP analysis, Price sensitivity and MIS reports	Moderate	Major	Likely
	Basis	Differences in the relative movement of rate indices that are used to price instruments with similar characteristics	Rate shocks, VaR analysis and MIS reports	Moderate	Major	Likely
Foreign exchange		Risk of losses arising from the movements in foreign exchange rates by holding foreign currency denominated assets and liabilities with different currencies and maturities.	Regulatory Net Open Position (NOP) limit, individual and aggregate currency exposure limits, VaR analysis, gap limits, scenario analysis, stress testing and stop loss limits	Moderate	Major	Likely
Equity		Possible losses arising out of prices or volatilities in individual equities	Mark to Market calculations	Low	Minor	Possible
Commodity		Exposure to changes in prices and volatilities of individual commodities		Low	Minor	Possible

Market risk arises mainly from interest rate risk and Foreign Exchange risk, where non-trading portfolio (Banking Book) which accounted for 90% of the total assets and 93% of total liabilities excluding shareholder funds. The Bank had a negligible exposure to equity risk and was insensitive to commodity related price risk.

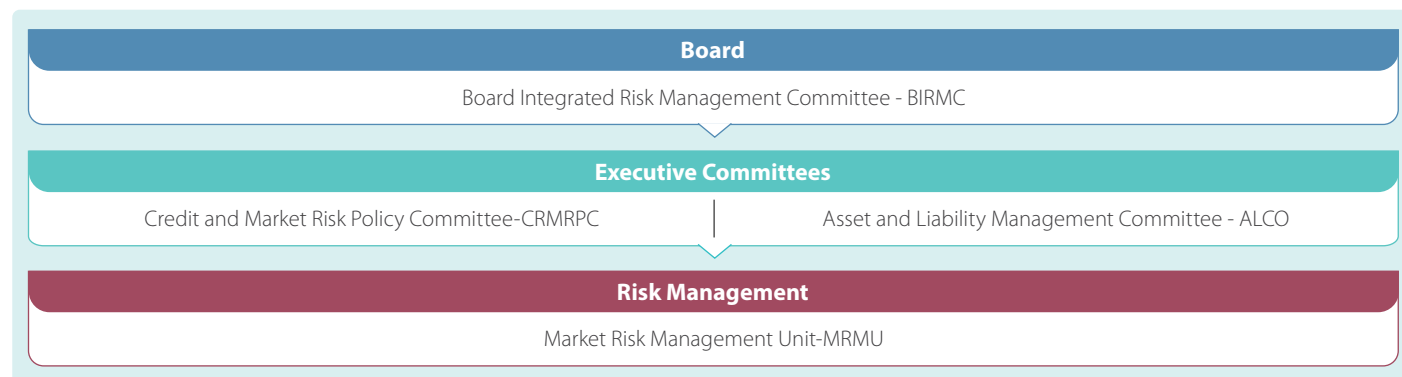
The market risk exposure by trading and non-trading portfolios of the Bank is set out in the table below.

as at 31 December 2022	Market risk measurement		
	Carrying amount LKR '000	Trading book LKR '000	Non-trading book LKR '000
Assets subject to market risk			
Cash and cash equivalents	295,246		295,246
Balances with the Central Bank of Sri Lanka	18,187,547		18,187,547
Placements with banks	4,108,989		4,108,989
Derivative Financial Instruments	7,909,252	7,909,252	
Financial assets recognised through profit or loss measured at fair value	19,318,483	19,318,483	
Financial assets at amortised cost -loans and receivables to other customers	545,873,027		545,873,027
Financial assets at amortised cost - debt and other instruments	135,047,886		135,047,886
Financial assets measured at fair value through other comprehensive income	44,685,230		44,685,230
Total	775,425,660	27,227,735	748,197,925
Liabilities subject to market risk			
Due to Banks	20,251,657		20,251,657
Derivative Financial Instruments	96,246	96,246	
Financial Liabilities at amortised cost -due to depositors	630,989,676		630,989,676
Financial Liabilities at amortised cost			
- due to debt securities holders	130,541		130,541
- due to other borrowers	32,372,265		32,372,265
Debt securities issued	27,979,631		27,979,631
Total	711,820,016	96,246	711,723,770

OBJECTIVES OF MARKET RISK MANAGEMENT

Ensure that business units optimise the risk-reward relationship within the Bank's pre-defined risk appetite and avoid exposing the Bank to unacceptable losses. Identify, assess, control and report market risks to ensure that the Bank operates within the allocated risk appetite levels.

Market and Liquidity risk governance structure



POLICY FRAMEWORK

Risk monitoring is guided by a well-defined policy framework and limit structure, covering Market, Liquidity, Asset and Liability risk management aligned to the Bank's business model, balance sheet and risk appetite. The Board supported by IRMC approves the risk parameters as recommended by ALCO and MRMU.

PROCESSES

The market risk management process (as set out below) provides guidance on the procedure for market risk management within the overall risk appetite of the Bank. The implementation of the Bank's risk management policies, procedures and systems are delegated to the Head of Market Risk & Treasury Middle Office who reports to the Chief Risk Officer.

Policy Formulation	Risk measurement methodologies	Risk reporting and communication	Systems and controls
Policy formulation/ renewal are carried out considering the regulatory guidelines, best practices and material changes in risk management/ limit monitoring process	- Risk monitoring pertains to Market Risk & Treasury Middle Office are assessed - Limits are assessed and recommended to ALCO/ Board approval. All limits in force will be independently monitored by MRMU on pre-defined time bands	Risks and exposures are monitored and reported to the senior management/ board for necessary action	Implementation of management reporting systems to accurately reflect the risks taken by the Bank. Develop, implement and review the controls Risk and Control Self Assessments(RCSA) that enforce the adherence to established risk limits

Market Risk Analytics in 2022

Foreign Exchange Risk

- Implemented comprehensive measures to manage foreign exchange risk arising on individual & aggregate currency exposures within the regulatory limits.
- Adoption of prudential risk tolerance limits on Forex exposures, stress testing, scenario, VaR analysis and hedging strategies which enabled the Bank to effectively manage its foreign exchange risk exposure.

The table below shows the Bank's consolidated foreign exchange position and the exposure held against the Bank's capital base which is managed well within the regulatory limit of 30%.

Bank's exposure to FX risk

Currency	Overall exposure in respective foreign currency '000	Overall exposure Absolute LKR '000
US Dollars	(3,626)	1,330,724
Pound Sterling	(11)	4,953
Euro	(282)	110,360
Japanese Yen	(2,552)	7,065
Australian Dollar	(37)	9,206
Canadian Dollar	3	750
Other currencies (in USD)	(760)	509,441
Total exposure (in LKR)		1,972,499
Total capital funds as at 31 December 2022		63,535,863
Total exposure as a % of total capital funds		3.10%

Value at Risk (VaR)

In accordance with the BASEL guidelines the Bank's Foreign exchange trading portfolio is subject to VaR measurement on historical simulation on a daily basis, with the objective of measuring the maximum potential loss due to holding of an Investment/ Position in the Bank's trading book. The Bank did not carry a trading portfolio as at 31st December 2022.

Stress testing on DBU net open position (NOP)

Stress testing on DBU- NOP under different magnitudes of shocks to the exchange rate are performed to assess the impact on profitability as given below.

Bank's foreign currency DBU net open position and stress test results as at 31 December 2022

USD/LKR

	Net Open Position	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Magnitude of shock (adverse)		5%	10%	15%	25%
Spot rate movement	367.00	385.35	403.70	422.05	458.75
Net open position-DBU(USD)/ Stress P&L (LKR)	(6,646,254)	(121,958,766)	(243,917,532)	(365,876,298)	(609,793,830)

Sensitivity analysis

The Bank's major foreign currency net open positions (NOP) are subject to daily sensitivity analysis to determine the impact of exchange rate movements by way of profit or loss to the Bank's Income Statement.

Exchange Rate Sensitivity of Major Foreign Currency Net Open Positions as at 31 December 2022

Spot rate shocks		LKR depreciate			Spot rate	LKR appreciate		
Currency	Net open position	-5%	-2.5%	-1%		1%	2.50%	5%
USD	(3,625,951)	(66,536,205)	(33,268,103)	(13,307,241)	367.00	13,307,241	33,268,103	66,536,205
GBP	(11,199)	(248,212)	(124,106)	(49,642)	443.28	49,642	124,106	248,212
EUR	(282,130)	(5,540,524)	(2,770,262)	(1,108,105)	392.76	1,108,105	2,770,262	5,540,524
JPY	(2,552,050)	(357,577)	(178,789)	(71,515)	2.80	71,515	178,789	357,577
AUD	(37,010)	(462,387)	(231,194)	(92,477)	249.87	92,477	231,194	462,387
Total		(73,144,906)	(36,572,453)	(14,628,981)		14,628,981	36,572,453	73,144,906

Interest Rate Risk (IRR)

Assets in the Bank's trading book are held primarily for generating profits through short term differences in prices/yields while the banking book comprises interest earning assets and interest-bearing liabilities and off-balance sheet items, which are contracted basically for steady income generation and are generally held till maturity. Thus, the Bank assesses the price risk in the trading book, whilst the earnings or economic value changes are monitored in the banking book.

INTEREST RATE RISK IN TRADING BOOK

	Position as at 31 December 2022	Position as at 31 December 2021
Mark to market of Financial Assets measured at fair value through profit or loss	LKR (28.16) Mn	-
Mark to market of Financial Assets measured at fair value through Other Comprehensive Income	LKR 368.85 Mn	LKR (2,052) Mn
Duration of debt securities -Financial Assets measured at fair value through profit & loss	0.51 Years	-
Duration of debt securities -Financial Assets measured at fair value through Other Comprehensive Income	1.13 Years	0.59 Years

The Bank's Fixed Income securities portfolio is subject to VaR measurement under historical simulation method on a daily basis and the portfolios are managed at prudent levels.

	As at 31 December 2022	As at 31 December 2021
Debt securities - Financial Assets measured at fair value through profit or loss	30.22	-
Debt securities - Financial Assets measured at fair value through Other Comprehensive Income	123.91	34.69

Historical approach , 1 day holding period, at 99% confidence, 250 historical data

Interest Rate Risk in the Banking Book (IRRBB)

The IRRBB arises mainly through non-trading asset and liabilities such as loans and receivables, which is measured and managed through price sensitivity /EVE (Economic value of Equity) NII and interest rate sensitivity gap analysis. The price sensitivity/ Duration analysis (Economic value perspective) of the Balance Sheet is managed within the risk parameters whilst maximising the market potential on interest sensitive assets and liabilities. During the year, the Bank's net interest margin improved to 4% from 3.25% in 2021.

Price Sensitivity of assets and liabilities	LKR Mn	
	Price sensitivity 2022	Price sensitivity 2021
Average for the year	506	583
Maximum for the year	1,217	1,042
Minimum for the year	14	61

Price Sensitivity - sum of value change in portfolio due to a 1% change in interest rate

Interest Rate Sensitivity Gap Analysis

The Bank monitors the interest rate sensitivity of assets and liabilities using re-pricing gap report (Disclosure note No 56.4 (a)(ii)).

Equity Risk

The Equity price risk arises due to adverse movement in the value of the individual stock price or equity index. The Bank does not engage in equity trading at present however the investments held in the Fair value through OCI portfolio are subject to mark to market valuation.

Type	Carrying Value	Fair Value	Realised gains/ losses	Unrealised gains or losses	LKR 000'	
					Amount included in capital adequacy calculation	
					Amount adjusted from CET 1 capital	Amount considered for Market Risk
Financial Assets measured at fair value through profit or loss *	-	-	(365,514)	-	-	-
Financial Assets measured at fair value through Other Comprehensive Income	2,086,589	785,657	-	(1,300,932)	284,715	-

* No outstanding Portfolio as at 31.12.2022

Commodity Risk

Commodity price risk arises due to volatilities in the commodity exposure of the Bank. The Commodity exposures are limited to Gold loan and Pawning portfolio as no Commodity trading activities are performed by the Bank.

Interbank Counterparty Risk

When undertaking foreign exchange dealing and trading with interbank counterparts and corporates, two general types of risks arise.

- Pre-settlement Risk. - Refers to the counterpart becoming insolvent prior to the settlement date of transaction. The exposure comes by way of bank's inability to find an alternate party to deal on same rates (interest or exchange) due to market changes.
- Settlement Risk.- Relates to the event where the counterpart to the deal is unable to honour settlement obligations to the bank after having taken possession of funds paid by the bank in settlement.

The Bank sets individual counterpart limits and maximum daily delivery limits (MDDR limits) to mitigate above risks. Policies, procedures and a limit structure are in place to monitor bank counterparties considering the financial/ economic performance at frequent intervals. Counterparty limits were recalibrated to capture the economic crisis impact capturing the revised risk landscape.

LIQUIDITY RISK

Definition: Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner without incurring unacceptable losses. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of borrowings under securities and repurchase transactions, lending and investment commitments. Further the Banks are exposed to liquidity risk by the mismatches on maturities of assets and liabilities.

OBJECTIVES OF LIQUIDITY RISK MANAGEMENT

The objective of our liquidity framework is to ensure that all anticipated funding commitments can be met as and when due whilst maintaining the business profile. It is designed to be adaptable to changing business models, market dynamics and regulations.

POLICY FRAMEWORK

The Bank's well-articulated liquidity risk management policies and procedures provide guidance on liquidity risk exposures and business volumes which ensures that it has sufficient liquidity to meet its financial obligations at a fair market price. The Bank also monitors key liquidity metrics on a regular basis by measurement approaches through prudent limits, stress testing methodologies and contingency funding arrangements.

PROCESS

Liquidly Risk governance structure: The responsibility for Liquidity risk management rests with the ALCO while Treasury/ALM units are responsible for executing the day-to-day liquidity management.

The Bank is also equipped with a comprehensive Liquidity Contingency Funding Plan (LCFP) linked to the Business Continuity Plan in line with the regulatory guidelines. The LCFP clearly defines the responsibilities of the Liquidity Management Team, Internal/external liquidity risk trigger points, stage for plan invocation/ de-activation and the action plans to be exercised to ensure that all stakeholders of the Bank are safeguarded. In addition, the Bank has entered in to a reciprocal liquidity funding agreement with an identified counterpart bank to ensure stability.

Liquidity Risk Analytics

Liquidity is measured through Stock approach or Flow approach. The stock approach utilises key ratios which portray the liquidity levels in the balance sheet while the flow approach is based on a statement of maturities of assets and liabilities in time bands according to the residual time to maturity. Separate gap limits are set for the local currency and foreign currency maturity mismatches based on the size and the nature of the Bank's balance sheet.

Limits are set for key liquidity measures which give an early warning signal of tightened liquidity positions of the Bank. Factors such as market liquidity, exposure to interbank market, movement on loans and receivables and deposit mix are regularly monitored to ensure that asset and liability portfolios of the Bank are geared to maintain a healthy liquidity position.

Key Risk Metrics

The Bank maintained the following regulatory liquidity ratios as at the year end.

Key Indicator - Regulatory	Position as at 31 December 2022	Position as at 31 December 2021
Statutory Liquid Asset ratio % - DBU	27.87	23.14
Statutory Liquid Asset ratio % - FCBU	21.06	25.31
Statutory Liquid Asset ratio % - Consolidated*	27.24	-
Liquidity Coverage Ratio (LCR)% -LKR Currency	297.08	193.03
Liquidity Coverage Ratio (LCR)% -All Currency	232.68	171.33
Net stable funding ratio (NSFR)%	130.87	118.27

*Statutory requirement for consolidated ratio with effective from December 2022

The key ratios used for measuring liquidity under stock approach are given below.

Key Indicator - Internal	Position as at 31 December 2022	Position as at 31 December 2021
Net Loans to Total Assets Ratio (%)	65.55	71.49
Advances to deposits Ratio (%)	86.20	95.31
Liquid Assets to Short Term Liabilities (%)	30.27	35.58
Commitments to Liquid Assets (%)	86.87	75.52

Flow approach

A statement of Maturity analysis on assets and liabilities (MAL) is presented placing all cash inflows and outflows in the time bands according to the residual time to maturity and non-maturity items as per CBSL recommended and Bank specific behavioural assumptions. Net exposure gaps were managed with customer deposits which are considered to be stable source of funds based on historical behavioural patterns and a healthy deposit roll-over rate for each time band.

Maturity Gap Analysis for local currency denominated Assets and liabilities - as at 31.12.2022

In LKR '000

	Up to 1 month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5Years	Total
Total Assets	93,890,936	72,209,423	59,334,373	72,574,570	113,491,256	70,150,599	109,526,403	591,178,285
Total Liabilities	77,376,357	90,296,380	99,755,524	116,293,369	56,215,713	34,379,997	116,860,945	591,178,285
Net Liquidity period Gap	16,514,579	(18,086,957)	(40,421,151)	(43,718,799)	57,275,543	35,770,602	(7,334,542)	(0)

Maturity Gap analysis for foreign currency denominated Assets and liabilities - as at 31.12.2022

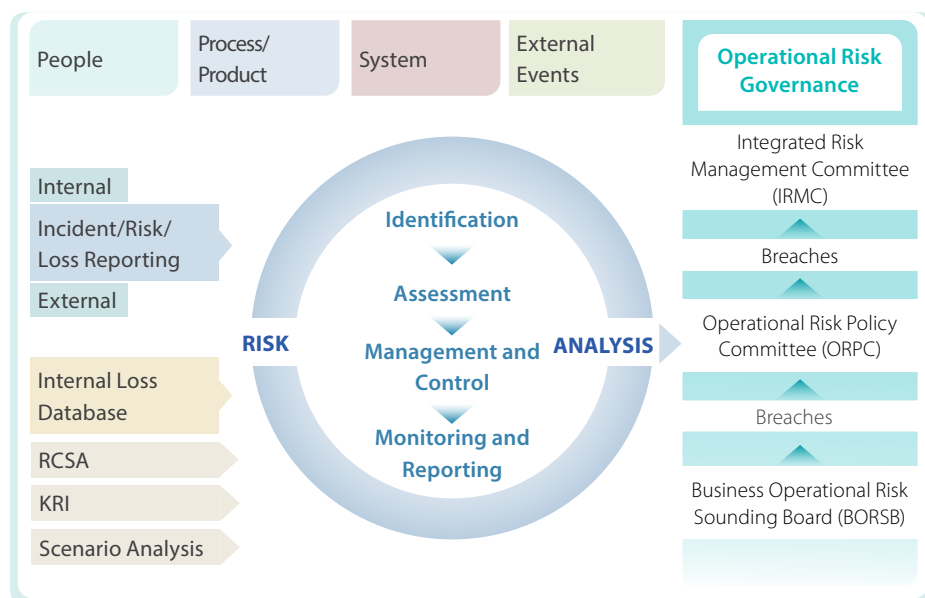
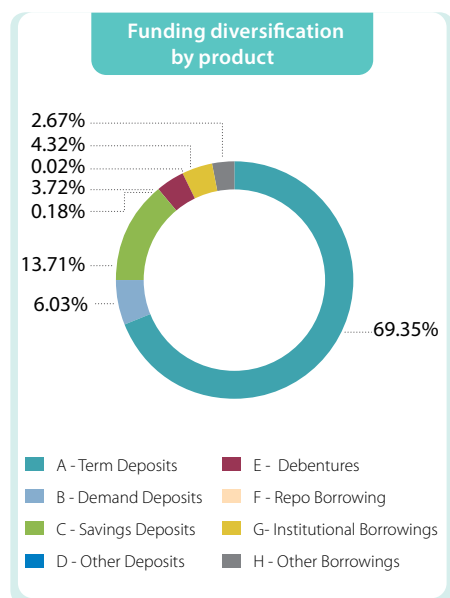
In USD '000

	Up to 1 month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5Years	Total
Total Assets	150,412	103,850	72,628	24,479	120,885	34,891	156,142	663,287
Total Liabilities	75,641	130,226	108,800	154,331	60,124	43,782	90,383	663,287
Net Liquidity period Gap	74,771	(26,376)	(36,172)	(129,852)	60,761	(8,891)	65,760	-

Diverse funding profile

The Bank's funding profile is monitored to ensure sufficient high quality liquid assets are available. Stress tests are performed to assess the bank's ability to withstand stressed scenarios and maintain a healthy liquidity position. Diverse Funding requirements are assessed and managed through maturity gap analysis and cash flow reports on a regular basis.

The Bank benefits from a diverse funding profile, which includes CASA deposits and funding lines as a participatory financial institution. The Bank achieved a deposit growth of 22% while the CASA ratio was 21.2% as at 31 December 2022.



OPERATIONAL RISK

Definition: Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, systems, human factors or from external events. It includes legal risk but excludes strategic and reputation risk.

Operational Risk may result in financial impact, affect business continuity, damage the organisation's reputation, and even weaken its compliance position.

Approach to Operational Risk Management

The Bank's Operational Risk management is guided by the "Sound Practices for the Management and Supervision of Operational Risk" issued by the Basel Committee and the regulations issued by the Central Bank of Sri Lanka and is in line with the Bank's overall Risk Management Framework. Key objectives of our Operational Risk framework are as follows:

- Designed to identify potential threats, in particular to identify potentially large or catastrophic losses to the Bank and its strategy to reduce the impact of risk.
- Effective assignment of roles and responsibilities to monitor and evaluate risk exposures and the implementation of an enterprise-wide approach to Operational Risk.
- Enables the maintenance of an adequate capital buffer required for Operational Risk losses, instituting mechanisms to mitigate or control the risks. Mitigating actions are prioritised based on the criticality of the risk exposures and escalation mechanisms are set to ensure that the management of the Bank is fully aware of the sources of potential or emerging Operational Risks.

The Operational Risk Management Unit (ORMU)

as the second line of defence facilitates the process of identifying, measuring, managing and monitoring of Operational Risks. The past, current and future Operational Risks are assessed using the Operational Risk Matrix which portrays the aggregate expected exposure towards the specific risk and thus actions are prioritised according to the criticality of risks. ORMU periodically reviews procedural changes and provide recommendations for improving/strengthening controls.

Business Operational Risk Sounding Board (BORSB) consisting business, support function units and ORMU staff, discuss the progress on rectification of Operational Risk events at regular intervals. Risks that require attention of senior management are escalated to the **Operational Risk Policy Committee (ORPC), Integrated Risk Management Committee (IRMC) and Board.**

Key elements of the Operational Risk management framework are as follows:

- The responsibility of risk identification is assigned to all employees, and they are considered Operational Risk Managers accountable for Operational Risks under their scope of work. This has contributed towards nurturing a risk conscious culture within the organisation.
- Employees are encouraged to focus on identifying deficiencies in processes and systems, and implement solutions and remedial action with the guidance of ORMU staff.

- Disciplinary actions are taken on significant operational risk events arising due to human factors and lessons learnt are discussed at Operational Risk awareness sessions. A mandatory eLearning module was implemented bank wide to enhance the knowledge on Operational Risk among all staff.
- Global Operational Risk events are being monitored and distributed to respective stakeholders to identify any implications within the Bank and actions required to mitigate similar risks.

Tools and methodologies

Operational Risk Management System (NORMS)

- Facilitate the automation and consistent application of Operational Risk management methodologies across the organisation.

- Incidents and near misses** Identification of the causes/underlying risks in a timely manner as and when the incidents are reported.
- Operational Risk losses** Maintained in a database and information is analysed to ascertain the criticality of losses and the causes of the loss events.
- Risk and Control Self-Assessments (RCSA) and Key Risk Indicators (KRI)** Enables the effective identification of key/emerging risks, whenever there is a material change to the business or any new initiative/product launch. RCSA was refined during the year to provide more focus on determining the risk profile of the Bank.

- **Scenario Analysis** Used to assess low-frequency/high-severity potential Operational Risks that may have a severe impact to the Bank and measures are being taken to strengthen the available controls/ implement new controls and the action plans.

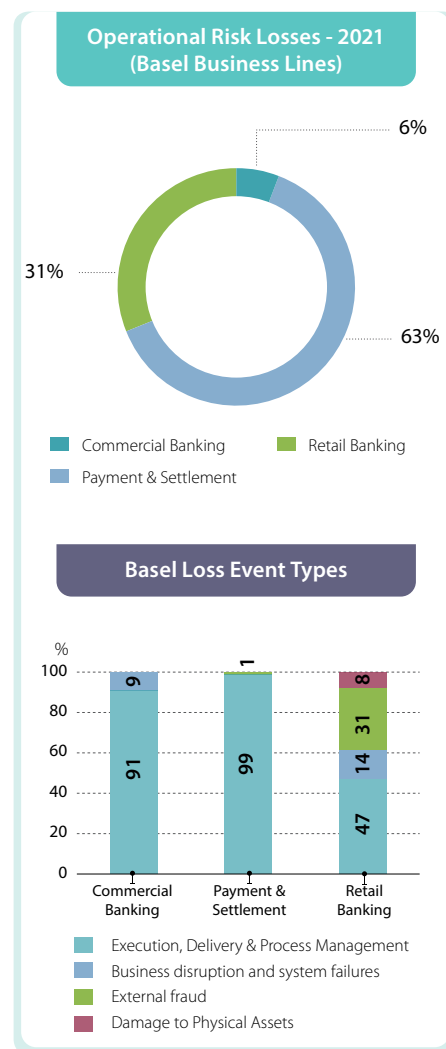
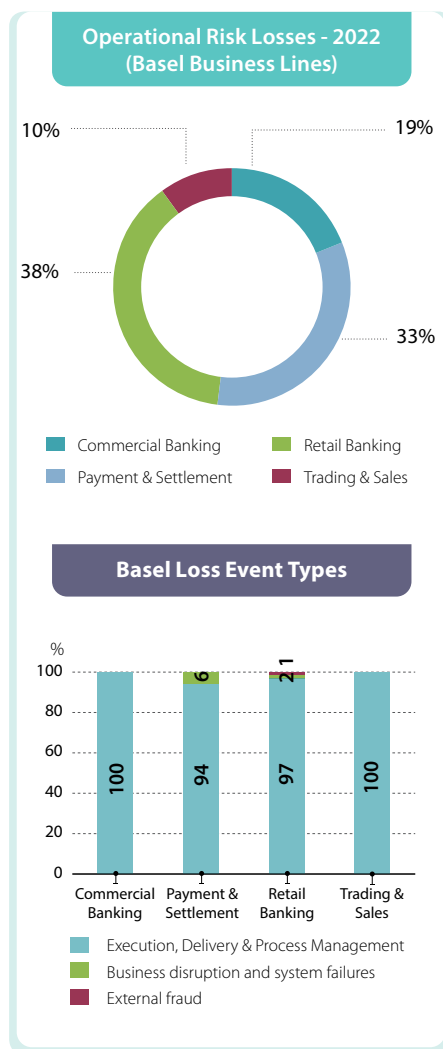
Outsourcing

With the intent of focusing on the core banking functions, the Bank has outsourced certain noncore functions to external vendors who are specialised in their respective fields. The management of outsourcing arrangements is strictly in accordance with the CBSL Outsourcing Direction 02 of 2012 and the Outsourcing Policy of the Bank. The Bank is committed to ensuring that the outsourced parties uphold and extend high standards of customer care and service excellence. All outsourcing arrangements of the Bank are evaluated by the Outsourcing Committee to be in line with the regulatory provisions.

Insurance

The Bank has a comprehensive insurance program as a key measure to mitigate operational risks. The insurance program is reviewed periodically and further refined on an on-going basis. The Bank has engaged an insurance broker to source terms, evaluate them and add value using their expertise. Operational losses which are insurable are covered by a spectrum of insurance policies on a system wide basis.

Operational Risk Performance in 2022



Risk	Insurance Framework
General	
Buildings and their contents including IT equipment are insured at replacement value. The limits of indemnity are decided upon assessing the likely exposure of risks to the Bank	Fire Insurance Policy and other insurance policies covering plate glass, machinery break downs and all electronics and computers.
Theft/Fraud	
Fraudulent actions by an employee or by a third party acting on its own or with the aid of an employee with the intent to obtain illicit personal gain or through malice.	Banker's Indemnity Insurance Policy
Professional Liability	
The consequences of any legal action against staff or managers as a result of their professional errors or omissions.	Professional Indemnity Policy, Directors & Officers Liability and Public Liability.
Computer Crime	
Fraudulent input and modification via computer systems, electronic computer programs, electronic data and media, computer viruses, electronic and telefacsimile communications, electronic transmissions, electronic securities and voice incinerated transfers.	Computer Crime Insurance Policy

Majority (71%) of Operational Risk losses were under the business lines "Retail Banking" and "Payment & Settlements". Operational Risk losses for 2022 amount to 0.4% of the Capital Charge allocated for Operational Risk. Out of the losses falling under high frequency / low impact bucket, 80% contained individual loss events less than LKR 100,000.00.

During the year, the Financial Intelligence Unit of CBSL imposed a penalty of LKR 1 Mn on the Bank due to an operational lapse. Following this, the Bank has taken initiatives to have in place new controls to ensure that the control environment is kept further strengthened.

Developments in 2022

- ✓ Implemented stringent security measures to avoid Cyber-attacks/security threats including raised employee and customer awareness to be cautious when transacting online
- ✓ Implemented security solutions for the prevention of data leakage and privileged account monitoring, prevention of insecure device connectivity to corporate network, and application specific attacks against public web services
- ✓ Identified the impact on Bank's profitability/liquidity and change the business model to reduce the exposure
- ✓ Close monitoring of potential areas at risk by revisiting the vulnerable processes and introduced new /improved controls as appropriate.

Managing Cyber Risk

In an increasingly complex digital society where interconnected systems and innovative digital services define the operating standards for organisations, effectively managing cyber risks is increasingly challenging. The rapid pace of technology change and increased threats from financially motivated cyber adversaries has led to further challenges. Having understood these dynamics, the Bank strives to invest in updating its digital defences to meet the challenges of the evolving cyber threat landscape and continue to collaborate with financial sector threat intelligence providers.

Key developments during the year included the following:

- To strengthen technical controls:** Firewalls with advanced threat protection at multiple layers of defence, network segregation, intrusion prevention systems, gateway level content filtering, anti-malware solutions, centralised patch updates, vulnerability remediation and monitoring of privileged accounts activities to mitigate Cyber Risk
- Increased monitoring of online channels and use of strict controls to protect from unauthorised access, data leakages and virus/malware attacks
 - Ongoing investments in upgrading its digital defences and collaborations with financial sector threat intelligence providers
 - The Bank has also subscribed to the services provided by Financial Sector Computer Security Incident Response Team (FINCSIRT), where intelligence on the latest threats to the Banking industry is provided to the IT security team

- Strong policy framework complying with the Baseline Security Standards Guidelines issued by the Central Bank of Sri Lanka
- Internal and external penetration tests by employing external service providers from time to time to ensure the systems are resilient to such attacks.

Business Continuity Management

The Bank's Business Continuity Management (BCM) Policy requires comprehensive and timely plans be in place encompassing a minimum of a Business Continuity Plan (BCP) and IT Disaster Recovery Plan (IT DRP). This BCM Framework is designed to comply with the requirements of the Central Bank of Sri Lanka and is approved by the Board of Directors. These plans are formulated following the integration of Enterprise Risk Management (ERM) Framework with effective Business Impact Analysis (BIA) processes and methodologies which anticipate all forms of threats, crisis and disasters that are inherent in the ever-changing business environment.

These plans are tested regularly at the Bank's fully equipped Disaster Recovery (DR) Site to ensure resilience to business disruption and have been successful over years. The Governance of Business Continuity Management is steered through The Leadership Team (TLT) comprising of senior management and coordinated by the Bank's Business Continuity Manager. During lockdown periods staff operated from split locations, on roster/shift basis and work from home including 'BCP non-critical staff' at our DR Site to ensure business continuity and operational readiness.

OTHER RISKS

STRATEGIC RISK

Strategic Risk can be defined as the current and prospective risk to earnings and viability arising from,

- Adverse changes in business environment with respect to the economy, political landscape, regulations, technology, actions of competitors
- Adverse business decisions
- Improper implementation of decisions
- Lack of responsiveness to changes in the business environment

Strategic risk for a bank can manifest itself through lack of well-defined long-term strategy but more importantly because of failure to appropriately communicate and implement the strategy or due to unforeseen changes in the

external environment. Formulating appropriate response plans to refine the strategy to suit the changes in the business environment is essential to management of strategic risk.

The strategic plans are drawn at various level of granularity (e.g. a branch level/ department level) and the implementation is reviewed through periodic meetings where variances from the growth targets are analysed and corrective actions recommended. The Strategic Plan is also linked to individual employee performance through the performance management system and periodic performance reviews are carried out to motivate employees and create a performance driven culture.

Voyage 2025 is the Bank's five-year (2020/2025) strategy and was developed under the guidance of Board of Directors following extensive brain storming by a cross functional team comprising The Leadership Team and representation from Assistant Vice Presidents and Chief Managers of the Bank. Strategy formulation was also supported by an external subject matter expert. With approval of Board, Voyage 2025 was officially launched on 31 August 2020. Voyage 2025 followed the successful conclusion of the Transformation 2020 strategy and aimed to position the Bank as a competitive and dominant player in the banking sector.

Whilst the Bank's strategy continues to be agile, Bank has taken proactive tactical and operational actions in response to changes to the economic landscape.

CROSS BORDER RISK

Cross-border risk arises when the Bank is unable to obtain payments from customers or third parties on their contractual obligations as a result of actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency & geo-political factors.

Correspondent Banking Unit and Risk Management Division are responsible for Bank's cross-border exposures and management of exposure limits. Cross-border assets comprise of loans and receivables, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, foreign exchange contracts, certificates of deposit and other negotiable paper, investment securities and formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border exposure also includes the assets owned by the Bank/ Group that are held in a given country.

To effectively control the risk associated with cross-border risk, cross-border exposure/ country exposure limits are set based on the Sovereign Ratings issued by International Rating agencies such as Fitch, Standard & Poor's and Moody's Corporation and also linked to Bank's capital base. Exposures are captured based on the country in which the counterpart/ counterpart bank's main Head Office is domiciled. If a branch of the counterpart/ counterpart bank has been incorporated in a particular country, then exposures are to be captured in that country.

The Bank will also undertake a detailed due diligence covering the economic indicators & outlook, country rating, political risk, exchange rate risk (convertibility & transferability), banking & financial sector etc. The business lines need to manage the exposures within the board approved limits. These limits are reviewed at least annually and approved by the Board, thus mitigating the cross-border risk.

LEGAL RISK

Legal risk is understood more from its consequences, which is incurrence of liquidated damages, penalties, fines, imposing of certain conditions and sometimes loss of reputation. Legal risk may vary from institution to institution depending on the manner in which it conducts its business and the documentation it follows and is closely related to compliance and regulatory risk.

Legal risk in the Bank can manifest itself through,

- Deficiencies in the security, property, defects in title and the related documentation
- Deficiencies in the documentation of the product or a transaction with an underlying contract
- Mis-selling of products, services
- Deficiencies in employee contracts
- Act of the counterparty (Customers, Shareholders, Consortium Bankers, Service Providers, and Regulators etc.)
- Change in domestic and international legal environment due to legislative changes and acquisitions
- Non adherence to laws and regulations
- Procedural failures in parate actions and litigation

This risk is owned and managed by the Legal Department. The Legal Department is also assisted by third party lawyers as panel/ retained lawyers and for litigation. Most legal opinions are in house and where necessary independent legal opinions are sought by the Legal Department. Specific risks relating to Legal Risk are reported on a quarterly basis to the IRMC.

REGULATORY AND COMPLIANCE RISK

Compliance and Regulatory Risk is defined as the risk of legal or regulatory sanctions/ enforcements, material financial losses, or reputational damage and integrity an institution may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisational standards, and codes of conduct applicable to its business activities.

A compliance function, reporting directly to the Board of Directors is in place to assess the Bank's compliance with external and internal regulations on an ongoing basis in order to minimise the Compliance Risk.

The Bank has a clearly defined Board approved Compliance Charter, which defines the fundamental principles, roles and responsibilities of the compliance function within the organisation as well as its relationship with senior management, the Board of Directors and the business and operational functions.

MODEL RISK

A model is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. Since models are a simplified depiction of the complex real world phenomenon which describes the relationship among observed variables based on assumptions, the use of models comes along with model risk. Board has in place a risk model validation policy and a governance framework to mitigate model risk. The risk models are validated in line with policy.

SETTLEMENT RISK

Settlement Risk refers to the risk arising on account of failed trades with counterparty banks in the foreign currency transactions. Settlement Risk arises from possible losses when the Bank is in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. Forward contract settlement failures can arise from counterparty default, operational problems, and other factors. Settlement Risk exists for any traded product. Currently, the Bank has a procedure

for monitoring limit utilisation, failed trades and excess monitoring. Settlement Risk is currently controlled by way of prudent allocation and monitoring of counterparty limits including Maximum Daily Delivery Risks (MDDR) limits for counterparties. Due to the current foreign currency liquidity stresses faced by the banking sector the bank cautiously monitor and manage the counterpart settlements.

GOVERNANCE RISK

The Board of Directors is responsible for the overall governance of the Bank which includes formulating the strategic direction, leadership to operationalise same, supervising the management of the business and reporting to shareholders on their stewardship. Bank's Corporate Governance framework has been developed with the objective of balancing the attainment of corporate objectives while ensuring the highest standards of corporate conduct and transparency.

Several policies and codes have been developed and implemented to manage Governance Risk at the Bank. The Internal Code of Corporate Governance which applies to all Directors and Key Management Personnel of the Bank sets out policies and processes for implementing the Corporate Governance Directions issued by the Monetary Board of the Central Bank of Sri Lanka, the Companies Act No. 7 of 2007 [Banks have been exempted from the Corporate Governance Regulations issued by the Colombo Stock Exchange] and the Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The Bank has in place a Compliance Policy and Code of Conduct governing all employees which outlines standards of professional and ethical conduct that all employees of the Bank are expected to conform to including areas such as general conduct and competence, confidentiality and misuse of material confidential information, managing conflicts of interest situations and insider dealing provisions.

The Bank recognises the importance of sound management of Governance Risk. Accordingly, Governance Risk is managed by the Compliance Department of the Bank.

Summary of activities undertaken for management of Governance Risk is as follows.

- Annual declarations obtained from Directors
- Implementation of the Internal Code of Corporate Governance and training Directors in the areas of Governance

- Compliance policy and Code of Conduct which incorporates several policies of the Bank including the Confidentiality policy, Insider Trading prohibitions, Securities Trading policy, Gift Policy, Anti-bribery and Corruption policy, Information Security policy, approval from CEO prior to staff taking up any outside position, conflicts of interest provisions etc.
- Monitoring of transactions carried out by the Bank with related parties of the Bank in terms of the Bank's related party transactions policy
- Handling complaints of customers of the Bank as per agreed service standards in accordance with the Complaint Handling Procedure
- Robust framework of communication related policies including Whistleblowing, Disclosure and Communications Policy
- Document Retention and Destruction Policy, Staff Transaction Policy

REPUTATIONAL RISK

Reputational Risk is risk of indirect loss (current or prospective) arising from stakeholders' negative experience while dealing with the institution or negative publicity regarding the Bank's business practices which could lead to implications on market share, costly litigation expenses and revenue impacts over the long term. Reputational Risk can be triggered by a risk event in any or all of the above risk categories hitherto described.

Reputational Risk management and mitigation aspects are embedded in the Bank's policies and procedures, training programs, the Business Continuity Plan and through the Audit and Board Risk Management Committees.

The Bank monitors its Reputational Risk profile through a set of early warning indicators based on the Reputational Risk drivers within the Reputational Risk scorecard. The risk mitigation and control processes for Reputational Risk are designed to consider appropriate response actions to address the risks identified. A Customer Complaint Handling Process has been established under which the customers have a range of options through which they can forward their grievances to the Bank, through letters, the 24-hour public help line and/ or through the Bank web-site or social media.

The Bank's reputation and brand value has strengthened in recent years, as it has enhanced its customer value proposition and sought aggressive growth in selected segments.

Bank acquired numerous awards in 2022 for various aspects of performance including digital technologies, Islamic banking & finance, innovation, women friendly workplace, investor relations, corporate citizen sustainability and corporate reporting. In 2022 the Bank was ranked 12th at the Business Today's Top 40 corporates for 2021-2022. Bank was also awarded the 'Best Bank in Sri Lanka 2022' title by the prestigious Euromoney Magazine and by Global Finance Awards.

ENVIRONMENTAL & SOCIAL RISK MANAGEMENT (ESRM)

The Environmental and Social Risk Management plays a vital role in effectively managing the environmental and social risks stemming from debt and equity financing and strategic investments in businesses, which in turn will strengthen the Bank's resilience. Environmental and Social (E&S) risks of the Bank's customers are inherent and dynamic, given increasing complexities in the operating landscape. Accordingly the Risk Management Division and the Finance Division proactively sought to strengthen the Bank's E&S risk assessments through revising the Environmental and Social Management System (ESMS) in 2022 by aligning with international best ESG practices.

Developments in 2022/23

- Further refinements of the ESRM Policy and ESRM Manual focusing more on sustainable finance activities was approved by the Board of Directors of the Bank.
- The collaboration of the NCAP Group Companies to ESMS/ ESRM Framework of NDB is continued and administered at a central level.
- Appointment of an ESMS coordinator to the newly formed Remedial Management Unit of the Bank to support the overall ESMS aspects associated with responsible lending of their administered portfolio.
- Strengthened external communication on ESMS through the corporate website for the external stakeholders.
- Ongoing capacity development initiations for the staff engaged in lending and the credit process in line with the dedicated ESMS learning and development curriculum.
- The Bank continued to extend comprehensive training on 'SLBA Sustainable Banking Principles' via the designated e-learning platform for the bank's staff involved in the lending, credit procedure and its selected modules for TLT members.
- Reviewed overall E&S assessments carried out by the business units (Wholesale Banking/ Project Finance and SME/ Business Banking) at portfolio level and submitted quarterly updates to the Board IRMC of the Bank.
- Submitted ESG reports to the lenders and other stakeholders.

The Bank is consistent and conscious in its approach to mitigate and/ or manage adverse impact to the environment and the community as a whole through the ESRM framework/ ESMS whilst being an exemplary image in the competitive edge of the modern industry and its clientele.

Key aspects of the ESRM Framework

- 1 ESRM Framework, Policy and Manual has been developed in line with the international best practices
- 2 Dedicated coordinator to monitor and administer the ESMS/ ESRM operations of the network and the group of companies
- 3 A specific learning and development curriculum is in place in order to effectively develop the capacities of the relevant staff members
- 4 Ongoing capacity building on ESMS/ ESRM including the addition of a special session in to the Bank's orientation programme

GROUP RISK

The Bank together with its subsidiaries, in the process of financial intermediation are confronted with an array of financial and non-financial risks such as credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, operational, etc. These risks are highly interdependent and events that affect one area of risk can have consequences on a range of other risk categories. Aggregating the risks of group companies remains a challenge due to their diverse business models and risk profiles. The following measures ensure that group risk is proactively monitored and mitigated;

- Bank's capital at risk is limited to the amount invested in these companies in the form of equity, at the time the companies were incorporated.
- There is representation by Bank's Directors/ Key Management Personnel on the Boards of Directors/ Board Audit, Risk and Compliance Committee of its subsidiaries, thereby ensuring full and sufficient knowledge of subsidiaries' operations and risk profiles.
- Due to the governance structure mandated by the laws governing banking and limited liability companies, all inter-company transactions are at arms-length and full disclosure of such transactions is made.
- Natural mitigation from the fact that the Bank is the holding company and owns the largest balance sheet in the group.
- NDB Securities Ltd and NDB Wealth Management Ltd being licensed stock brokers and Unit Trust Managers are regulated by the SEC.
- Risk Reporting framework by group companies to be monitored by the Risk Management Division of the Bank/ IRMC/ Board for review/ corrective action.

Each group company remains responsible for the management of risks, including associated controls and on-going monitoring processes. Risks identified by group companies are reported to the Risk Management Division monthly, through appropriate risk indicators (using a Risk Dashboard) and management information for review and escalation. Top risks and associated mitigants are also highlighted. The main risk categories being reviewed are as follows:

- Investment/ Credit Risk
- Operational Risk
- Market Risk

- Liquidity Risk
- Interest Rate Risk
- Concentration Risk
- Regulatory/ Compliance Risk
- Legal/ Reputational Risk
- Strategic Risk
- Any other risks relevant to the specific line of business of the group company

All group companies are required to have relevant policies and limits for monitoring purposes and to ensure that risks are within acceptable levels in line with internal policies and risk appetite. All risk related policies and risk appetite statement of the group companies are vetted by the Risk Management Division to ensure compliance with the Regulatory requirements and internal policies applicable to the Bank. Furthermore, the Operational Risk Management Unit within the Risk Management Division coordinates the Risk and Control Self Assessments process for the group companies facilitating informed decision-making by providing management with an overall view of operational risks within a business process.

SOVEREIGN RISK

Sovereign Risk is the potential that the government will default on its sovereign debt by failing to meet its interest and/ or principal payments.

The consequences of a default by sovereign include:

- A rating downgrade
- A loss of reputation along with an increased difficulty in raising funds for several years
- A lack of investors willing to buy the debt and equity of corporations based on the country
- An economic downturn
- Political instability

A default negatively affects GDP growth, the country's credit rating for many years, can hurt exports, and can make the defaulting country's banking systems more fragile. It can seriously impede the economic development and growth of the country.

The Bank is exposed to Sovereign Risk through investments on Government Bills/ Bonds, International Sovereign Bonds (ISBs) and Sri Lanka Development Bonds (SLDBs). Nevertheless banks hold a reasonable amount in Government Securities due to the nature of its role played in the financial system. Local

currency government bills and bonds form a significant portion of liquid assets for all commercial banks. The Bank closely monitors the Sovereign Risk through ratio analysis, portfolio limits, duration analysis, stop loss limits, Mark to Market exercises etc. and is guided by the board approved limit framework and the Investment policy. Investment decisions and portfolio exposures are discussed at ALCO/ Treasury Committee in line with the market vulnerabilities for prudential action.

Bank is exposed directly to Sovereign Risk through its lending portfolio. Credit exposure to state sector including state sector exposure for funding infrastructure projects is monitored and presented at Credit and Market Risk Policy Committee and also at Integrated Risk Management Committee.

With the country rating downgrade and debt stand still announcement made by the government of Sri Lanka in April 2022, Bank increased its impairment on the FCY investment portfolio of ISBs and SLDBs.

FUTURE OF RISK MANAGEMENT

Bank's risk management capabilities have evolved from the responsibility of an individual unit to an organisation - wide risk culture permeating all business and support functions. Unprecedented changes in the operating landscape have compelled banks to consistently monitor emerging dynamics and strengthen risk management frameworks to effectively drive strategic aspirations. We will strive to move beyond compliance to embrace international best practices in risk management while proactively responding to emerging risks to navigate an increasingly complex risk landscape.

BASEL III - PILLAR III MARKET DISCIPLINE DISCLOSURES

Pillar III Market Discipline disclosures of the Bank and the Group for the year ended 31 December as required by the Banking Act Direction No. 01 of 2016 on capital requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks are given below.

REGULATORY REQUIREMENTS ON CAPITAL & LIQUIDITY

TEMPLATE I - Key Regulatory Ratios - Capital and Liquidity

As at 31 December	BANK		GROUP	
	2022	2021	2022	2021
Regulatory Capital (LKR '000)				
Common Equity Tier 1 Capital	49,187,072	48,441,141	52,968,361	51,937,517
Tier 1 Capital	49,187,072	48,441,141	52,968,361	51,937,517
Total Capital	70,341,919	74,578,891	74,119,273	77,983,909
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7%, 2021 - 6.5%)	9.34	10.01	9.87	10.53
Tier 1 Capital Ratio (Minimum Requirement - 8.5%, 2021 - 8%)	9.34	10.01	9.87	10.53
Total Capital Ratio (Minimum Requirement - 12.5%, 2021 - 12%)	13.35	15.42	13.81	15.82
Leverage Ratio (Minimum Requirement - 3%)	5.56	6.36	5.94	6.77
Regulatory Liquidity				
Statutory Liquid Assets (LKR'000)	205,530,328	157,514,944	NA	NA
Statutory Liquid Assets Ratio - Bank (%) (Minimum Requirement -20%)*	27.24	NA	NA	NA
Statutory Liquid Assets Ratio - Domestic Banking Unit (%) (Minimum Requirement -20%)	NA	23.14	NA	NA
Statutory Liquid Assets Ratio - Off-Shore Banking Unit (%) (Minimum Requirement -20%)	NA	25.31	NA	NA
Total stock of high quality liquid assets (LKR ' 000) - Rupee	140,737,325	89,088,289	NA	NA
Total stock of high quality liquid assets (LKR ' 000) - All currency	159,365,882	112,552,154	NA	NA
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement -90% (2021 - 100%))	297.08	193.03	NA	NA
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90% (2021 - 100%))	232.68	171.33	NA	NA
Net Stable Funding Ratio (%) – (Minimum Requirement - 90% (2021 - 100%))	130.87	118.27	NA	NA

*Commencing from December 2022 the Banks are required to maintain liquid assets on total adjusted liabilities on a consolidated basis for the overall Bank as per the Banking Act Direction No.08 of 2022 on Regulatory Requirements on Liquidity Ratios.

TEMPLATE II - Basel III Computation of Capital Ratios

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Common Equity Tier 1 (CET1) Capital after Adjustments	49,187,072	48,441,141	52,968,361	51,937,517
Common Equity Tier 1 (CET1) Capital	61,364,587	56,655,972	64,923,963	60,069,363
Equity Capital (Stated Capital/Assigned Capital)	19,870,665	18,263,609	19,870,665	18,263,609
Reserve Fund	2,746,479	2,571,479	2,746,479	2,571,479
Published Retained Earnings/(Accumulated Retained Losses)	36,597,418	38,113,125	39,995,758	41,628,368
Published Accumulated Other Comprehensive Income (OCI)	2,150,025	(2,292,241)	2,311,061	(2,394,093)
General and other Disclosed Reserves	-	-	-	-
Total Adjustments to CET1 Capital	12,177,515	8,214,831	11,955,602	8,131,846
Intangible Assets (net)	1,804,321	1,203,940	1,813,213	1,217,111
Deferred tax assets (net)	9,004,747	3,417,315	9,048,896	3,443,207
Defined benefit pension fund assets	584,432	379,545	584,432	379,545
Shortfall of the cumulative impairment to specific provisions	-	2,274,970	-	2,274,970
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	284,715	524,848	364,201	817,013
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	391,855	414,213	-	-
Shortfall of capital in financial subsidiaries	107,445	-	144,860	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-	-	-
Additional Tier 1 (AT1) Capital	-	-	-	-
Total Adjustments to AT1 Capital	-	-	-	-
Tier 2 Capital after Adjustments	21,154,847	26,137,750	21,150,912	26,046,392
Tier 2 Capital	21,154,847	26,137,750	21,154,847	26,137,750
Qualifying Tier 2 Capital Instruments	14,270,354	19,705,076	14,270,354	19,705,076
Revaluation Gains	876,672	876,672	876,672	876,672
Loan Loss Provisions	6,007,821	5,556,002	6,007,821	5,556,002
Total Adjustments to Tier 2	-	-	3,935	91,358
Others- Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	-	-	3,935	91,358
CET1 Capital	49,187,072	48,441,141	52,968,361	51,937,518
Total Tier 1 Capital	49,187,072	48,441,141	52,968,361	51,937,518
Total Capital	70,341,919	74,578,891	74,119,273	77,983,909
Total Risk Weighted Assets (RWA)	526,907,094	483,708,053	536,578,937	493,031,638
RWAs for Credit Risk	480,625,719	444,480,212	485,485,541	447,812,750
RWAs for Market Risk	7,185,265	8,151,784	10,109,240	12,487,403
RWAs for Operational Risk	39,096,110	31,076,057	40,984,156	32,731,485
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	9.34	10.01	9.87	10.53
of which: Capital Conservation Buffer (%)	2.50	2.00	2.50	2.00
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	9.34	10.01	9.87	10.53
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	13.35	15.42	13.81	15.82
of which: Capital Conservation Buffer (%)	2.50	2.00	2.50	2.00
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-

TEMPLATE III (a) - Basel III Computation of Leverage Ratios

As at 31 December	BANK		GROUP	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Tier 1 Capital	49,187,072	48,441,141	52,968,361	51,937,517
Total Exposures	884,300,644	761,498,728	891,258,702	767,708,927
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	812,519,141	693,619,365	819,166,699	699,717,781
Derivative Exposures	16,567,757	2,808,603	16,567,757	2,808,603
Securities Financing Transactions Exposures	181,212	3,384,052	181,212	3,384,052
Other Off-Balance Sheet Exposures	55,032,534	61,686,708	55,343,034	61,798,491
Basel III Leverage Ratio (%) (Minimum Requirement - 3%)	5.56%	6.36%	5.94%	6.77%

TEMPLATE III (b) - Basel III Computation of Net Stable Funding Ratios (NSFR)

As at 31 December	BANK	
	2022	2021
	LKR '000	LKR '000
Total Available Stable Funding	618,506,530	483,825,740
Required Stable Funding - On Balance Sheet Assets	471,009,118	404,392,394
Required Stable Funding - Off Balance Sheet Items	1,599,083	4,686,376
Total Required Stable Funding	472,608,201	409,078,770
Net Stable Funding Ratio (%) (Minimum Requirement - 90% (2021 - 100%))	130.87%	118.27%

TEMPLATE IV - Basel III Computation of Liquidity Coverage Ratio - All Currency Liquidity Requirement

As at 31 December	BANK			
	2022		2021	
	Total Un-weighted Value LKR '000	Total Weighted Value LKR '000	Total Un-weighted Value LKR '000	Total Weighted Value LKR '000
Total Stock of High-Quality Liquid Assets (HQLA)	162,601,173	159,365,882	116,687,070	112,552,154
Total Adjusted Level 1A Assets	141,044,367	141,044,367	88,870,488	88,870,488
Level 1 Assets	141,032,571	141,032,571	89,120,967	89,120,967
Total Adjusted Level 2A Assets	21,568,602	18,333,311	27,566,103	23,431,187
Level 2A Assets	21,568,602	18,333,311	27,566,103	23,431,187
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	863,310,596	134,513,353	702,832,420	132,927,343
Deposits	461,625,705	33,721,153	335,076,085	23,786,812
Unsecured Wholesale Funding	211,310,277	98,200,460	221,841,587	105,600,793
Secured Funding Transactions	114,563	-	1,134,683	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	190,260,052	2,591,739	144,780,065	3,539,738
Additional Requirements	-	-	-	-
Total Cash Inflows	137,953,357	66,021,946	120,754,827	67,233,093
Maturing Secured Lending Transactions Backed by Collateral	61,573,989	37,014,485	60,364,552	34,468,424
Other Inflows by Counterparty which are maturing within 30 days	55,947,669	29,007,462	53,924,205	32,764,669
Operational Deposits	20,431,700	-	6,466,070	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		232.68%		171.33%

TEMPLATE V - Main Features of Regulatory Capital Instruments - Bank and Group

Description of the Capital Instrument	CET 1 Capital	Tier 2 Instruments			
	Stated Capital	Debenture Issue - December 2013	Debenture Issue - March 2019	Debenture Issue - September 2020	Debenture Issue - November 2021
Issuer	National Development Bank PLC	National Development Bank PLC	National Development Bank PLC	National Development Bank PLC	National Development Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	NDB. N0000 ISIN -LK0207N00007	Type C - LK0207D21038 Type D - LK0207D21053	Type A - LK0207D24198 Type B - LK0207D24206	ISIN - LK0207D24529	Type A - LK0207D24941 Type B - LK0207D24958
Governing Law(s) of the Instrument	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act	Companies Act No. 07 of 2007, Listing rules of the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka Act
Original Date of Issuance	Date listed 26-Apr-1993	19-Dec-2013	31-Mar-2019	25-Sep-2020	24-Nov-2021
Par Value of Instrument	NA	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-
Perpetual or Dated	Perpetual	Dated	Dated	Dated	Dated
Original Maturity Date, if Applicable	NA	Type C - 19 Dec 2023 Type D - 19 Dec 2025	Type A - 30 Mar 2024 Type B - 30 Mar 2024	24-Sep-2025	Type A - 23 Nov 2026 Type B - 23 Nov 2028
Amount Recognised in Regulatory Capital (in LKR '000 as at 31 December 2022)	19,870,665	2,881,854	1,390,300	3,575,000	6,423,200
Accounting Classification (Equity/Liability)	Equity	Liability	Liability	Liability	Liability
Issuer Call subject to Prior Supervisory Approval					
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	NA	NA	NA	NA	NA
Subsequent Call Dates, if Applicable	NA	NA	NA	NA	NA
Coupons/Dividends					
Fixed or Floating Dividend/ Coupon	Dividend declared as decided by the Board	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
Coupon Rate and any Related Index	NA	Type C - 13.9% p.a Type D - 14.0% p.a	Type A - 13.50% p.a Type B - 13.95% p.a	9.5% p.a	Type A - 11.90% p.a Type B - 12.00% p.a
Non-Cumulative or Cumulative	NA	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible					
If Convertible, Conversion Trigger (s)	NA	Non-Convertible	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	NA	NA	Fully	Fully	Fully
If Convertible, Mandatory or Optional	NA	NA	Mandatory	Mandatory	Mandatory
If Convertible, Conversion Rate	NA	NA	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.

2. RISK WEIGHTED ASSETS (RWA)

TEMPLATE VI - Summary discussion on adequacy/ meeting current and future capital requirements.

Please refer page 312 for the Capital Management section.

TEMPLATE VII - Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	BANK					
	Amount (LKR'000) as at 31 December 2022					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and Central Bank of Sri Lanka	186,572,215	13,212,000	186,572,214	3,857,983	11,210,867	5.89%
Claims on Public Sector Entities	25,289,374	4,368,926	1,599,823	-	319,965	20.00%
Claims on Bank's Exposures	37,745,463	23,709,926	37,745,463	3,481,499	14,051,264	34.08%
Claims on Financial Institutions	33,902,347	11,406,761	31,229,892	585,723	18,282,949	57.47%
Claims on Corporates	227,587,821	208,062,830	191,485,923	36,895,654	222,784,599	97.55%
Retail Claims	209,609,779	30,135,599	177,902,572	11,520,218	146,976,814	77.59%
Claims Secured by Residential Property	17,667,697	828,530	17,667,697	350,433	8,003,015	44.42%
Non-Performing Assets (NPAs)(i)	40,603,286	-	40,603,286	-	49,342,651	121.52%
Higher-risk Categories	495,790	-	495,790	-	1,239,474	250.00%
Cash Items and Other Assets	16,304,605	-	16,304,605	-	8,414,121	51.61%
Total	795,778,377	291,724,572	701,607,265	56,691,510	480,625,719	

Asset Class	GROUP					
	Amount (LKR'000) as at 31 December 2022					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and Central Bank of Sri Lanka	186,572,918	13,212,000	186,572,918	3,857,983	11,210,867	5.89%
Claims on Public Sector Entities	25,289,374	4,368,926	1,599,823	-	319,965	20.00%
Claims on Bank's Exposures	38,237,266	23,709,926	38,237,266	3,481,499	14,414,529	34.55%
Claims on Financial Institutions	33,902,347	11,406,761	31,229,892	585,723	18,282,949	57.47%
Claims on Corporates	228,460,941	207,916,879	192,359,043	36,749,703	223,511,768	97.56%
Retail Claims	209,609,779	30,135,599	177,902,572	11,520,218	146,976,814	77.59%
Claims Secured by Residential Property	17,667,697	828,530	17,667,697	350,433	8,003,015	44.42%
Non-Performing Assets (NPAs)(i)	40,603,286	-	40,603,286	-	49,342,651	121.52%
Higher-risk Categories	-	912,902	-	456,451	684,676	150.00%
Cash Items and Other Assets	20,629,020	-	20,629,020	-	12,738,307	61.75%
Total	800,972,628	292,491,523	706,801,517	57,002,010	485,485,541	

Note:

- (i) NPAs – As per Banking Act Direction on classification of loans and receivables, income recognition and provisioning.
- (ii) RWA Density – Total RWA/Exposures post CCF and CRM.

TEMPLATE VIII - Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Risk Weight Asset Classes	BANK									
	Amount (LKR'000) as at 31 December 2022 (Post CCF & CRM)									Total Credit Exposures Amount
	0%	20%	35%	50%	60%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka	134,375,862	56,054,335	-	-	-	-	-	-	-	190,430,197
Claims on Public Sector Entities	-	1,599,823	-	-	-	-	-	-	-	1,599,823
Claims on Bank's Exposures	-	24,066,716	-	16,055,998	-	-	892,899	211,349	-	41,226,962
Claims on Financial Institutions	-	90,238	-	26,920,950	-	-	4,804,427	-	-	31,815,615
Claims on Corporates	-	6,005,374	-	1,585,358	-	-	220,790,845	-	-	228,381,577
Retail Claims	7,254,591	4,296,352	-	-	10,935,034	109,521,160	57,415,653	-	-	189,422,790
Claims Secured by Residential Property	-	-	15,407,870	-	-	-	2,610,260	-	-	18,018,130
Non-Performing Assets (NPAs)	-	-	-	207,764	-	-	22,709,027	17,686,495	-	40,603,286
Higher-risk Categories	-	-	-	-	-	-	-	-	495,790	495,790
Cash Items and Other Assets	7,579,661	388,528	-	-	-	-	8,336,416	-	-	16,304,605
Total	149,210,114	92,501,366	15,407,870	44,770,070	10,935,034	109,521,160	317,559,527	17,897,844	495,790	758,298,775

Risk Weight Asset Classes	GROUP									
	Amount (LKR'000) as at 31 December 2022 (Post CCF & CRM)									Total Credit Exposures Amount
	0%	20%	35%	50%	60%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka	134,376,566	56,054,335	-	-	-	-	-	-	-	190,430,901
Claims on Public Sector Entities	-	1,599,823	-	-	-	-	-	-	-	1,599,823
Claims on Bank's Exposures	-	24,248,382	-	16,022,410	-	-	1,236,624	211,349	-	41,718,765
Claims on Financial Institutions	-	90,238	-	26,920,950	-	-	4,804,427	-	-	31,815,615
Claims on Corporates	-	6,005,374	-	1,585,358	-	-	221,518,014	-	-	229,108,746
Retail Claims	7,254,591	4,296,352	-	-	10,935,034	109,521,160	57,415,653	-	-	189,422,790
Claims Secured by Residential Property	-	-	15,407,870	-	-	-	2,610,260	-	-	18,018,130
Non-Performing Assets (NPAs)	-	-	-	207,764	-	-	22,709,027	17,686,495	-	40,603,286
Higher-risk Categories	-	-	-	-	-	-	-	456,451	-	456,451
Cash Items and Other Assets	7,579,790	388,653	-	-	-	-	12,660,577	-	-	20,629,020
Total	149,210,947	92,683,157	15,407,870	44,736,482	10,935,034	109,521,160	322,954,582	18,354,295	-	763,803,527

TEMPLATE IX - Market Risk under Standardised Measurement Method

Item	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
(a) Capital Charge for Interest Rate Risk	590,582	118,135	599,549	120,387
General Interest Rate Risk	590,582	118,135	593,230	119,538
(i) Net Long or Short Position	590,582	118,135	593,230	119,538
(ii) Horizontal Disallowance	-	-	-	-
(iii) Vertical Disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific Interest Rate Risk	-	-	6,318	849
(b) Capital Charge for Equity	-	610,458	356,531	1,150,159
(i) General Equity Risk	-	305,229	178,018	576,112
(ii) Specific Equity Risk	-	305,229	178,513	574,047
(c) Capital charge for Foreign Exchange & Gold	307,576	290,380	307,576	290,380
Total Risk Weighted Amount for Market Risk [(a) + (b) + (c)] * CAR	7,185,265	8,151,784	10,109,240	12,487,403

TEMPLATE X - Operational Risk under Basic Indicator Approach

Business Lines	BANK				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31 December 2022		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		23,916,218	30,814,162	43,009,895
The Standardised Approach					
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%				
Commercial Banking	15%				
The Alternative Standardised Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			
Capital Charges for Operational Risk (LKR'000)					
The Basic Indicator Approach	4,887,014				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	39,096,110				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

TEMPLATE X - Operational Risk under Basic Indicator Approach

Business Lines	GROUP				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31 December 2022		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		24,917,798	32,796,440	44,746,152
The Standardised Approach					
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%				
Commercial Banking	15%				
The Alternative Standardised Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			
Capital Charges for Operational Risk (LKR'000)					
The Basic Indicator Approach	5,123,020				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	40,984,156				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

TEMPLATE XI & XII - Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK

As at 31 December 2022	a	b	c	d	e
LKR '000	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	832,772,250	832,772,250	701,607,265	34,068,437	97,096,548
Cash and cash equivalents	34,849,521	34,849,521	34,849,521	-	-
Balances with the Central Banks of Sri Lanka	18,187,547	18,187,547	18,187,547	-	-
Placements with banks	4,108,989	4,108,989	4,108,989	-	-
Derivative financial instruments	7,909,252	7,909,252	7,909,252	-	-
Financial assets recognised through profit or loss - measured at fair value	19,318,483	19,318,483	-	19,318,483	-
Financial assets at amortised cost -loans and receivables to other customers	545,873,027	545,873,027	460,846,549	-	85,026,478
Financial assets at amortised cost - debt and other instruments	135,047,886	135,047,886	135,047,886	-	-
Financial assets measured at fair value through other comprehensive income	44,685,230	44,685,230	29,650,561	14,749,954	284,715
Investments in subsidiary companies	1,115,794	1,115,794	723,939	-	391,855
Intangible assets	1,804,321	1,804,321	-	-	1,804,321
Property, plant and equipment	3,261,362	3,261,362	3,261,362	-	-
Right of use assets	1,170,763	1,170,763	1,170,763	-	-
Deferred tax assets	9,004,747	9,004,747	-	-	9,004,747
Other assets	6,435,328	6,435,328	5,850,896	-	584,432
Liabilities	769,236,387	769,236,387			
Due to banks	20,251,657	20,251,657	-	-	-
Derivative financial instruments	96,246	96,246	-	-	-
Financial liabilities at amortised cost - due to depositors	672,314,023	672,314,023	-	-	-
Financial Liabilities at amortised cost - due to debt securities holders	130,541	130,541	-	-	-
Financial Liabilities at amortised cost - due to other borrowers	32,372,265	32,372,265	-	-	-
Debt securities issued	27,979,631	27,979,631	-	-	-
Current tax liabilities	6,470,353	6,470,353	-	-	-
Retirement benefit obligations	916,007	916,007	-	-	-
Other liabilities	8,705,664	8,705,664	-	-	-
Off-Balance Sheet Liabilities	293,609,756	293,609,756	291,375,398		
Guarantees	47,386,645	47,386,645	43,690,357	-	242,569
Performance Bonds	25,810,093	25,810,093	25,719,181	-	90,912
Letters of Credit	7,745,122	7,745,122	7,729,428	-	15,694
Other Contingent Items	6,388,781	6,388,781	6,388,781	-	-
Undrawn Commitments	178,539,261	178,539,261	178,539,261	-	-
Other Commitments	27,739,854	27,739,854	29,308,390	-	-
Shareholders' Equity					
Equity capital (Stated capital /Assigned capital)	19,870,665	19,870,665			
of which Amount eligible for CET1	19,870,665	19,870,665			
of which Amount eligible for AT1	-	-			
Retained earnings	37,381,043	37,381,043			
Accumulated Other comprehensive income	3,537,676	3,537,676			
Other reserves	2,746,479	2,746,479			
Total Shareholders' Equity	63,535,863	63,535,863			

*Carrying Values under the Scope of Regulatory Reporting is same as the Carrying Values as Reported in Published Financial Statements according to the Banking Act Direction No. 13 of 2021 & No. 14 of 2021 issued on 14th September 2021.

DSIB ASSESSMENT AS PER THE BANKING ACT DIRECTION No. 10 OF 2019 ON FRAMEWORK FOR DEALING WITH DOMESTIC SYSTEMATICALLY IMPORTANT BANKS

	GROUP	
	2022 LKR Mn	2021 LKR Mn
SIZE INDICATOR		
Section 1 - Total Exposures		
Total exposures measure	891,259	767,709
INTERCONNECTEDNESS INDICATORS		
Section 2 - Intra-Financial System Assets		
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)		
(i) Funds deposited	30,769	14,481
(ii) Lending	46,127	54,894
b. Holdings of securities issued by other financial institutions	5,587	8,036
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	-	14
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	92	1,172
Intra-financial system assets	82,575	78,597
Section 3 - Intra-Financial System Liabilities		
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)		
(i) Funds deposited	33,865	47,292
(ii) Borrowings	42,920	33,204
b. Net negative current exposure of securities financing transactions with other financial institutions	-	346
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	9	1,193
Intra-financial system liabilities	76,794	82,035
Section 4 - Securities Outstanding		
Securities outstanding	27,290	27,290
SUBSTITUTABILITY/FINANCIAL INSTITUTION INFRASTRUCTURE INDICATORS		
Section 5 - Payments made in the reporting year (excluding intragroup payments)		
Payments activity	7,175,784	7,018,451
Section 6 - Assets Under Custody		
Assets under custody	4,377	2,171
Section 7 - Underwritten Transactions in Debt and Equity Markets		
Underwriting activity	-	-
Section 8 - Trading Volume		
Trading volume (Number Mn)	26,589	14,185
COMPLEXITY INDICATORS		
Section 9 - Notional Amount of Over-the-Counter (OTC) Derivatives		
OTC derivatives	27,740	50,403
Section 10 - Level 2 Assets		
Level 2 assets	21,569	27,566
Section 11 - Trading and available for sale (AFS) securities		
Trading and AFS securities	74,152	95,819
Section 12 - Cross-Jurisdictional Liabilities		
Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	51,746	29,629
Section 13 - Cross-Jurisdictional Claims		
Cross-jurisdictional claims (excluding derivatives and intragroup claims)	68,129	30,949

INVESTOR RELATIONS

The Bank has a dedicated function for maintaining Investor Relations, in a bid to ensure sound relations with investors, identified as a key stakeholder group making tremendous contribution towards the success of the Bank.

CONSTITUENTS OF THE INVESTOR RELATIONS ECOSYSTEM OF THE BANK

- Shareholders
- Debenture holders
- Potential investors including development financing institutions
- Investment analysts
- Stock brokers
- Credit rating agencies
- Financial press

UNDERLYING PRINCIPLES OF OUR INVESTOR RELATIONS

- Quality and timeliness of disclosures
- Transparency
- Fairness in disclosures
- Avoidance of selective disclosures
- Maintaining same levels of engagements at all times consistently, irrespective of the Group's performance

INVESTOR SUPPORT

Investor support is extended via a wide range of engagement activities as listed below.

- Annual General Meeting
- One-to-one investor meetings
- Financial statements released to the CSE
- Press releases
- Investor presentations
- Investor transcripts
- Email notifications
- Local and foreign investor fora
- Online investor webinars
- Earnings calls
- Road shows
- Investor relations web page within the Bank's corporate website
- Dedicated communication methods to reach us
- Financial results calendars shared well in advance for quarterly results releases

RECOGNITION

Annual CFA Sri Lanka Capital Market Awards – Silver award winner 2022 and 2021, Gold award winner for four consecutive years [2016-2019]. Refer page 282 for full list of awards under Excellence in Investor Relations.

SHAREHOLDER MILESTONES 1979 – 2022

1979

Under and by virtue of the National Development Bank of Sri Lanka Act No. 2 of 1979 a bank was established with an authorised capital of LKR 2,000 million comprising 20 million ordinary shares of LKR 100.00 each. (which was subsequently subdivided into 200 million ordinary shares of LKR 10.00 each).

1993

61% of the share capital of the National Development Bank of Sri Lanka (NDBSL) was transferred to private ownership through an IPO at LKR 50.00 per share

1997

NDBSL was privatised further by the early conversion of its convertible debentures, reducing the Governments direct shareholding to 12.2%. A further 2.56% of the issued shares were purchased by NDBSL for an Employees Share Ownership Plan.

2000

A 1:2 bonus issue increased the number of shares in issue to 53,750,000.

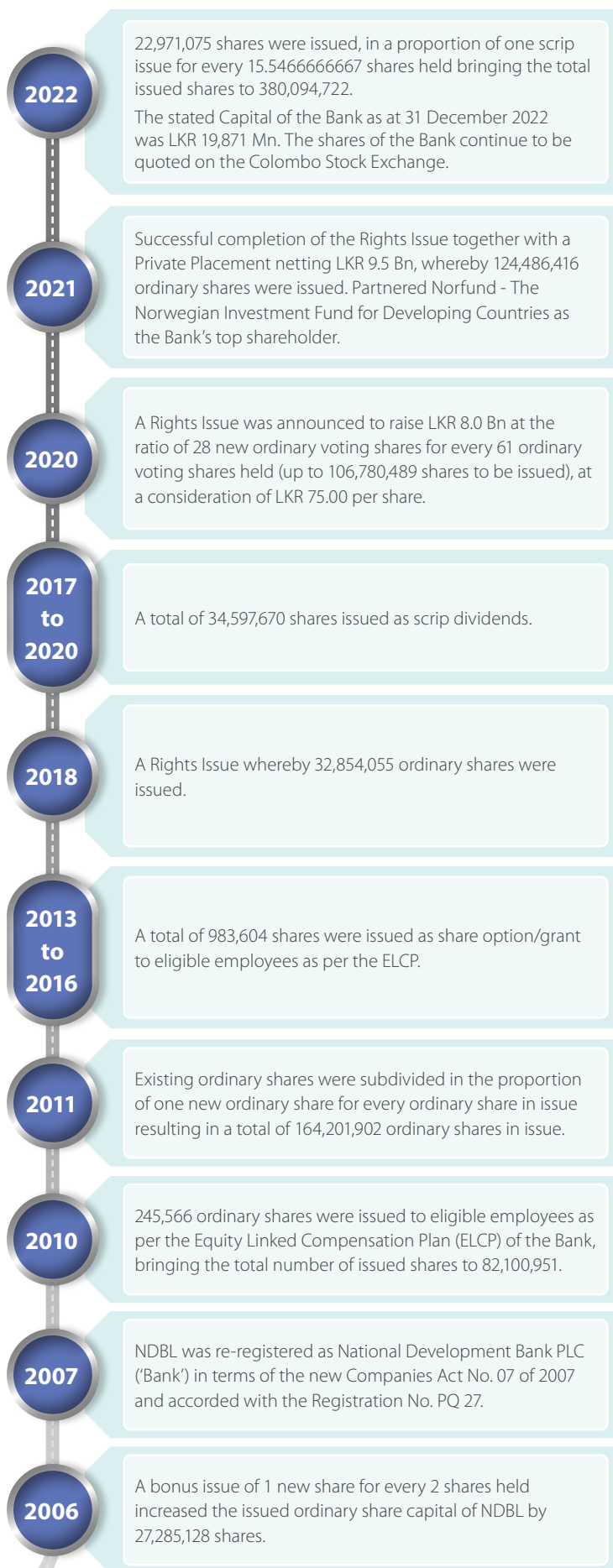
2001

As a part of its long term plans, NDBSL incorporated a commercial bank under the Companies Act No. 17 of 1982 under the name 'NDB Bank Limited' (NBL) to take over the business and operations of ABN Amro NV Colombo Branch.

2005

Pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provisions) Act No. 1 of 2005 a company by the name of National Development Bank Limited (NDBL) was incorporated in terms of the Companies Act No. 17 of 1982 (and was accorded with the Registration No. N (PBS) 1252) for the purposes of taking over the business of NDBSL on 15 June 2005 and the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

NDBL acquired the business and operations of NBL. In view of this, the shareholders of NBL were issued with shares of NDBL at the ratio of 1 NDBL share for every 5.6 shares of NBL held by them. This resulted in the increase of the issued capital of NDBL to 54,570,257 shares. In order to facilitate this transition, on the date of such acquisition, the Central Bank of Sri Lanka granted a commercial banking license to NDBL whilst withdrawing the specialised banking license that was held by it.



SECURITIES IN ISSUE - NDB

Ordinary shares

Debentures

- Basel III compliant Listed rated unsecured subordinated redeemable debentures with a non-viability conversion issued in 2021, 2020 and 2019
- Basel II compliant Listed rated unsecured subordinated redeemable debentures issued in 2013

ORDINARY SHARES

1. FEATURES OF ORDINARY SHARES

Security type	Quoted Ordinary Shares
Listed exchange	Colombo Stock Exchange (CSE) – Main Board
Featured stock indices	All Share Price Index (ASPI) Standard & Poor's Sri Lanka 20 (S&P SL20)
GIICS Sector Classification	Banks (SPCSEBP)
CSE stock symbol	NDB.N0000
ISIN	LK0207N00007
Bloomberg newswire code	NDB SL
Reuters newswire code	NDB.CM

2. ANALYSIS OF EQUITY MARKET PERFORMANCE AND NDB SHARE PERFORMANCE - 2022

2.1 Performance of Global Equity Markets

Global equities dropped by approximately 20% in 2022, recording the worst performance since the global financial crisis in 2008. This was mainly due to the soaring inflation and the energy price shock triggered by the Russia - Ukraine war which prompted global central banks to raise interest rates sharply. The US Federal Reserve hiked its rates by 400 bps, while the European Central Bank increased by a record 250 bps during the year. In emerging markets, the Turkish stock exchange gained by 80% in dollar terms, becoming the best-performing stock exchange in the world, as domestic investors sought refuge from the runaway inflation. Britain's shares recorded modest annual gains, and the FTSE 100 index ended the year +1% YoY, as a result of the gains in energy companies, which benefitted from Europe's gas supply crisis. The other European markets had a tough year with the Pan-European Stoxx 600 index losing 12.4% and Germany's DAX falling by 12.3%; the biggest annual drop since 2018. Asian markets too recorded losses and Japan's Nikkei index fell by 11% during the year, while China's CSI 300 index declined by more than a fifth, as COVID-19 lockdowns hit growth. Chinese stocks produced a late rally with the easing of its zero-Covid policy, however, the market ended the year with the stocks trading below 24% YoY. This was also evidenced by the MSCI Emerging Market Index dropping by 20%, in which China is a major constituent. The US stock market also had a tough year with the S&P 500 index dropping by about 20% and the Dow Jones losing 10%. Overall, the global equity market recorded a significant decline, as indicated by the MSCI All Country World Index, which dropped by 18%. The MSCI World Index declined by 18% in 2022, while the MSCI Frontier Market Index declined by 26%.

2.2 Performance of the Colombo Stock Exchange

In 2022, the Sri Lankan equity market declined by 31%, notwithstanding the record highs at the beginning of the year. The worst economic and currency crisis faced by the country since its independence was the main reason behind the market fall. Sri Lanka experienced a challenging year amidst the sharp depreciation of the local currency, a shortage of essential goods (including fuel, gas and medicine), prolonged power outages, and soaring inflation and interest rates. The tourism sector saw an improvement compared to the COVID-19 affected 2021, however the arrivals are yet to reach the pre-pandemic levels. The year witnessed an increased investor interest towards export and energy equities, which

benefited from the depreciation of the local currency, the introduction of the fuel price formula and the subsequent rise in pump prices. The increase in market share for Lanka Indian Oil Company amidst Ceylon Petroleum Corporation's inability to bring down fuel (due to the sovereign downgrade and forex illiquidity), further increased the appeal towards the stock. Foreign investors emerged as net buyers during the year (a net foreign inflow of LKR 31 Bn in 2022 vs. a net foreign outflow of LKR 53 Bn in 2021), and the foreign participation marginally improved to 8% in 2022, from 5% in 2021. The average daily market turnover dropped 39% to LKR 3 Bn in 2022 compared to LKR 5 Bn in 2021. Stocks in the Diversified Financials and Transportation sectors emerged as top losers in 2022.

2.3 Performance of the NDB share

The banking sector recorded a decline of 37%, and emerged as one of the worst-affected sectors from the economic crisis in Sri Lanka. NDB's share closed the year 54% lower compared to 2021, at LKR 32.00. During the year, the adjusted stock price (adjusted for scrip dividend) reached a high of LKR 68.68 in January, and a low of LKR 31.30 in November. The stock recorded a total turnover of LKR 1.3 Bn during the year, and the total number of trades was at 13,295. A total of 21 Mn NDB shares were traded during the year.

3. ANALYSIS OF ORDINARY SHAREHOLDERS AS AT 31 DECEMBER 2022 AS PER RULE 7.6(X) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

3.1 Distribution of Shareholders

Shareholding Range	As at 31 December 2022				As at 31 December 2021			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1-1,000	6,797	59.96	1,893,741	0.50	7,195	62.10	2,077,904	0.58
1,001-10,000	3,568	31.47	11,169,772	2.94	3,461	29.87	11,306,361	3.17
10,001-100,000	829	7.31	22,070,489	5.81	788	6.80	20,791,970	5.82
100,001-1,000,000	106	0.94	30,221,489	7.95	110	0.95	34,119,135	9.55
Over 1,000,000	36	0.32	314,739,231	82.80	33	0.28	288,828,277	80.88
Total	11,336	100.00	380,094,722	100.00	11,587	100.00	357,123,647	100.00

3.2 Resident/non-resident Shareholding

Shareholding Range	As at 31 December 2022				As at 31 December 2021			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Resident	11,206	98.85	317,772,895	83.60	11,459	98.90	293,656,468	82.23
Non-resident	130	1.15	62,321,827	16.40	128	1.10	63,467,179	17.77
Total	11,336	100.00	380,094,722	100.00	11,587	100.00	357,123,647	100.00

3.3 Individual/institutional Shareholding

Shareholding Range	As at 31 December 2022				As at 31 December 2021			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
Individual	10,783	95.12	63,730,583	16.77	10,981	94.77	57,813,835	16.19
Institutional	553	4.88	316,364,139	83.23	606	5.23	299,309,812	83.81
Total	11,336	100.00	380,094,722	100.00	11,587	100.00	357,123,647	100.00

Out of the 380,094,722 shares in issue, 36,507 shares amounting to 0.0096% held by one shareholder is not registered in the shareholder register of NDB/held in suspense pending registration, in line with the provisions of the Banking Act No. 30 of 1988.

4. 20 LARGEST REGISTERED SHAREHOLDERS OF THE BANK AS AT 31 DECEMBER 2022 AS PER RULE NO 7.6(III) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

Name	2022		Name	2021	
	Number of shares	%		Number of shares	%
1 Standard Chartered Bank Mauritius S/A Norfund	37,971,462	9.99	Standard Chartered Bank Mauritius S/A Norfund	35,676,652	9.99
2 Employee's Provident Fund	36,125,392	9.50	Employee's Provident Fund	33,942,150	9.50
3 Bank of Ceylon No. 1 Account	30,210,035	7.95	Bank of Ceylon No. 1 Account	28,384,288	7.95
4 Richard Pieris and Co Ltd - Account No. 01	23,545,358	6.19	Sri Lanka Insurance Corporation Ltd-General Fund	21,703,769	6.08
5 Sri Lanka Insurance Corporation Ltd-General Fund	23,099,809	6.08	Richard Pieris and Co Ltd - Account No. 01	20,241,043	5.67
6 Sri Lanka Insurance Corporation Ltd-Life Fund	19,204,777	5.05	Sri Lanka Insurance Corporation Ltd-Life Fund	18,044,134	5.05
7 Softlogic Life Insurance PLC Account Number 03/Life Shareholders Fund	15,066,780	3.96	Softlogic Life Insurance PLC Account Number 03/Life Shareholders Fund	14,156,218	3.96
8 Employees Trust Fund Board	12,892,611	3.39	Employees Trust Fund Board	12,113,445	3.39
9 Dr. S. Yaddehige	10,814,195	2.85	Dr. S. Yaddehige	10,160,638	2.85
10 Hatton National Bank PLC A/C No 1	10,536,091	2.77	Hatton National Bank PLC A/C No 1	9,899,341	2.77
11 Perpetual Treasuries Limited	9,298,864	2.45	Perpetual Treasuries Limited	8,736,886	2.45
12 SBI Ven Holdings Pte Ltd	9,226,644	2.43	SBI Ven Holdings Pte Ltd	8,669,031	2.43
13 Commercial Bank of Ceylon PLC/Metrocorp (Pvt) Ltd	7,963,839	2.10	Phoenix Ventures Private Limited	6,769,999	1.90
14 People's Leasing & Finance PLC/Mr. D. Schaffter	7,066,635	1.86	Rush Japan Corporation	6,724,630	1.88
15 Phoenix Ventures Private Limited	6,151,153	1.62	People's Leasing & Finance PLC/Mr. D. Schaffter	6,639,562	1.86
16 Akbar Brothers Pvt Ltd A/C No 1	5,795,780	1.52	Akbar Brothers Pvt Ltd A/C No 1	5,445,512	1.52
17 Mr. A.K. Pathirage	5,480,626	1.44	Mr. A.K. Pathirage	5,149,404	1.44
18 Asiri Surgical Hospital PLC	5,389,041	1.42	Asiri Surgical Hospital PLC	5,063,354	1.42
19 Arpico Insurance PLC - Share Holders	3,613,375	0.95	Arpico Insurance Limited	3,395,001	0.95
20 DFCC Bank PLC A/C 1	3,372,735	0.89	DFCC Bank PLC A/C 1	3,168,904	0.89
	282,825,202	74.41		264,083,961	73.95
Others - registered	97,233,013	25.58	Others - registered	93,039,686	26.05
- unregistered	36,507	0.01	- unregistered	-	-
Total	380,094,722	100.00	Total	357,123,647	100.00

Out of the 380,094,722 shares in issue, 36,507 shares amounting to 0.0096% held by one shareholder is not registered in the shareholder register of NDB/held in suspense pending registration, in line with the provisions of the Banking Act No. 30 of 1988.

All shares issued by the Bank are denominated only in LKR as at 31 December 2022.

5. PERCENTAGE OF THE SHARES HELD BY THE PUBLIC

	As at 31 December 2022	As at 31 December 2021
Float adjusted Market Capitalisation (LKR Mn)	8,748	17,692
Percentage of the shares held by the public	71.92%	71.90%
Number of public shareholders	11,336	11,555
Option under which the Bank complies with the minimum Public Holding requirement	1*	1*

*As set out in the Listing Rules of the Colombo Stock Exchange

6. DIRECTORS' INTEREST IN SHARES OF THE BANK

	As at 31 December 2022	As at 31 December 2021
	Number of shares	Number of shares
Mr. Sriyan Cooray (appointed as Chairman w.e.f. 01 July 2022)	Nil	Nil
Mr. Dimantha Seneviratne	75,375	70,820
Mr. Bernard Sinniah	Nil	Nil
Mr. Sujeewa Mudalige	Nil	Nil
Mr. Kushan D'Alwis, PC	Nil	Nil
Ms. Chandima Dilrukshi	Nil	Nil
Ms. (Fay) Piyachatr Chetnakarnkul	Nil	Nil
Ms. Kasturi Wilson (appointed w.e.f. 03 October 2022)	Nil	Nil
Mr. Hiran Perera (resigned w.e.f. 14 February 2023)	Nil	Nil
Mr. Eshana de Silva (resigned w.e.f. 30 June 2022)	Nil	Nil

All shares issued to Directors including the CEO are denominated only in LKR.

7 INFORMATION ON SHARE TRADING

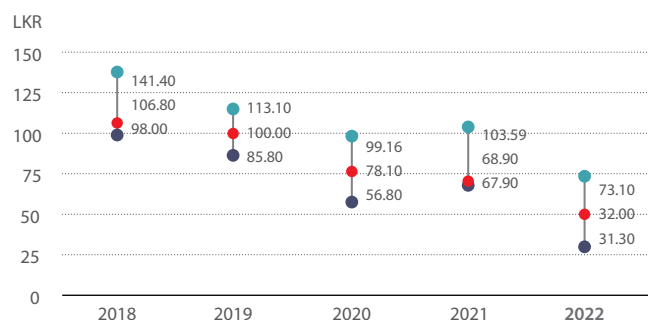
7.1 Share Price Movement Trend Over the Past Five Years

	2022	2021	2020	2019	2018
Highest price (LKR)	73.10	103.59	99.16	113.10	141.40
Highest price adjusted for scrip dividends (LKR)	68.68	97.33	91.26	100.48	111.38
Date/s highest price was recorded	11 January 2022	29 January 2021	02 January 2020	29 July 2019	22 February 2018
Lowest price (LKR)	31.30	67.90	56.80	85.80	98.00
Lowest price adjusted for scrip dividends (LKR)	31.30	63.80	52.28	75.20	81.55
Date/s lowest price was recorded	22 November 2022	21,28 and 29 December 2021	15 May 2020	27 May 2019	16 October 2018
Price as at 31 December/last trading date of the year (LKR)	32.00	68.90	78.10	100.00	106.80
Price as at 31 December adjusted for scrip dividends (LKR)	32.00	64.74	71.88	87.75	88.87
Total number of shares in issue	380,094,722	357,123,647	232,637,231	221,799,756	210,317,117

Out of the 380,094,722 shares in issue, 36,507 shares amounting to 0.0096% held by one shareholder is not registered in the shareholder register of NDB/held in suspense pending registration, in line with the provisions of the Banking Act No. 30 of 1988.

Source: Bloomberg, CSE Reports

Share Price Movement



—	Highest price
●	Price as at 31 December/last trading date of the year
●	Lowest price

NDB share price on the date of approval of the Annual Report
LKR 38.80 AS AT 21 FEBRUARY 2023

7.1.1 Share Price Movement Over the Year

Month	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Highest price (LKR)	68.68	68.12	62.95	59.80	49.00	38.00	38.40	36.40	47.50	43.00	37.00	35.40
Lowest price (LKR)	64.36	59.76	48.86	45.00	35.50	33.20	32.20	32.00	33.50	36.10	31.30	31.60
Price as at month end (LKR)	66.71	60.41	52.33	47.20	36.70	35.00	33.50	33.80	43.00	36.80	34.70	32.00

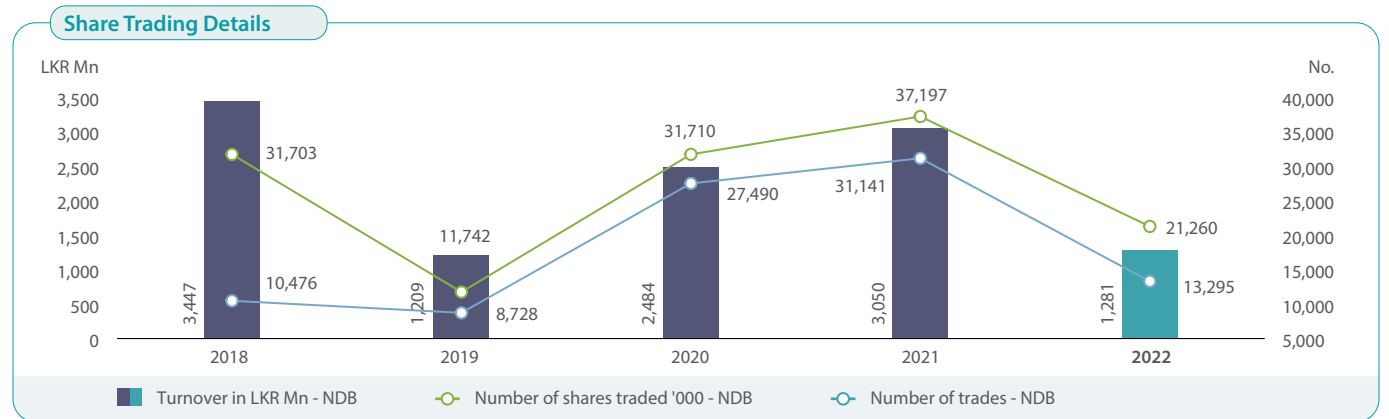
Note: Prices have been adjusted for scrip dividends

Source: Bloomberg

7.2 Share Trading Details

Year	2022	2022				2021	2020	2019	2018
		Q4	Q3	Q2	Q1				
Number of trades - NDB	13,295	1,962	3,379	2,168	5,786	31,141	27,490	8,728	10,476
Percentage of total market trades	0.22%	0.18%	0.19%	0.29%	0.24%	0.38%	0.90%	0.73%	1.18%
Number of NDB shares traded ('000)	21,260	1,540	2,286	2,284	15,149	37,197	31,710	11,742	31,703
Percentage of total shares traded in the market	0.07%	0.03%	0.03%	0.06%	0.12%	0.06%	0.15%	0.12%	0.53%
Turnover - NDB (LKR Mn)	1,281	54	84	99	1,043	3,050	2,484	1,209	3,447
Average daily turnover (LKR Mn)	6	1	1	2	18	13	12	5	14
Percentage of total market turnover	0.19%	0.05%	0.04%	0.14%	0.34%	0.26%	0.63%	0.71%	1.72%

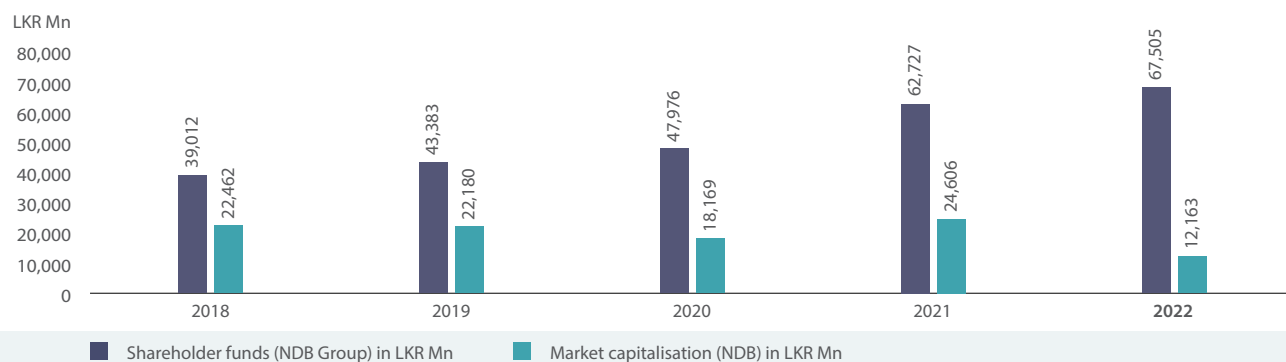
Source: CSE Quarterly reports



7.3 Shareholder Funds and Market Capitalisation

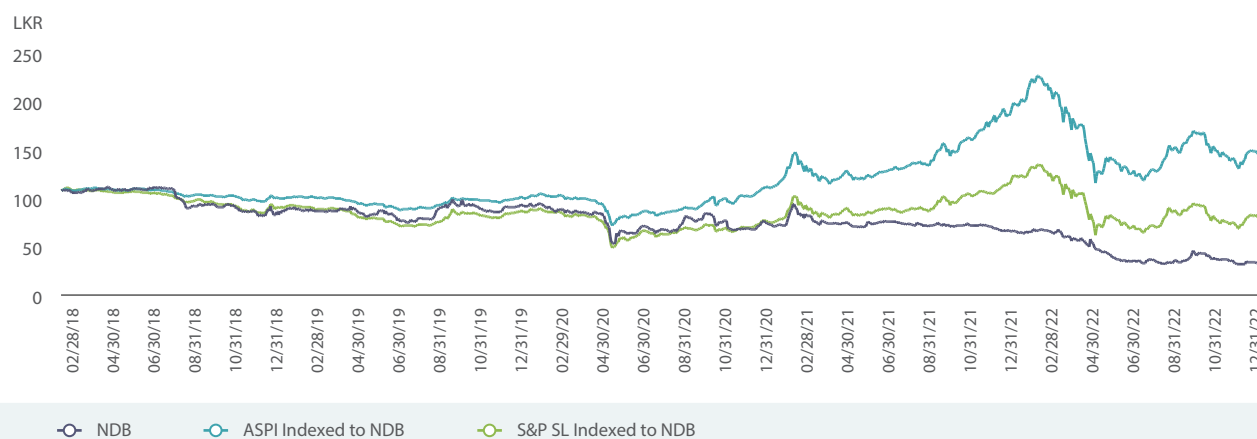
Year	2022	2021	2020	2019	2018
Shareholder funds (NDB Group) in LKR Mn	67,505	62,727	47,976	43,383	39,012
Percentage increase/decrease in shareholder funds over the prior year	8%	31%	11%	11%	18%
Market capitalisation (NDB) in LKR Mn	12,163	24,606	18,169	22,180	22,462
Percentage increase/decrease in NDB market capitalisation over the prior year	-51%	35%	-18%	-1%	-4%
Market capitalisation (CSE) in LKR Mn	3,847,150	5,489,168	2,960,648	2,851,313	2,839,446
Percentage increase/decrease in CSE market capitalisation over the prior year	-30%	85%	4%	0%	-2%
NDB's market capitalisation as a percentage of CSE market capitalisation	0.3%	0.4%	0.6%	0.8%	0.8%
Market capitalisation rank of NDB in the CSE	63	44	42	27	25
Market capitalisation (Banks sector within CSE) in LKR Mn	219,848	343,541	318,887	368,903	408,426
NDB's market capitalisation as a percentage of Banks sector capitalisation	5.5%	7.2%	5.7%	6.0%	5.5%
Beta value of NDB share against ASPI	0.63	0.53	1.37	1.53	1.88
Beta value of NDB share against S&P SL20	0.47	0.54	1.09	1.15	1.25

Shareholder Funds and Market Capitalisation



7.4 NDB Share Performance in Comparison to Selected Local Indices

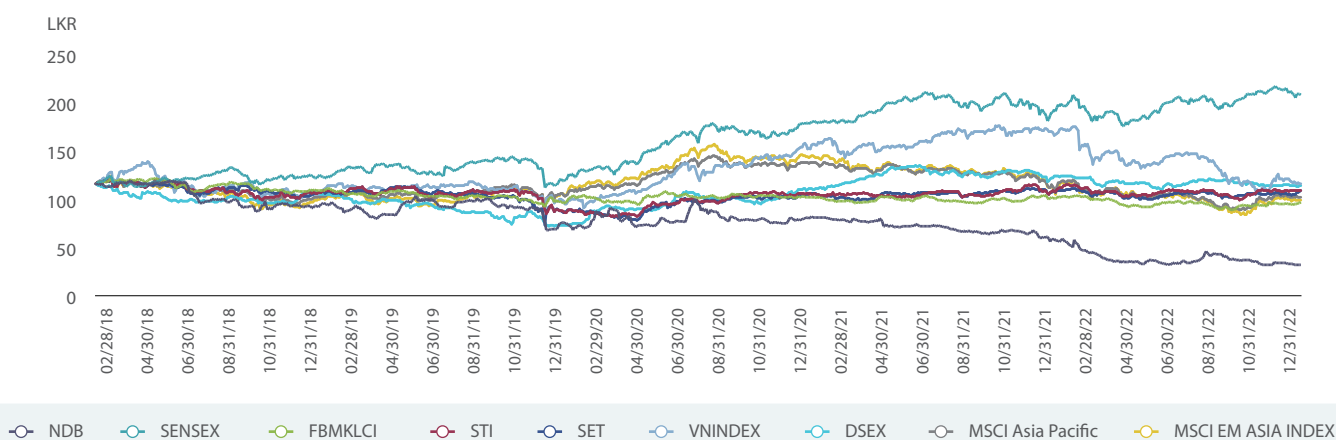
NDB Group vs Indices



Source: Bloomberg

7.5 NDB Share Performance in Comparison to Key Regional Indices

NDB Group vs Indices



Source: Bloomberg

8. KEY SHAREHOLDER RETURN INDICATORS - NDB GROUP

Year	2022	2021	2020	2019	2018
Return on equity (%)	4.62	12.47	11.20	11.59	14.26
Gross dividends paid during the year (LKR Mn)	1,964	349	1,553	1,683	1,200
Dividend per share (DPS) (LKR)*	-	5.50	1.50	7.00	8.00
Dividend yield (%)*	-	7.98	1.92	7.00	7.49
Dividend payout ratio (%)*	-	26.34	6.82	34.10	30.38
Earnings per share (EPS) (LKR)	7.92	20.88	21.99	20.53	26.33
Dividend cover (Times)*	-	3.80	14.66	2.93	3.29
Total shareholder return ratio (TSR) (%)	-45.57	-9.86	-14.90	1.12	-16.57
Price earnings ratio (PE ratio) (Times)	4.04	3.30	3.55	4.87	4.06
Net asset value per share (LKR)	177.60	175.65	206.23	195.60	185.49
Price to book value (Times)	0.18	0.39	0.38	0.51	0.58

* The Board of Directors will consider a declaration of dividends for the year 2022 in due course. The Bank paid a total dividend of LKR 5.50 per share comprising of a cash dividend of LKR 1.00 per share and a scrip dividend of LKR 4.50 per share for the year 2021.

11. DEBENTURES IN ISSUE

- Rated unsecured subordinated redeemable debentures with a non-viability conversion issued in – 2021, 2020 and 2019
- Rated unsecured subordinated redeemable debentures issued in – 2013

		2021 November		2020 September		2019 March		2013 December	
Key features and trading details of the debentures									
Types of Debentures	Type A	Type B	One Type	Type A	Type B	Type C	Type D		
Debenture Code	NDB-BD-23/11/26-C2494-11.9	NDB-BD-23/11/28-C2495-12	NDB-BD-24/09/25-C2452-9.5	NDB-BD-30/03/24-C2419-13.5	NDB-BD-30/03/24-C2420-13.95	NDB-BC-19/12/23C13.9	NDB-BC-19/12/25D14		
ISIN	LK0207D24941	LK0207D24958	LK0207D24529	LK0207D24198	LK0207D24206	LK0207D21038	LK0207D21053		
Issue price LKR	100	100	100	100	100	100	100		
Par value LKR	100	100	100	100	100	100	100		
Interest rate per annum	11.90%	12.00%	9.50%	13.50%	13.95%	13.90%	14.00%		
Interest payment frequency	Semi-Annually	Semi-Annually	Annually	Semi-Annually	Annually	Annually	Annually		
Annual Effective Rate per annum	12.25%	12.36%	9.50%	13.96%	13.95%	13.90%	14.00%		
Date of allotment	21 November 2021	21 November 2021	25 September 20	31 March 2019	31 March 2019	19 December 2013	19 December 2013		
Redemption (from the date of allotment)	60 months (5 years)	84 months (7 years)	60 months (5 years)	60 months (5 years)	60 months (5 years)	120 months (10 years)	144 months (12 years)		
Interest payment dates	23 May and 23 November	23 May and 23 November	24 September up to 2024 and 23 September in 2025	30 September and 30 March	30 March	31 December	31 December		
Trading Details for the year ended 31 December 2022									
CSE Listing	Listed	Listed	Listed	Listed	Listed	Listed	Listed		
Balance as at 31 December 2022 (LKR Mn)	7,955	117	6,646	1,283	4,761	3,635	3,583		
Market Value	Highest 90.00	Not traded during the year	Not traded during the year	Not traded during the year	Not traded during the year	Not traded during the year	Not traded during the year		
	Lowest 90.00								
	Year end 90.00								
Interest Rate	11.90%	12.00%	9.50%	13.50%	13.95%	13.90%	14.00%		
Effective Annual Yield	11.66%	11.73%	9.16%	13.17%	13.10%	13.17%	13.26%		
Interest Rate of comparable Government security	11.14%	11.61%	6.57%	11.04%	11.04%	11.80%	12.09%		
Other Ratios as at last trade	13.22%	N/A	N/A	N/A	N/A	N/A	35.00%		
Yield to Maturity	15.28%	N/A	N/A	N/A	N/A	N/A	62.56%		

12. INFORMATION ON DEBENTURES OF THE BANK (AS PER RULE NO. 7.6 X (I) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE) - BANK

	2022	2021
Debt to Equity (Times)	11.85	10.71
Interest Cover (Times)	1.46	1.70
Statutory Liquid Assets Ratio - Bank (%) (Minimum Requirement -20%)	27.24	N/A
Domestic Banking Unit (%) (Minimum Requirement -20%)	N/A	23.14
Off-Shore Banking Unit (%) (Minimum Requirement -20%)	N/A	25.31
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 90% (2021 - 100%))	297.08	193.03
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 90% (2021 - 100%))	232.68	171.33

13. OTHER INFORMATION ON DEBENTURES OF THE BANK

Please refer page 374 Corporate Information for Registrar and Trustee details.

14. DIRECTORS' INTEREST IN LISTED DEBENTURES AS AT 31 DECEMBER 2022

None of the Directors of the Bank had any interest in any listed debentures of the Bank as at 31 December 2022 as issued in November 2021, September 2020, March 2019 and December 2013.

15. PROPOSED DEBENTURE ISSUE 2023

Please refer Note Number 53 Events Occurring After the Date of the Statement of Financial Position under Notes to the Financial Statements (page 244).

16. CREDIT RATINGS SUMMARY

NDB at present engages the services of Fitch Ratings Lanka Limited for local credit ratings and the Bank's ratings are as follows.

As per rating action in July 2022

- National long term rating/Outlook: Affirmed at A-(Ika) RWN
- Basel III compliant subordinated term debt: BBB (Ika) RWN
- Basel II compliant subordinated term debt: BBB (Ika) RWN

Please refer our Investor Relations web page within the NDB corporate website on <http://www.ndbbank.com> to read the full rating reports.

OTHER INFORMATION

16 FINANCIAL STATEMENTS IN USD - BANK & GROUP

16.1 Statement of Profit or Loss

For the year ended 31 December	BANK			GROUP		
	2022 USD '000	2021 USD '000	%	2022 USD '000	2021 USD '000	%
Gross income	332,933	308,764	8	337,928	318,569	6
Interest income	296,627	261,947	13	297,534	262,454	13
Less: Interest expenses	203,494	154,456	32	203,230	154,373	32
Net interest income	93,133	107,491	(13)	94,305	108,081	(13)
Fee and commission income	19,008	28,012	(32)	22,535	36,711	(39)
Less: Fee and commission expenses	51	165	(69)	51	165	(69)
Net Fee and commission income	18,957	27,846	(32)	22,483	36,545	(38)
Net gains/(losses) from trading	(1,031)	10,422	(110)	(1,031)	10,422	(110)
Net gains/(losses) from financial assets at fair value through profit or loss	(1,181)	2,153	(155)	(1,031)	2,786	(137)
Net gains/(losses) from derecognition of financial assets	46	926	(95)	46	926	(95)
Other operating income	19,463	5,305	267	19,876	5,271	277
Total operating income	129,388	154,143	(16)	134,647	164,031	(18)
Less: Impairment charges	88,735	51,028	74	88,689	50,968	74
Net operating income	40,653	103,115	(61)	45,959	113,062	(59)
Less: Operating expenses						
Personnel expenses	17,378	28,197	(38)	19,277	31,432	(39)
Depreciation and amortisation expenses	2,565	4,134	(38)	2,805	4,544	(38)
Other expenses	14,542	19,540	(26)	15,782	21,266	(26)
Total operating expenses	34,485	51,871	(34)	37,864	57,242	(34)
Operating profit before Tax on financial services	6,168	51,244	(88)	8,094	55,820	(85)
Less: Tax on financial services	3,645	10,015	(64)	3,645	10,015	(64)
Operating profit after Tax on financial services	2,523	41,229	(94)	4,450	45,805	(90)
Share of associate companies' profits/(losses)		-			-	
Profit before taxation	2,523	41,229	(94)	4,450	45,805	(90)
Less: Income tax expenses	(6,289)	9,599	(166)	(4,868)	10,694	(146)
Profit for the year	8,813	31,629	(72)	9,318	35,110	(73)
Profit attributable to equity holders of the parent	8,813	31,629	(72)	9,115	34,323	(73)
Non-controlling interests	-	-	-	203	788	(74)
Profit for the year	8,813	31,629	(72)	9,318	35,110	(73)
Basic/Diluted Earnings per share (USD)	0.02	0.10	(76)	0.02	0.10	(77)
Dividend per share (USD)	-	0.03				

162 Statement of Comprehensive Income

	BANK			GROUP		
	2022 USD '000	2021 USD '000	%	2022 USD '000	2021 USD '000	%
Profit for the year	8,813	31,629	(72)	9,318	35,110	(73)
Other comprehensive income items that will be reclassified to the Statement of Profit or Loss						
Exchange differences on translation of foreign operations	-	-	-	669	114	488
Gains/(losses) on investments in debt instruments - fair value through other comprehensive income -						
Net change in fair value during the year	7,334	(11,698)	163	7,245	(11,767)	162
Changes in allowance for expected credit losses	(549)	674	(181)	(549)	674	(181)
Deferred tax effect on gains/ (losses) in above financial instruments	(2,046)	2,948	(169)	(2,046)	2,932	(170)
Net gains/(losses) on investments	4,739	(8,076)	159	4,650	(8,161)	157
Gains/(losses) on cash flow hedge reserve	13,284	-	100	13,284	-	100
Deferred tax effect on gains/ (losses) cash flow hedge reserve	(3,985)	-	(100)	(3,985)	-	(100)
Net gains/(losses) on cash flow hedge reserve	9,299	-	100	9,299	-	100
Net other comprehensive income that will be reclassified to the Statement of Profit or Loss (a)	14,038	(8,076)	274	14,618	(8,047)	282
Items that will not be reclassified to the Statement of Profit or Loss						
Net gains/(losses) on investments in equity instruments - fair value through other comprehensive income	(922)	(246)	(275)	(922)	(246)	(275)
Revaluation of freehold land and buildings	756	113	567	960	269	257
Deferred tax effect on revaluation gains/(losses)	(562)	335	(268)	(659)	331	(299)
Net gains/(losses) on revaluation of freehold land and buildings	194	448	(57)	300	600	(50)
Actuarial gains/(losses) on defined benefit plans	206	1,573	(87)	176	1,741	(90)
Deferred tax effect on actuarial gains/(losses)	127	(127)	200	136	(168)	181
Net actuarial gains/(losses) on defined benefit plans	334	1,446	(77)	313	1,572	(80)
Deferred tax effect on tax rate change on day one adjustment of impairment allowance	-	(465)	100	-	(465)	100
Net other comprehensive income that will not be reclassified to the Statement of Profit or Loss (b)	(394)	1,184	(133)	(309)	1,462	(121)
Total other comprehensive income for the year, net of taxes (a+b)	13,644	(6,893)	298	14,310	(6,585)	317
Total comprehensive income for the year	22,456	24,736	(9)	23,627	28,525	(17)
Attributable to:						
Equity holders of the parent	22,456	24,736	(9)	23,281	27,718	(16)
Non-controlling interests	-	-	-	347	807	(57)
Total comprehensive income for the year	22,456	24,736	(9)	23,627	28,525	(17)

163 Statement of Financial Position

As at 31 December	BANK			GROUP		
	2022 USD '000	2021 USD '000	%	2022 USD '000	2021 USD '000	%
Assets						
Cash and cash equivalents	94,958	66,725	42	97,351	68,484	42
Balances with the Central Bank of Sri Lanka	49,557	81,609	(39)	49,557	81,609	(39)
Placements with banks	11,196	41,291	(73)	11,196	41,291	(73)
Derivative financial instruments	21,551	6,658	224	21,551	6,658	224
Financial assets recognised through profit or loss - measured at fair value	52,639	12,148	333	56,644	23,802	138
Financial assets at amortised cost - loans and receivables to other customers	1,487,392	2,510,144	(41)	1,487,520	2,509,325	(41)
Financial assets at amortised cost - debt and other instruments	367,978	269,965	36	367,978	269,965	36
Financial assets measured at fair value through other comprehensive income	121,758	445,533	(73)	123,854	446,252	(72)
Investments in subsidiary companies	3,040	5,626	(46)	-	-	-
Investments in associate companies	-	-	-	-	-	-
Investment property	-	-	-	7,845	12,578	(38)
Property, plant & equipment	8,887	15,641	(43)	10,648	18,584	(43)
Right of use assets	3,190	5,446	(41)	3,606	6,395	(44)
Intangible assets	4,916	5,990	(18)	4,941	6,055	(18)
Current tax receivables	-	-	-	118	138	(14)
Deferred tax assets	24,536	17,002	44	24,656	17,130	44
Other assets	17,535	23,349	(25)	19,176	28,213	(32)
Total assets	2,269,134	3,507,127	(35)	2,286,643	3,536,477	(35)
Liabilities						
Due to banks	55,182	123,237	(55)	55,310	123,488	(55)
Derivative financial instruments	262	5,217	(95)	262	5,217	(95)
Financial liabilities at amortised cost						
Due to depositors	1,831,918	2,746,467	(33)	1,830,282	2,742,570	(33)
Due to debt securities holders	356	6,672	(95)	356	6,672	(95)
Due to other borrowers	88,208	125,517	(30)	88,208	125,517	(30)
Debt securities issued	76,239	139,108	(45)	76,239	139,108	(45)
Current tax liabilities	17,630	11,976	47	18,080	12,866	41
Deferred tax liabilities	-	-	-	2,380	2,832	(16)
Retirement benefit obligations	2,496	3,660	(32)	2,777	4,129	(33)
Other liabilities	23,721	52,078	(54)	25,022	55,339	(55)
Total liabilities	2,096,012	3,213,932	(35)	2,098,915	3,217,738	(35)
Equity						
Stated capital	54,144	90,864	(40)	54,144	90,864	(40)
Statutory reserve fund	7,484	12,793	(42)	7,484	12,793	(42)
Retained earnings	101,856	194,698	(48)	112,114	212,592	(47)
Other reserves	9,639	(5,161)	287	10,196	(4,173)	344
Total equity to equity holders of the Bank	173,122	293,195	(41)	183,937	312,075	(41)
Non-controlling interests	-	-	-	3,791	6,664	(43)
Total equity	173,122	293,195	(41)	187,728	318,739	(41)
Total liabilities and equity	2,269,134	3,507,127	(35)	2,286,643	3,536,477	(35)
Contingent liabilities and commitments	800,027	1,552,599	(48)	802,116	1,552,131	(48)
Net asset value per share (USD)	0.46	0.82	(45)	0.48	0.87	(45)

17. INTERIM FINANCIAL PERFORMANCE - BANK & GROUP

17.1 Statement of Profit or Loss

BANK	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
LKR '000	31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2021	30/06/2021	31/03/2021
Net interest income	8,556,456	7,198,416	8,782,134	6,206,651	5,690,613	5,589,971	5,212,802	5,129,382
Other operating income	2,653,541	1,944,273	3,580,891	3,789,022	2,036,904	2,335,443	1,966,023	3,046,034
Total operating income	11,209,997	9,142,690	12,363,025	9,995,673	7,727,517	7,925,414	7,178,825	8,175,416
Impairment charges	7,066,861	8,297,113	7,560,284	6,367,402	3,612,010	2,500,807	1,968,489	2,183,356
Net operating income	4,143,136	845,576	4,802,741	3,628,271	4,115,507	5,424,607	5,210,336	5,992,060
Total operating expenses	2,896,666	2,733,905	3,087,118	2,665,957	2,733,506	2,592,417	2,584,865	2,523,589
Profit from operations	1,246,470	(1,888,329)	1,715,623	962,315	1,382,001	2,832,190	2,625,471	3,468,471
Profit before taxation	1,246,470	(1,888,329)	1,715,623	962,315	1,382,001	2,832,190	2,625,471	3,468,471
Taxation	(1,101,354)	(744,356)	615,828	356,916	659,356	1,119,254	1,033,873	1,133,173
Profit for the period	2,347,824	(1,143,973)	1,099,795	605,399	722,645	1,712,936	1,591,598	2,335,298
Profit attributable to:								
Equity holders of the parent	2,347,824	(1,143,973)	1,099,795	605,399	722,645	1,712,936	1,591,598	2,335,298
Basic earnings per share (LKR)	6.18	(3.01)	2.89	1.70	2.35	6.20	6.50	10.04

GROUP	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
LKR '000	31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2021	30/06/2021	31/03/2021
Net interest income	8,717,337	7,322,583	8,845,864	6,244,586	5,724,258	5,609,756	5,243,733	5,163,548
Other operating income	3,068,570	2,284,879	3,903,194	4,060,629	2,686,264	2,775,750	2,436,821	3,356,016
Total operating income	11,785,907	9,607,462	12,749,058	10,305,215	8,410,522	8,385,506	7,680,554	8,519,564
Impairment charges	7,060,304	8,294,539	7,555,179	6,366,516	3,607,154	2,500,229	1,959,013	2,186,299
Net operating income	4,725,603	1,312,923	5,193,879	3,938,699	4,803,368	5,885,277	5,721,541	6,333,265
Total operating expenses	3,210,237	3,033,875	3,324,181	2,930,873	3,008,289	2,811,480	2,894,804	2,800,199
Profit from operations	1,515,366	(1,720,952)	1,869,698	1,007,826	1,795,079	3,073,797	2,826,737	3,533,066
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit before taxation	1,515,366	(1,720,952)	1,869,698	1,007,826	1,795,079	3,073,797	2,826,737	3,533,066
Taxation	(869,071)	(655,457)	668,535	452,128	784,153	1,184,481	1,080,533	1,116,781
Profit for the period	2,384,437	(1,065,495)	1,201,163	555,698	1,010,926	1,889,316	1,746,204	2,416,285
Profit attributable to:								
Equity holders of the parent	2,367,435	(1,083,460)	1,185,442	539,320	936,188	1,872,110	1,733,009	2,362,957
Non-controlling interests	17,002	17,965	15,721	16,378	74,738	17,206	13,195	53,328
	2,384,437	(1,065,495)	1,201,163	555,698	1,010,926	1,889,316	1,746,204	2,416,285
Basic earnings per share (LKR)	6.23	(2.85)	3.12	1.51	3.04	6.78	7.08	10.16

17.2 Statement of Financial Position

BANK	As at				As at			
LKR '000	31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2021	30/06/2021	31/03/2021
Cash and cash equivalents	57,146,057	45,913,584	39,609,183	35,429,965	38,114,584	30,276,731	25,972,433	20,621,102
Net loans and receivables	545,873,027	569,400,426	582,433,468	556,434,648	504,538,968	486,506,550	466,486,727	442,288,401
Investments	199,051,599	176,327,566	164,174,949	146,903,024	146,257,005	147,356,532	158,082,715	160,855,953
Other assets	30,701,567	27,213,821	29,655,102	26,091,739	16,022,060	14,985,388	13,009,335	12,625,997
Total assets	832,772,250	818,855,396	815,872,702	764,859,376	704,932,617	679,125,201	663,551,210	636,391,453
Customer deposits	672,314,023	649,316,357	644,670,581	600,085,167	552,039,792	525,869,778	515,272,960	499,460,490
Borrowings	80,734,094	94,011,260	89,721,532	83,523,014	79,301,299	83,645,863	79,842,983	79,249,181
Other liabilities	16,188,270	13,889,414	17,767,697	25,877,110	14,659,320	11,256,296	10,766,288	11,198,256
Shareholders' funds	63,535,863	61,638,365	63,712,892	55,374,085	58,932,206	58,353,264	57,668,979	46,483,526
Total liabilities and equity	832,772,250	818,855,396	815,872,702	764,859,376	704,932,617	679,125,201	663,551,210	636,391,453
Net asset value per share (LKR)	167.16	162.17	167.62	155.06	165.02	163.40	161.48	199.81

17.2 Statement of Financial Position (Contd.)

GROUP LKR '000	As at				As at			
	31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2021	30/06/2021	31/03/2021
Cash and cash equivalents	58,024,201	46,722,889	40,056,392	35,947,080	38,468,035	30,696,386	26,334,894	20,883,269
Net loans and receivables	545,919,824	569,468,616	582,503,302	556,368,101	504,374,296	486,575,247	466,327,326	442,249,361
Investments	201,290,899	178,439,088	166,340,621	148,784,211	148,743,711	149,821,893	160,557,153	163,281,491
Other assets	33,962,973	30,158,876	32,937,127	29,476,303	19,245,850	17,570,909	15,657,070	15,285,993
Total assets	839,197,897	824,789,469	821,837,442	770,575,695	710,831,892	684,664,435	668,876,443	641,700,114
Customer deposits	671,713,337	648,156,560	643,510,784	598,957,958	551,256,595	525,144,852	514,672,131	498,867,821
Borrowings	80,781,281	94,082,986	89,779,769	83,598,173	79,351,814	83,645,863	79,842,983	79,249,181
Other liabilities	17,807,123	15,617,079	19,557,968	27,400,588	16,156,941	12,722,611	12,057,388	12,616,824
Shareholders' funds	67,504,898	65,559,750	67,591,768	59,230,222	62,727,169	61,886,210	61,046,379	49,722,455
Non-controlling interests	1,391,258	1,373,094	1,397,153	1,388,754	1,339,373	1,264,899	1,257,562	1,243,833
Total liabilities and equity	839,197,897	824,789,469	821,837,442	770,575,695	710,831,892	684,664,435	668,876,443	641,700,114
Net asset value per share (LKR)	177.60	172.48	177.83	165.85	175.65	173.29	170.94	213.73

18. TEN YEARS AT A GLANCE (GROUP PERFORMANCE)

18.1 Statement of Profit or Loss - Group

LKR Mn	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Income										
Net interest income	7,012	7,913	7,807	8,861	11,086	15,103	17,971	17,925	21,741	31,130
Other operating income	4,537	5,053	5,484	4,816	5,597	7,450	6,835	8,479	11,255	13,318
Total operating income	11,549	12,966	13,291	13,677	16,683	22,553	24,806	26,404	32,996	44,448
Impairment charges	1,261	529	746	1,425	1,290	3,764	4,405	6,794	10,253	29,277
Net operating income	10,288	12,437	12,545	12,252	15,393	18,789	20,401	19,610	22,743	15,171
Less operating expenses										
Personnel costs	2,660	3,172	3,634	3,793	4,025	4,899	5,460	5,748	6,323	6,363
Other operating costs	2,904	2,738	3,196	3,366	4,176	4,468	4,949	4,653	5,192	6,136
Total operating expenses	5,564	5,911	6,830	7,159	8,201	9,367	10,409	10,401	11,515	12,499
Operating profit before share of Associate co's profit before tax	4,724	6,527	5,715	5,094	7,192	9,422	9,992	9,209	11,228	2,672
Share of Associate co's profit	49	97	78	-	-	-	-	-	-	-
Profit before taxation	4,773	6,624	5,793	5,094	7,192	9,422	9,992	9,209	11,228	2,672
Taxation	2,061	2,378	2,123	2,279	3,797	4,146	5,107	3,992	4,166	(404)
Profit after taxation	2,712	4,246	3,670	2,815	3,395	5,276	4,885	5,217	7,062	3,076
Minority interest	70	112	128	124	57	140	109	101	158	67
Profit attributable to Group	2,642	4,134	3,542	2,691	3,453	5,136	4,776	5,117	6,904	3,009

182 Statement of Financial Position - Group

LKR Mn	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Assets										
Liquid assets	8,139	12,737	20,002	20,252	21,549	37,855	26,259	29,993	38,468	58,024
Investments	55,614	72,971	77,257	84,437	83,062	82,715	99,405	161,188	148,744	201,291
Loans & receivables	137,523	175,547	209,768	227,717	274,079	344,276	396,672	425,682	504,374	545,920
Investments in associate companies	77	-	-	-	-	-	-	-	-	-
Property plant & equipment	1,473	2,550	2,730	2,913	3,314	3,541	4,266	4,603	4,952	5,721
Investment property	1,384	1,546	1,672	1,776	1,895	2,111	2,273	2,362	2,528	2,879
Other assets	2608	3,780	3,925	3,637	4,747	7,930	6,725	8,305	11,765	25,363
Total assets	206,818	269,130	315,354	340,732	388,645	478,428	535,600	632,132	710,832	839,198
Liabilities										
Borrowings	47,344	80,768	92,331	96,279	68,617	78,189	72,958	79,837	79,350	80,781
Deposits with customers	129,423	151,485	184,152	203,516	273,041	347,170	404,668	489,659	551,257	671,713
Taxation	625	1,416	1,237	1,597	3,372	3,618	2,909	3,159	3,155	7,508
Other liabilities	4,062	6,662	8,233	8,326	9,637	9,340	10,527	10,273	13,003	10,300
Total liabilities	181,454	240,331	285,953	309,718	354,667	438,317	491,062	582,928	646,765	770,302
Shareholders' funds										
Stated capital	944	1,145	1,163	1,246	2,209	6,469	7,685	8,794	18,264	19,871
Statutory reserves	959	1,011	1,243	1,246	1,336	1,636	1,896	2,196	2,571	2,746
Other reserves	1,880	1,474	1,000	497	923	239	579	842	(839)	3,772
Retained earnings	20,733	24,246	24,976	26,946	28,544	30,668	33,233	36,143	42,731	41,116
Total shareholders' funds	24,516	27,876	28,382	29,937	33,012	39,012	43,383	47,976	62,727	67,505
Minority interest	848	923	1,019	1,077	966	1,099	1,155	1,227	1,339	1,391
Total equity	25,364	28,799	29,401	31,013	33,978	40,111	44,538	49,203	64,066	68,896
Total liabilities and equity	206,818	269,130	315,354	340,732	388,645	478,428	535,600	632,132	710,832	839,198

183 Share Information - Group

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Market price per share (LKR)	160.50	250.00	194.10	156.00	136.40	106.80	100.00	78.10	68.90	32.00
Basic earnings per share (LKR)	16.48	25.14	21.51	15.69	19.66	26.33	20.53	21.99	20.88	7.92
Interim dividends per share (LKR)*	5.00	7.00	7.00	-	2.00	-	-	1.50	-	-
Final dividends per share (LKR)*	5.00	4.00	4.00	8.00	7.00	8.00	7.00	-	5.50	-
Total dividends per share (LKR)*	10.00	11.00	11.00	8.00	9.00	8.00	7.00	1.50	5.50	-
Dividend cover (Times)*	1.65	2.29	1.96	1.96	2.18	3.29	2.93	14.66	3.80	-
Price earnings ratio (Times)	9.74	9.94	9.02	9.94	6.94	4.06	4.87	3.55	3.30	4.04
Net asset value per share (LKR)	148.85	169.35	172.35	181.23	192.51	185.49	195.60	206.23	175.65	177.60

* The Board of Directors will consider a declaration of dividends for the year 2022 in due course. The Bank paid a total dividend of LKR 5.50 per share comprising of a cash dividend of LKR 1.00 per share and a scrip dividend of LKR 4.50 per share for the year 2021.

19. COMPLIANCE REPORT IN TERMS OF SECTION 7.6 - CONTENTS OF THE ANNUAL REPORT IN TERMS OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

Tabulated below is how we complied with the contents of the Annual Report as specified in Section 7.6 of the Listing Rules issued by the Colombo Stock Exchange. The table provides the disclosure requirements of Section 7.6, the compliance level of the Bank and where you will find the respective disclosures within this Annual Report.

Rule No:	Disclosure Requirement	Cross Reference/ within the Report (page/s)																		
7.6 (i)	Names of persons who during the financial year were Directors of the Entity	24 to 27 and 109																		
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year and any changes therein	164																		
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares denominated in LKR or any other class of shares denominated in Foreign Currency and the percentage of such shares held.	343																		
7.6 (iv)	(a) In respect of a Local Entity which has its LKR denominated shares listed on the Exchange, such Entity shall disclose the float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement, in respect of voting ordinary shares. The public holding percentage (%) in respect of non-voting ordinary Shares (where applicable). Provided however, this Rule shall not be applicable to Entities whose Securities are listed on the Empower Board in the Alternate Market Segment. (b) In respect of a Local Entity which has its Foreign Currency denominated Shares listed on the Exchange, such Entity shall disclose the public holding percentage (%) and the number of public shareholders.	343 NA NA																		
7.6 (v)	A statement of each director's holding and Chief Executive Officer's holding in each class of shares of the Entity denominated in LKR and in Foreign Currency (as applicable).	344																		
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	49 and 310																		
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	80 to 85																		
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	209, 210 and 212																		
7.6 (ix)	Number of shares representing the Entity's stated capital	228																		
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the following categories: <table> <tr> <th>Number of Holders</th><th>Holdings</th><th>Total Holdings %</th></tr> <tr> <td></td><td>1-1000 shares</td><td></td></tr> <tr> <td></td><td>1,001-10,000 shares</td><td></td></tr> <tr> <td></td><td>10,001-100,000 shares</td><td></td></tr> <tr> <td></td><td>100,001-1,000,000 shares</td><td></td></tr> <tr> <td></td><td>Over 1,000,000 shares</td><td></td></tr> </table>	Number of Holders	Holdings	Total Holdings %		1-1000 shares			1,001-10,000 shares			10,001-100,000 shares			100,001-1,000,000 shares			Over 1,000,000 shares		342
Number of Holders	Holdings	Total Holdings %																		
	1-1000 shares																			
	1,001-10,000 shares																			
	10,001-100,000 shares																			
	100,001-1,000,000 shares																			
	Over 1,000,000 shares																			
7.6 (xi)	The following ratios and market price information: EQUITY - Dividend per share - Dividend pay out - Net asset value per share - Market value per share (highest and lowest values recorded during the financial year, value as at the end of financial year) DEBT (only if listed) - Interest rate of comparable government security - Debt/equity ratio - Interest cover - Quick asset ratio - The market prices and yield during the year (ex interest) (Highest price, Lowest price, Last traded price (as at dd/mm/yy)) - Any changes in credit rating (for the Entity or any other instrument issued by the Entity), if applicable	344 to 349																		

Rule No:	Disclosure Requirement	Cross Reference/ within the Report (page/s)
7.6 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value;	NA
7.6 (xiii)	If during the financial year the Entity has raised funds through an Initial Public Offering and/or a further issue of Securities (as applicable); a. the manner in which the funds of such issue/s have been utilised in conformity with the format provided by the Exchange from time to time; b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and c. any material change in the use of funds raised through an issue of Securities In the event the funds raised through the Initial Public Offering and/or the further issue of Securities (as applicable) have been fully utilised by the Listed Entity as disclosed in the Prospectus and/or Circular to shareholders between two financial periods, the Entity shall disclose such fact in the immediate succeeding Annual Report or the Interim Financial Statement, whichever is published first	228, 348 and 349
7.6 (xiv)	a. Employee share option schemes	230
	b. Employee share purchase schemes	NA
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules	284 to 309
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	297
7.6 (xvii)	In the event a Listed Entity has its Foreign Currency denominated Securities listed on the Exchange, the Entity shall additionally disclose the following in its Annual Report: a. The Trading Currency of such Securities b. A detailed description of the utilisation of the proceeds held in the SFCA of the Entity for any capital transaction/s outside Sri Lanka, including the amount of proceeds utilised, as a percentage (%) of the total proceeds credited to the SFCA of the Entity pursuant to the Initial Public Offering. c. A Statement of compliance by the Listed Entity vis-à-vis the Applicable Foreign Exchange Regulations including but not limited to the following: i) Maintenance of foreign exchange earnings at a minimum level of fifty per centum (50%) of its total annual revenue which is equivalent to a minimum of USD 5 Mn (5,000,000) or a negative statement; ii) The amount of proceeds held in the SFCA, which have been utilised by the Entity for any capital transactions outside Sri Lanka; iii) Repatriation of income of the investments made through the SFCA into Sri Lanka; and, iv) The amount of capital gains of the proceeds utilised for any capital transactions outside Sri Lanka. d. A status update on the residual of the proceeds which are not utilised for capital transactions outside Sri Lanka.	NA

20. SHAREHOLDER ENQUIRIES AND COMMUNICATIONS

Please refer Corporate Information (page 374).

BRANCH NETWORK

No	Branch Code	Branch Name	Address	Contact	Region	District	Province
1	094	Akkaraipattu	No 487, Main Street, Akkaraipattu	067 7448000/1	North East Region	Ampara	Eastern
2	065	Akuressa	No 21, Main Street, Akuressa	041 7448000/1	Southern Region	Matara	Southern
3	059	Aluthgama	No 267, Galle Road, Aluthgama	0347448010/1	Southern Region	Kalutara	Western
4	047	Ambalangoda	No 333 , Galle Road , Ambalangoda	0917448000/1	Southern Region	Galle	Southern
5	048	Ambalantota	No 127 , Main Street , Ambalantota	047 7448000/1	Southern Region	Hambanthota	Southern
6	040	Ampara	No 75, D S Sennanayake Street, Ampara	063 7448000/1	Uva- Sabaragamuwa Region	Ampara	Eastern
7	019	Anuradhapura	No 522/C, Maithreepala Senanayake Mw, New Town, Anuradhapura	025 7448000/1	North Central Region	Anuradhapura	North Central
8	071	Athurugiriya	No 70/15A, Borella Road, Athurugiriya	011 7448060/1	Greater Colombo Region	Colombo	Western
9	034	Awissawella	No 93, Ratnapura Road, Awissawella	036 7448000/1	Uva- Sabaragamuwa Region	Colombo	Western
10	018	Badulla	No 242, Lower Street, Badulla	055 7448000/1	Central Region	Badulla	Uva
11	077	Balangoda	No 24 A, Barns Ratwatte Mawatha, Balangoda	0457448000/1	Uva- Sabaragamuwa Region	Ratnapura	Sabaragamuwa
12	051	Bandarawela	No 317 , Main Street , Bandarawela	057 7448000/1	Central Region	Badulla	Uva
13	090	Battaramulla	No 245, Main Street, Battaramulla.	011 7448090/1	Greater Colombo Region	Colombo	Western
14	039	Batticaloa	No 16, Liyods Avenue, Batticaloa.	065 7448000/1	North East Region	Batticaloa	Eastern
15	072	Boralesgamuwa	No 39, Kesbawa Road, Boralesgamuwa	0117448063/4	Greater Colombo Region	Colombo	Western
16	052	Borella	No 31/5, Dr. N M Perera Mawatha, Borella	0117 448078/9	Colombo Region	Colombo	Western
17	099	Chavakachcheri	No 1,3,5, Kandy Road, Chavakachcheri	0217448013/4	North East Region	Jaffna	Northern
18	093	Chenkalady	No Trincomalee Road, Chenkalady.	065 7448003/4	North East Region	Batticaloa	Eastern
19	010	Chilaw	No 50-52, Skyline Building, Colombo Road, Chilaw	032 7448000/1	North Western Region	Puttalam	North Western
20	062	Chunnakam	No 30, K.K.S. road, Chunnakam	021 7448018/9	North East Region	Jaffna	Northern
21	100	Colombo 7	No 103A, Dharmapala Mawatha, Colombo 7	011 7448004/5	Colombo Region	Colombo	Western
22	064	Dambulla	No 42, Kurunegala road, Dambulla	066 7448000/1	North Central Region	Matale	Central
23	114	Digana	No 59/6 , Gonawala Road ,Digana.	081 7448003/4	Central Region	Kandy	Central
24	078	Eheliyagoda	No 302, Main street, Ehaliyagoda.	036 7448003/4	Uva- Sabaragamuwa Region	Ratnapura	Sabaragamuwa
25	067	Elpitiya	No 23, Ambalangoda Road , Elpitiya	091 7448003/4	Southern Region	Galle	Southern
26	058	Embilipitiya	No 67, Pallegama , Embilipitiya	047 7448003/4	Uva- Sabaragamuwa Region	Ratnapura	Sabaragamuwa
27	113	Fort	No 39 , Canal Row , Colombo 01.	011 7448111/2	Colombo Region	Colombo	Western
28	021	Galle	No 1/A, Abeysekara Building, Wakwella Road, Galle	091 7448006/7	Southern Region	Galle	Southern
29	029	Gampaha	No 03, Yakkala Road, Gampaha	033 7448000/1	North Western Region	Gampaha	Western
30	050	Gampola	No 11 B & 11 C, Nawalapitiya Road, Gampola	081 7448000/1	Central Region	Kandy	Central
31	086	Giriulla	No 86, Negombo Road Giriulla.	037 7558010/1	North Central Region	Kurunegala	North Western
32	057	Hambanthota	No 34, Wilmot street, Hambantota	047 7448006/7	Southern Region	Hambanthota	Southern
33	096	Hanwella	No 130/C , Pahala Hanwella, Hanwella.	036 7448006/7	Uva- Sabaragamuwa Region	Colombo	Western
34	003	Havelock Town	No 117, Havelock Road, Colombo 05	0117 448006/7	Colombo Region	Colombo	Western
35	088	Hendala	No 46A Hendala Road, Hendala	011 7448094/3	North Western Region	Gampaha	Western
36	106	Hikkaduwa	No 245, Galle Road, Hikkaduwa.	091 7448009/10	Southern Region	Galle	Southern
37	102	Hingurakgoda	No 10, Airport Road , Hingurakgoda	027 7558010/1	North Central Region	Polonnaruwa	North Central
38	030	Homagama	No 64A, Highlevel Road, Homagama	011 7448045/6	Greater Colombo Region	Colombo	Western

No	Branch Code	Branch Name	Address	Contact	Region	District	Province
39	027	Horana	No 135, Panadura Road, Horana	034 7448013/5	Colombo Region	Kalutara	Western
40	044	Ja - Ela	No 121, Colombo Road, Ja-Ela	011 7448075/6	North Western Region	Gampaha	Western
41	037	Jaffna	No 62/6, Stanley Road, Jaffna	021 7448011/24	North East Region	Jaffna	Northern
42	026	Kadawatha	No 147, Kandy Road, Kadawatha	011 7448036/7	North Western Region	Gampaha	Western
43	060	Kaduruwela	No 25, Batticaloa Road, Polonnaruwa	027 7558003/4	North Central Region	Polonnaruwa	North Central
44	055	Kaduwela	No 501/2, Awissawella Road, Kaduwela	011 7448081/2	Greater Colombo Region	Colombo	Western
45	084	Kahawatte	No 149, Main Street, Kahawatte	045 7448003/4	Uva- Sabaragamuwa Region	Ratnapura	Sabaragamuwa
46	053	Kalmunai	No 165, Batticaloa Road, Kalmunai	067 7448003/4	North East Region	Ampara	Eastern
47	016	Kalutara	No 290, Galle Road, Kalutara South	034 7448016/7	Southern Region	Kalutara	Western
48	028	Kandana	No 677, Negombo Road, Kandana	011 7448039/40	North Western Region	Gampaha	Western
49	002	Kandy	No 133, Kotugodella Veediya, Kandy	081 7448015/6	Central Region	Kandy	Central
50	080	Kandy City Centre	L 1 - 3 , Level 1 , Kandy City Center , No 05 , Dalada weediya , Kandy	081 7448006/7	Central Region	Kandy	Central
51	109	Katana	No 05, Koongashandiya, Katana	031 7448000/1	North Western Region	Gampaha	Western
52	110	Katugastota	No 111, Kurunegala Road, Katugastota	081 7448009/10	Central Region	Kandy	Central
53	082	Katunayake	No 745 , Baseline Road , Aweriwatta , Katunayaka	011 7448096/7	North Western Region	Gampaha	Western
54	017	Kegalle	No 261/1, Kandy Road, Kegalle	035 7448003/4	Central Region	Kegalle	Sabaragamuwa
55	083	Kekirawa	No 61, Opposite Government Hospital, Main Street, Kekirawa	0257448003/4	North Central Region	Anuradhapura	North Central
56	025	Kiribathgoda	No 540, New Hunupitiya Road, Dalugama, Kelaniya	011 7448033/4	North Western Region	Gampaha	Western
57	089	Kochchikade	No 96, Chilaw Road, Kochchikade.	031 7448003/4	North Western Region	Gampaha	Western
58	032	Kohuwela	No 143, S De S Jayasinghe Mawatha, Nugegoda.	0117 448051/2	Greater Colombo Region	Colombo	Western
59	014	Kollupitiya	No 321, Galle Road, Colombo 3	011 7448018/9	Colombo Region	Colombo	Western
60	024	Kotahena	No 295, George R De Silva Mw, Co -13	0117 448030/1	Colombo Region	Colombo	Western
61	111	Kottawa	No 365/1 A, High Level Road, Kottawa	011 7448099/100	Greater Colombo Region	Colombo	Western
62	042	Kuliypitiya	No 133, Main Street, Kuliypitiya	037 7558003/4	North Central Region	Kurunegala	North Western
63	007	Kurunegala	No 6, Rajapihilla Mw, Kurunegala	037 7558006/7	North Central Region	Kurunegala	North Western
64	012	Maharagama	No 108 A, Highlevel Road, Maharagama	011 7448015/6	Greater Colombo Region	Colombo	Western
65	105	Mahawewa	No Chilaw Road, Mahawewa.	032 7448003/4	North Western Region	Puttalam	North Western
66	075	Mahiyanganaya	No 02, New Town, Mahiyanganaya	055 7448003/4	Central Region	Badulla	Uva
67	031	Malabe	No 760, New Kandy Road, Malabe	0117448049/8	Greater Colombo Region	Colombo	Western
68	097	Manipay	No 260, Manipay Road, Manipay	021 7448021/2	North East Region	Jaffna	Northern
69	103	Marine Drive	No 42, Sagara Road, Marine Drive, Colombo 4	011 7448102/3	Colombo Region	Colombo	Western
70	046	Matale	No 144 , Main Street , Matale	066 7448003/4	Central Region	Matale	Central
71	006	Matara	No 60, Uyanwatte Rd, Matara	041 7448003/4	Southern Region	Matara	Southern
72	045	Mathugama	No 98, Agalawatta Road, Mathugama	034 7448022/3	Southern Region	Kalutara	Western
73	063	Minuwangoda	No 49, Negombo Road, Minuwangoda	011 7448084/5	North Western Region	Gampaha	Western
74	070	Monaragala	No 29, Pothuwil Road, Monaragala	055 7448006/7	Uva- Sabaragamuwa Region	Monaragala	Uva
75	015	Moratuwa	No 255, Galle Road, Idama, Moratuwa	011 7448021/2	Colombo Region	Colombo	Western
76	020	Mount Lavinia	No 431/433, Galle Road, Mount Lavinia	011 7448024/5	Colombo Region	Colombo	Western
77	074	Narahenpita	No 92 , Kirula Road , Narahenpita , Colombo 5.	011 7448105/6	Colombo Region	Colombo	Western
78	091	Narammala	No 144, Kurunegala Road, Narammala	037 7558013/4	North Central Region	Kurunegala	North Western
79	095	Nattandiya	No 82, Marawila Road, Nattandiya.	032 7448006/7	North Western Region	Puttalam	North Western
80	061	Nawalapitiya	No 70B, Gampola Road, Nawalapitiya	054 7448000/1	Central Region	Kandy	Central

No	Branch Code	Branch Name	Address	Contact	Region	District	Province
81	001	Nawam Mawatha	No 40, Nawam Mw, Colombo 02	011 7448000/1	Colombo Region	Colombo	Western
82	009	Negombo	No 121, St.Joseph Street, Negombo	031 7448006/7	North Western Region	Gampaha	Western
83	066	Nelliady	No 109,Jaffna Road,Nelliady	021 7448012/27	North East Region	Jaffna	Northern
84	069	Nikaweratiya	No 65, Puttalam Road,Nikaweratiya	037 7558016/7	North Central Region	Kurunegala	North Western
85	054	Nittambuwa	No 496, Kandy Road, Nittambuwa	033 7448003/4	North Western Region	Gampaha	Western
86	004	Nugegoda	No 152,Nawala Rd, Nugegoda	011 7448009/10	Greater Colombo Region	Colombo	Western
87	076	Nuwara Eliya	No 50/2 ,Siva Complex,Block C,Lawson Street, Nuwaraeliya	052 7448000/1	Central Region	Nuwara Eliya	Central
88	079	Old Moor Street	No 311, Old Moor Street , Colombo 12	011 7448108/9	Colombo Region	Colombo	Western
89	035	Panadura	No 319, Galle Road, Panadura	038 7448000/1	Colombo Region	Kalutara	Western
90	022	Pelawatte	No 301, Pannipitiya Road, Battaramulla	011 w7448027/8	Greater Colombo Region	Colombo	Western
91	043	Pettah	No 137,133/1, Main Street, Colombo 11	011 7448072/3	Colombo Region	Colombo	Western
92	049	Pilimathalawa	No 240, Colombo Road. Pilimathalawa	081 7448012/3	Central Region	Kandy	Central
93	023	Piliyandala	No 120 , Horana Road, Piliyandala.	011 7448057/8	Greater Colombo Region	Colombo	Western
94	087	Pitakotte	No 322B, Kotte Road, Pitakotte	011 7448114/5	Greater Colombo Region	Colombo	Western
95	112	Private Wealth Centre	No 135, Rainbow Business Centre, Baudhaloka Mawatha, Colombo 04	011 7448087/8	Colombo Region	Colombo	Western
96	033	Puttalam	No 104, Kurunegala Road, Puttalam	032 7448009/10	North Central Region	Puttalam	North Western
97	005	Rajagiriya	No 505, Sriyawardanapura Etul Kotte, Kotte	011 7448012/3	Greater Colombo Region	Colombo	Western
98	073	Ratmalana	No 151, Galle Road, Ratmalana	011 7448066/7	Colombo Region	Colombo	Western
99	013	Ratnapura	No 211 , Main Street, Rathnapura	045 7448006/7	Uva- Sabaragamuwa Region	Ratnapura	Sabaragamuwa
100	115	Shangri-la	One Galle Face Mall, Premises no L 1 - 77, No 1 A, Colombo 02.	011 7448117/8	Colombo Region	Colombo	Western
101	116	Tangalle	No 90A , Matara Road , Tangalle.	047 7448009/10	Southern Region	Hambanthota	Southern
102	104	Thambuttegama	No 255A, Main Street, Thambuttegama	025 7448006/7	North Central Region	Anuradhapura	North Central
103	098	Thirunelveli	No M102 , Palaly Road, Jaffna	021 7448016/17	North East Region	Jaffna	Northern
104	092	Tissamaharama	No 133 E , New Town , Tissamaharama	047 7448012/3	Southern Region	Hambanthota	Southern
105	038	Trincomalee	No 91& 93, North Coast Road, Trincomalee	026 7448000/1	North East Region	Trincomalee	Eastern
106	081	Uragasmanhandiya	No 131 , Main Street , Uragasmanhandiya	091 7448012/3	Southern Region	Galle	Southern
107	041	Vauniya	No 188, 190, 192 & 190/1, Kandy Road, Vavuniya.	024 7448000/1	North East Region	Vavuniya	Northern
108	101	Warakapola	No 96 & 98 , Main Street , Warakapola	035 7448000/1	Central Region	Kegalle	Sabaragamuwa
109	056	Wariyapola	Navinna Bldg, Puttalam Road, Wariyapola	037 7558019/20	North Central Region	Kurunegala	North Western
110	011	Wattala	No 378A, Negombo Road, Wattala	011 7448042/3	North Western Region	Gampaha	Western
111	008	Wellawatte	No 302, Galle Road, Colombo 6	011 7448120/1	Colombo Region	Colombo	Western
112	036	Wennappuwa	No 204, Chilaw Road, Wennappuwa	031 7448009/10	North Western Region	Puttalam	North Western
113	068	Yakkala	No 65/5B, Kandy Road, Yakkala	033 7448006/7	North Western Region	Gampaha	Western

More information on the Bank's branches, such as address, location on Google Maps and Operating Hours are accessible in the Bank's corporate web site www.ndbbank.com, NDB NEOS mobile banking app and NDB NEOS online banking platform.

NETWORK OF GROUP COMPANIES

Company Head Office/Branch	Postal address	Contact person	Telephone	Fax	Email address
NDB Capital Holdings Limited	Level 1, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 4	Mr. Senaka Kakiriwaragodage	011-2300385	0112-300393	senaka@ndbch.com
NBD Investment Bank Limited	Level 1, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 4	Mr. Darshan Perera	011-2300385	011-2300393	darshan@ndbib.com
NDB Wealth Management Limited	Level G, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 4	Mr. Ruwan Perera	011-2303232	011-2303237	ruwan@ndbinvestors.com
NDB Securities (Pvt) Limited	Level 2, NDB Capital Building, No 135, Bauddhaloka Mawatha, Colombo 4	Mr. Gihan R. Cooray	011-2131000/05	011-2314181	gihan@ndbs.lk
NDB Capital Limited [Bangladesh]	Uday Tower, 6th Floor, (SouthWest Side), 57 & 57/A, Gulshan Avenue, Gulshan 1, Dhaka 1212, Bangladesh	Mr. Kazi Farhan Zahir	0880-2-9888626	0880-2-9888906	farhan@ndbcapital.com
NDB Zephyr Partners Lanka (Pvt) Limited	No. 48/5/1 (West Wing), Parkway Building, Park Street, Colombo 02	Mr. Girish Patil	011-2303810	011-2307155	gp@emeraldfundsl.com
NDB Zephyr Partners Limited	Sanne Mauritius, IFS Court, Bank Street, Twenty Eight Cybercity, Ebène 72201, Republic of Mauritius	Ms. Jema Gangalaramsamy	0230 467 8695	0230 467 4000	Jema.gangalaramsamy@sannegroup.mu

CORRESPONDENT RELATIONSHIPS

► ASIA

- Bahrain
- Bangladesh
- Cambodia
- China
- Hong Kong
- India
- Indonesia
- Israel
- Japan
- Jordan
- Kazakhstan
- Kuwait
- Lebanon
- Macao

- Malaysia
- Maldives
- Nepal
- Oman
- Pakistan
- Philippines
- Qatar
- Russian Federation
- Saudi Arabia
- Singapore
- South Korea
- Sri Lanka
- Taiwan
- Thailand
- Turkey

- United Arab Emirates
- Vietnam

► EUROPE

- Austria
- Belgium
- Bulgaria
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany

- Greece
- Guernsey Ci
- Ireland
- Hungary
- Italy
- Latvia
- Luxembourg
- Moldova
- Monaco
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Slovakia

- Slovenia
- Spain
- Sweden
- Switzerland
- Ukraine
- United Kingdom

► AFRICA

- Algeria
- Cameroon
- Congo
- Cote D'Ivoire
- Egypt
- Gabon
- Kenya

- Madagascar
- Mauritania
- Mauritius
- Morocco
- Nigeria
- Senegal
- Seychelles
- South Africa
- Tanzania
- Tunisia
- Zambia

► OCEANIA

- New Zealand
- Australia

► SOUTH AMERICA

- Bolivia
- Brazil
- Chile
- Colombia
- Peru
- Uruguay

► NORTH AMERICA

- Bahamas
- Canada
- Mexico
- United States



GRI CONTENT INDEX

Statement of use	National Development Bank PLC has reported in accordance with the GRI Standards for the period from 1st January 2022 to 31st December 2022
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	Not applicable

Gri Standard/ Other Source	Disclosure	Location	Omission		
			Requirement (s) omitted	Reason	Explanation
General disclosures					
GRI 2: General Disclosures 2021	2-1 Organisational details	38,374	A gray cell indicates that reasons for omission are not permitted for the disclosure or that a GRI Sector Standard reference number is not available.		
7.6 (xiv)	2-2 Entities included in the organisation's sustainability reporting	5			
	2-3 Reporting period, frequency and contact point	5			
	2-4 Restatements of information	5			
	2-5 External assurance	5, 7, 101, 102			
	2-6 Activities, value chain and other business relationships	12, 38, 90			
	2-7 Employees	81			
	2-8 Workers who are not employees	-	2-8 a, b, c	Not applicable	NDB does not engage workers who are not employees
	2-9 Governance structure and composition	109, 111			
	2-10 Nomination and selection of the highest governance body	114			
	2-11 Chair of the highest governance body	109			
	2-12 Role of the highest governance body in overseeing the management of impacts	118			
	2-13 Delegation of responsibility for managing impacts	118			
	2-14 Role of the highest governance body in sustainability reporting	54, 118			
	2-15 Conflicts of interest	115			
	2-16 Communication of critical concerns	117			
	2-17 Collective knowledge of the highest governance body	113			
	2-18 Evaluation of the performance of the highest governance body	-	2-18 a,b,c	Not applicable	This process is yet to be implemented at NDB
	2-19 Remuneration policies	124			
	2-20 Process to determine remuneration	124			
2-21 Annual total compensation ratio		2-21 a,b,c	Confidentiality constraints	Constraints in disclosing total compensation ratio	

Gri Standard/ Other Source	Disclosure	Location	Omission		
			Requirement (s) omitted	Reason	Explanation
	2-22 Statement on sustainable development strategy	21			
	2-23 Policy commitments	117			
	2-24 Embedding policy commitments	117			
	2-25 Processes to remediate negative impacts	123			
	2-26 Mechanisms for seeking advice and raising concerns	117, 123			
	2-27 Compliance with laws and regulations	44			
	2-28 Membership associations	93			
	2-29 Approach to stakeholder engagement	42 to 44			
	2-30 Collective bargaining agreements		2-30 a,b	Not applicable	The Bank does not have collective agreements with its employees
Material topics					
GRI 3: Material Topics 2021	3-1 Process to determine material topics	48	A gray cell indicates that reasons for omission are not permitted for the disclosure or that a GRI Sector Standard reference number is not available.		
	3-2 List of material topics	48 to 49, 103 to 104			
Economic performance					
GRI 3: Material Topics 2021	3-3 Management of material topics	38			
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	-	201-1	Not applicable	The economic value generated was negative during the year as impacted by high impairment charges, an industry-wide phenomena.
	201-2 Financial implications and other risks and opportunities due to climate change	95			
	201-3 Defined benefit plan obligations and other retirement plans	221			
	201-4 Financial assistance received from government	-	201-4 a,b,c	Not applicable	NDB does not receive any financial assistance from the government
Market Presence					
GRI 3: Material Topics 2021	3-3 Management of material topics	80			
GRI 202: Market Presence 2016	202-1 Ratio of standard entry level wage by gender compared to local minimum wage	83			
	202-2 Proportion of senior management hired from the local community	81			
Tax					
GRI 3: Material Topics 2021	3-3 Management of material topics	59			
GRI 207: Tax 2019	207-1 Approach to tax	59			
	207-2 Tax governance, control, and risk management	59			
	207-3 Stakeholder engagement and management of concerns related to tax	59			
	207-4 Country-by-country reporting		207-4 a,b,c	Not applicable	The Bank does not have subsidiaries operating in overseas locations

Gri Standard/ Other Source	Disclosure	Location	Omission		
			Requirement (s) omitted	Reason	Explanation
Materials					
GRI 3: Material Topics 2021	3-3 Management of material topics	99			
GRI 301: Materials 2016	301-1 Materials used by weight or volume	99			
	301-2 Recycled input materials used		301-2 a	Not applicable	NDB does not use recycled input material in its processes
	301-3 Reclaimed products and their packaging materials		301-3 a,b	Not applicable	NDB does not use packaging material
Energy					
GRI 3: Material Topics 2021	3-3 Management of material topics	96			
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	96			
	302-2 Energy consumption outside of the organisation	-	302-2,a,b,c	Not available	The Bank does not track this
	302-3 Energy intensity	-	302-2,a,b,c	Not available	The Bank does not track this
	302-4 Reduction of energy consumption	96			
	302-5 Reductions in energy requirements of products and services		302-5,a,b,c	Not applicable	Our products and services do not consume energy
Emissions					
GRI 3: Material Topics 2021	3-3 Management of material topics	96			
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	96			
	305-2 Energy indirect (Scope 2) GHG emissions	96			
	305-3 Other indirect (Scope 3) GHG emissions	96			
	305-4 GHG emissions intensity	55			
	305-5 Reduction of GHG emissions	96			
	305-6 Emissions of ozone-depleting substances (ODS)		305-6 a,b,c,d	Not applicable	The Bank's operations do not generate ODS
	305-7 Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions		305-7 a,b,c	Not available	The Bank does not currently track NOx and SOx emissions
Employment					
GRI 3: Material Topics 2021	3-3 Management of material topics	80			
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	81			
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	83			
	401-3 Parental leave	84			
Labour/management relations					
GRI 3: Material Topics 2021	3-3 Management of material topics	82			
GRI 402: Labour/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	82			

Gri Standard/ Other Source	Disclosure	Location	Omission		
			Requirement (s) omitted	Reason	Explanation
Training and education					
GRI 3: Material Topics 2021	3-3 Management of material topics	82			
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	82			
	404-2 Programmes for upgrading employee skills and transition assistance Programmes	83			
	404-3 Percentage of employees receiving regular performance and career development reviews	83			
Diversity and equal opportunity					
GRI 3: Material Topics 2021	3-3 Management of material topics	83			
GRI 405: Diversity and Equal Opportunity (2016)	Disclosure 405-1 Diversity of governance bodies and employees	81 and 113			
	Disclosure 405-2 Ratio of basic salary and remuneration of women to men	83			
Local communities					
GRI 3: Material Topics 2021	3-3 Management of material topics	93			
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development Programmes	93			
	413-2 Operations with significant actual and potential negative impacts on local communities	93			
Marketing and labelling					
GRI 3: Material Topics 2021	3-3 Management of material topics	89			
GRI 417: Marketing and Labelling 2016	417-1 Requirements for product and service information and labelling	90			
	417-2 Incidents of non-compliance concerning product and service information and labelling	90			
	417-3 Incidents of non-compliance concerning marketing communications	90			
Customer privacy					
GRI 3: Material Topics 2021	3-3 Management of material topics	77			
GRI 418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	77			

NDB SASB INDEX

Topic	Accounting metric	Code	Location
Data security	(1) Number of data breaches (2) Percentage involving personally identifiable information (PII) (3) Number of account holders affected ²	FN-CB-230a.1	-
	Description of approach to identifying and addressing data security risks	FN-CB-230a.2	77
Financial inclusion and capacity building	(1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development	FN-CB-240a.1	65
	(1) Number and (2) amount of past due and nonaccrual loans qualified to programs designed to promote small business and community development	FN-CB-240a.2	-
	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	FN-CB-240a.3	-
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	FN-CB-240a.4	65
Incorporation of ESG factors in credit analysis	Commercial and industrial credit exposure, by industry	FN-CB-410a.1	196
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	FN-CB-410a.2	98
Business ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behaviour, market manipulation, malpractice, or other related financial industry laws or regulations	FN-CB-510a.1	325
	Description of whistleblower policies and procedures	FN-CB-510a.2	117
Systemic Risk Management	Global Systemically Important Bank (G-SIB) score, by category	FN-CB-550a.1	N/A

GLOSSARY OF FINANCIAL AND BANKING TERMS



Acceptances

Promise to pay, created 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

Recognising the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Gain/Loss

Gains or losses arising from the difference between estimates and actual experience in the entity's pension plan and retirement gratuity.

Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal prepayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Asset and Liability Committee (ALCO)

A risk-management committee in a bank that generally comprises the Senior Management of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Average Weighted Deposit Rate (AWDR)

AWDR is calculated by the Central Bank weekly, based on Commercial bank's deposit rates offered to their prime customers during the week.

Average Weighted PRIME Lending Rate (AWPLR) AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week.



Basel III

The Basel Committee on Banking Supervision's details of strengthened global regulatory standards on Bank capital adequacy and liquidity

Basis point (BP)

One hundredth of a percentage point, i.e. 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.



Capital Adequacy Ratios

The relationship between capital and riskweighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capitals

Refer to any stock of value such as customer base, staff strength, relationships with the community, etc. that will increase, decrease or transform through the activities of an organisation and that will help it generate earnings in the future.

Cash Equivalents

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Cash flows are inflows and outflows of cash and cash equivalents.

Cash Generating Unit (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Collectively Assessed Impairment Allowance Provisions Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Retail Banking business (housing, personal, leasing, credit cards etc.) are assessed on a portfolio basis.

Commitments

Credit facilities approved but not yet utilised by the clients at the date of the Statement of Financial Position.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Consolidated Financial Statements

Consolidated Financial Statements are the Financial Statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic activity.

Contingencies

A condition or situation existing at the date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity

Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Control

Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost to Income Ratio

Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

Country Risk

The risk that a foreign government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (political risk)

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency

Currency Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigates such as collateral, guarantee and credit protection.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency swaps

The simultaneous purchase of an amount of currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Customers Deposits

Money deposited by account holders. Such funds are recorded as liabilities.



Debt Restructuring/Rescheduling

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedules as well as debt or interest charge reduction.

Deferred Taxation

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and receivables are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.



Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

Provision for taxation including deferred tax divided by the operating profit before tax on financial services.

Embedded Derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Employee Share Option Scheme (ESOS)

A method of giving employees shares in the business for which they work.

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Equity risk

The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

Equity Instrument

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue.

Ex- Dividend

Date A classification of trading shares when a declared dividend belongs to the seller rather than the buyer. A stock will be give ex-dividend status if a person has been confirmed by the company to receive the dividend payment. The date on or after which a security is traded without a previously declared dividend or distribution.

Expected Credit Loss

The amount expected to be lost on an exposure over the life of the asset. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

Exposure

A claim, contingent or position which carries a risk of financial loss.



Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Adjustment

An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value Through Profit or Loss

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 a short-term profit taking, or a derivative (except for a derivative that is a financial guarantee contract).

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient

to amortise the capital outlay of the lessor.

The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Assets

Any assets that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity

Financial Instruments

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 Liabilities

A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity

Financial Risk

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable that the variable is not specific to the party to the contract

Foreign Exchange Income

The realised gains recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan 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.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today



Global Reporting Initiative (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Going Concern

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially or the scale of its operations.

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Gross Dividend

The portion of profits distributed to the shareholders.

Group

A Group is a parent and all its subsidiaries and associates.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.



Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

Held-for-Trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

Held-to-Maturity

Investments and debt securities that a Company has the ability and intent to hold until maturity.

High Quality Liquid Assets

(HQLA) HQLA are assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

Historical Cost

Historical cost is the original nominal value of an economic item.



Impaired Loans

Loans where identified impairment allowances have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment charges for Loans and Receivables

Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred (under LKAS 39)/expected (under SLFRS 9) loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Individually Significant Loans

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

Intangible Asset

An intangible asset is an identifiable non monetary asset without physical substance.

Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long term in its economic, social and environmental context

Interest Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest Margin

Net interest income expressed as a percentage of average interest earning assets.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest Rate SWAP

An agreement between two parties where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment banking

A specific division of banking related to the creation of capital for other companies. Investment banks underwrite new debt and equity securities for all types of corporations. Investment banks also provide guidance to issuers regarding the issue and placement of stock.

Investment Property

A real estate property that has been purchased with the intention of earning a return on the investment (purchase), either through rent (income), the future resale of the property, or both.



Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity and key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.



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, Treasury Bills and Bonds.

Liquidity coverage ratio (LCR)

Ratio of stock of high quality liquid assets available to total net cash outflows over next 30 calendar days. LCR is expected to improve the banking sector's ability to absorb shocks

arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan-to-Value Ratio

The loan-to-value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used to represent the ratio of the first mortgage lien as a percentage of the total appraised value of real property.

Loss Given Default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty



Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share 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 economic decisions of users of Financial Statements.



Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Assets Value per Share

Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amounts a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Net Interest Margins (NIM)

Net interest income expressed as a percentage of average Total Assets.

Net stable funding ratio (NSFR)

The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The Basel III rules require this ratio to be over 90% with effect from 01 January 2019. The NSFR is still subject to an observation period and review to address any unintended consequences.

Non-Controlling Interest/Minority Interest

Equity in a subsidiary not attributable, directly or indirectly, to a Parent.

Non-Performing Loans (NPLs)

A loan or a receivable placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

Nostro Account

A bank account held in a foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

NPL Ratio

Total non-performing loans and receivables (net of interest in suspense) divided by total loans and receivables portfolio (net of interest in suspense).



Open Credit Exposure Ratio

Total net non-performing loans and receivables expressed as a percentage of shareholders' fund.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.



Parent

A parent is an entity that has one or more subsidiaries.

Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Power

The power is the existing rights that give the current ability to direct the relevant activities.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share

Probability of default (PD)

The probability that an obligor will default on an obligation within a given period of time.

Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.



Related Parties

Parties where one party has the 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 Transactions (RTP)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Remittances

A remittance is a transfer of money by a foreign worker to an individual in his or her home country

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Retained Earnings

Reserves that are set aside for future distribution and investments.

Return on Average Assets (ROA)

Profit after tax divided by the average assets.

Return on Average Equity (ROE)

Net profit for the year, less preference share dividends, if any, expressed as a percentage of average ordinary shareholders' equity

Revaluation Reserve

Part of the shareholders' equity that arises from changes in the current value of property, plant and equipment.

Revenue Reserve

Reserves set aside for future distribution and investment.

Risk-Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price



Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealing, property and insurance.

Segmental Analysis

Analysis of financial information by segments of an entity specifically, the different industries and the different geographical areas in which it operates.

Shareholders' Funds

Total of stated capital and revenue reserves.

Significant influence

If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 percent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated otherwise.

Single Borrower Limit (SBL)

33% of the regulatory capital base.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act, No. 30 of 1988.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.



Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses

Tier II Capital

Supplementary 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 I) and the supplementary capital (Tier II).

Transaction Costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Transfer Pricing Arrangement

Transfer pricing involves the terms and prices at which related parties sell (or should sell) goods or services to each other. When the parties are located in different taxing jurisdictions, opportunities exist for the movement of income to a lower-taxing jurisdiction. A transfer pricing arrangement is developed to combat potential losses of income tax revenue.



Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Useful Life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity



Value Added

Value of wealth created by providing banking and other related services less the cost of providing such services.

Value-at-risk (VaR)

A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Vostro Account

A local currency account maintained by a local bank for a foreign (correspondent) bank. For the foreign bank, it is a nostro account. The domestic bank acts as custodian or manages the account of a foreign counterpart.

Yield-to-Maturity

The discount rate at which a security's present value of future cash flows will be equal to the security's current price.

NOTICE OF MEETING

Notice is hereby given that the eighteenth (18) Annual General Meeting (AGM) of National Development Bank PLC (the Bank) will be held at the DHPL Training Room, 3rd Floor, NDB – EDB Tower, No 42, Nawam Mawatha, Colombo 02 at 03.00 p.m. on Thursday, the Thirtieth (30) day of March, Two Thousand and Twenty Three (2023) and the business to be brought before the meeting will be:

1. To lay before the shareholders for consideration, the Annual Report for the year ended 31 December 2022.
2. To reappoint Ms. Kasturi Wilson in terms of Article 44 (2) of the Articles of Association of the Bank.
3. To re-elect Mr. Kushan D'Alwis, PC, as a Director in terms of Article 42 of the Articles of Association of the Bank.
4. To re-elect Ms. (Fay) Piyachatr Chetnakarnkul as a Director in terms of Article 42 of the Articles of Association of the Bank.
5. To reappoint Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.
6. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorise the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.
7. To authorise the Board of Directors to determine donations for the financial year 2023 (in accordance with the provisions of the Companies Donations Act No. 26 of 1951) through which the corporate social activities of the Bank in 2023 will be carried out (similar to the activities carried out in 2022 as detailed in the Annual Report).

By Order of the Board,



Ms. Shehani Ranasinghe

Company Secretary

21 February 2023
Colombo

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a Proxy holder to attend and vote in his/her stead. Please read the reverse of the Form of Proxy for further details.
2. Shareholders/Proxy holders attending the meeting are requested to bring their National Identity Cards.
3. Voting shall be by any one of the following methods as determined by the Chairman of the meeting unless a poll is demanded;
 - a) voting by voice
 - b) voting by show of hands (every member who is present in person or is represented by a proxy or attorney or an authorized representative shall have one (01) vote).
4. A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority or lost is conclusive evidence of that fact.
5. At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No. 07 of 2007. If a poll is taken, votes must be counted according to the votes attached to the shares of each shareholder present and voting. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to a second or casting vote.

CORPORATE INFORMATION

NAME

National Development Bank PLC

COMPANY REGISTRATION NUMBER

PQ 27

LEGAL FORM

Established under the National Development Bank of Sri Lanka Act No. 2 of 1979 and incorporated as a company under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007 and also licensed as a Licensed Commercial Bank in terms of the Banking Act No. 30 of 1988 as amended from time to time.

STOCK EXCHANGE LISTING

The shares, and the rated unsecured subordinated redeemable debentures issued in December 2013, March 2019, September 2020 and November 2021 are listed on the Colombo Stock Exchange.

HEAD OFFICE/REGISTERED OFFICE

Address – No. 40, Nawam Mawatha, Colombo 02
Tel: +94 11 2448888

Fax: +94 11 2305031

Swift Code: NDBSLKLX

Web page: www.ndbbank.com

E-mail: contact@ndbbank.com

Financial Year End: 31 December

VAT Registration Number: 409000266-7000

Credit Ratings: National long-term ratings: A-(lka)

Basel II compliant & Basel III compliant subordinated debentures ratings: BBB (lka)

BOARD OF DIRECTORS AND BOARD SUB COMMITTEES

Board of Directors

Mr. Sriyan Cooray – Chairman – Independent
(Appointed as Chairman w.e.f. 01 July 2022)

Mr. Dimantha Seneviratne –
Chief Executive Officer - Non-Independent

Mr. Bernard Sinniah – Non-Independent

Mr. Sujeewa Mudalige – Independent

Mr. Kushan D'Alwis, PC – Independent

Ms. Chandima Dilrukshi – Non-Independent

Ms. (Fay) Piyachitr Chetnakarnkul –
Non-Independent

Ms. Kasturi Wilson – Independent
(Appointed w.e.f. 03 October 2022)

Mr. Hiran Perera – Non-Independent
(Resigned w.e.f. 14 February 2023)

Mr. Eshana de Silva – Chairman – Independent
(Resigned w.e.f. 30 June 2022)

BOARD SUB COMMITTEES AS AT 31 DECEMBER 2022

Nominations Committee

Human Resources & Remuneration Committee

Integrated Risk Management Committee

Audit Committee

Related Party Transactions Review Committee

Strategic Issues Committee

Credit Committee

Digital Transformation Committee

Please refer pages 132 to 144 for Board Sub Committee Reports

BOARD OF DIRECTORS OF SUBSIDIARY COMPANIES AS AT 31 DECEMBER 2022

NDB Capital Holdings Limited - 99.9%

Directors

Mr. Ashok Pathirige – Chairman

Mr. Sarath Wikramanayake

Mr. Ananda Atukorala

Mr. Dimantha Seneviratne

Mr. Arjun Fernando

Mr. Bernard Sinniah

Mr. Senaka Kakiriwaragodage

NDB Wealth Management Limited - 99.9%

Directors

Mr. Sarath Wikramanayake – Chairman

Mr. Dimantha Seneviratne

Mr. Bernard Sinniah

Mr. Sanjaya Perera

Mr. Senaka Kakiriwaragodage

NDB Investment Bank Limited - 99.9%

Directors

Mr. Sarath Wikramanayake – Chairman

Mr. Dimantha Seneviratne

Mr. Bernard Sinniah

Mr. Jehan Peruma

Mr. K V Vinoj

Mr. Senaka Kakiriwaragodage

Mr. Darshan Perera

NDB Securities (Private) Limited - 99.9%

Directors

Mr. Arjun Fernando – Chairman

Mr. Dimantha Seneviratne

Mr. Ananda Atukorala

Mr. Deepal Akuretiyagama

Mr. Bernard Sinniah

Mr. Senaka Kakiriwaragodage

NDB Capital Limited (Bangladesh) - 84.18%

Directors

Mr. Sarath Wikramanayake – Chairman

Mr. Kazi Farhan Zahir

Mr. Dimantha Seneviratne

Mr. Bernard Sinniah

Mr. Darshan Perera

Ms. Zakia Chowdhury

Mr. Mohammed Al Maruf Khan

Mr. Hafiz Firoz Chowdhury

Mr. C.M. Alam

NDB Zephyr Partners Limited (Mauritius) - 60%

Directors

Ms. Dilshaad Banu Rajabalee

Mr. Thomas Barry

Mr. Mukul Gulati

Mr. Arjun Fernando

Mr. Arunagirinatha Runghien

Mr. Ananda Atukorala

Mr. Dimantha Seneviratne

NDB Zephyr Partners Lanka (Private) Limited - 60%

Directors

Mr. Sarath Wikramanayake - Chairman

Mr. Thomas Barry

Mr. Mukul Gulati

Mr. Dimantha Seneviratne

Mr. Bernard Sinniah

Development Holdings (Private) Limited – 58.6%

Directors

Mr. Dimantha Seneviratne - Chairman

Mr. Suresh de Mel

Ms. Thakshila Wijayarathne

Mr. S R P Indrakeerthi

Mr. Kusal Perera

Mr. Deepal Akuretiyagama

Ms. Suvendrini Muthukumarana

Mr. Sanjaya Perera

Ms. Melody Wikramanayake

OTHER INFORMATION

Company Secretary:

Ms. Shehani Ranasinghe (Attorney-at-Law)

Compliance Officer: Mr. Chandima Kannangara

Auditors: Ernst & Young, 201, De Saram Place,
Colombo 10

Registrar to the Rated Unsecured Subordinated
Redeemable Debentures issued - S S P Corporate
Services (Pvt) Ltd, No. 101 Inner Flower Road,
Colombo 03

Trustees to the Rated Unsecured Subordinated
Redeemable Debentures issued - Bank of Ceylon,
Investment Banking Division No.1, BOC Square,
Bank of Ceylon Mawatha, Colombo 01

QUERIES

On the 2022 NDB Annual Report

Ms. Suvendrini Muthukumarana

Vice President/ Chief Financial Officer

National Development Bank PLC

No. 40, Nawam Mawatha, Colombo 02

Email: suvendrini.muthukumarana@ndbbank.com

Tele: + 94 11 2448448 (Extn: 35301)

ON INVESTOR RELATIONS

Company Secretarial Department

Ms. Shehani Ranasinghe

Company Secretary/ Vice President

National Development Bank PLC

No. 40, Nawam Mawatha, Colombo 02

Email: shehani.ranasinghe@ndbbank.com

Tele: + 94 11 2448448 (Extn: 35013)

Investor Relations Team

Ms. Suvendrini Muthukumarana

Vice President/ Chief Financial Officer

(See above)

FORM OF PROXY

I/We _____

(holder/s of NIC/s _____) of _____

_____ being a shareholder / shareholders of National Development Bank PLC (the Bank) hereby appoint;

1. _____

_____ (holder of NIC No. _____)

of _____ or failing him/her

2. Mr. Sriyan Cooray (Chairman of the Bank) of Colombo or failing him,
Mr. Bernard Sinniah of Colombo or failing him,
Mr. Sujeewa Mudalige of Colombo or failing him,
Mr. Kushan D’Alwis, PC of Colombo or failing him,
Ms. (Fay) Piyachat Chetnakarnkul of Colombo or failing her,
Ms. Chandima Dilrukshi of Colombo or failing her,
Ms. Kasturi Wilson of Colombo or failing her,
Mr. Dimantha Seneviratne (Director/ CEO of the Bank) of Colombo

as my/our proxy to represent me/us and to vote for me/us and on my/our behalf at the Eighteenth (18) Annual General Meeting of the Bank to be held on Thursday, the Thirtieth (30) day of March, 2023 and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our proxy to vote on my/our behalf in accordance with the preferences indicated below:

	For	Against
1. To reappoint Ms. Kasturi Wilson in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
2. To re-elect Mr. Kushan D’Alwis, PC, as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
3. To re-elect Ms. (Fay) Piyachat Chetnakarnkul, as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
4. To reappoint Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.	☐	☐
5. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorise the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.	☐	☐
6. To authorise the Board of Directors to determine donations for the financial year 2023 (in accordance with the provisions of the Companies Donations Act No. 26 of 1951) through which the corporate social activities of the Bank in 2023 will be carried out (similar to the activities carried out in 2022 as detailed in the Annual Report).	☐	☐

As witness I/We have set my/our hand/s hereunto this _____ day of _____

_____ Two Thousand and Twenty Three (2023).

Signature of the Shareholder / Shareholders

Instructions for Completion of Form of Proxy

1. In order to appoint a proxy holder, kindly complete the Form of Proxy. The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and should be signed and dated by the shareholder. The duly completed Form of Proxy must be deposited at the Registered Office of the Bank, at No. 40, Nawam Mawatha, Colombo 02 or via email to the Company Secretary (companysecretary@ndbbank.com) or by facsimile No. +94 11 2341050, not less than twenty four (24) hours before the time appointed for the meeting.

Shareholders should duly complete the Form of Proxy clearly setting out their preference of vote in the Form of Proxy.

Please indicate an "X" in the cage provided on how your proxy should vote for each resolution. If no indication is given, or if there is, in the view of the proxy holder, any doubt (by reason of the manner in which the instructions contained in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder in his/her discretion may vote as he/she thinks fit.

2. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney, if executed prior to 25 October 2022, should be duly registered at the Registrar General's Office (RGO) and if executed after 25 October 2022, should be duly executed and attested in terms of the Power of Attorney (Amendment) Act No 28 of 2022 and registered at the RGO. A certified copy thereof duly certified by the Registrar General, should also accompany the completed Form of Proxy.
3. If you wish to appoint a person other than the Chairman or a Director of the Bank as your proxy, please insert the relevant information in the Form of Proxy
4. The proxy holder appointed need not be a shareholder of the Bank.
5. In case of a corporate member, the proxy must be executed under its Common Seal (if applicable) or in such other manner prescribed by its Articles of Association or other constitutional documents.
6. The first joint holder shall have the power to sign the Form of Proxy without the concurrence of the other joint holder/s.

Designed & produced by

emagewise

Printed by Softwave Printing & Packaging (Pvt) Ltd
Photography by Dimitri Cruz



www.ndbbank.com