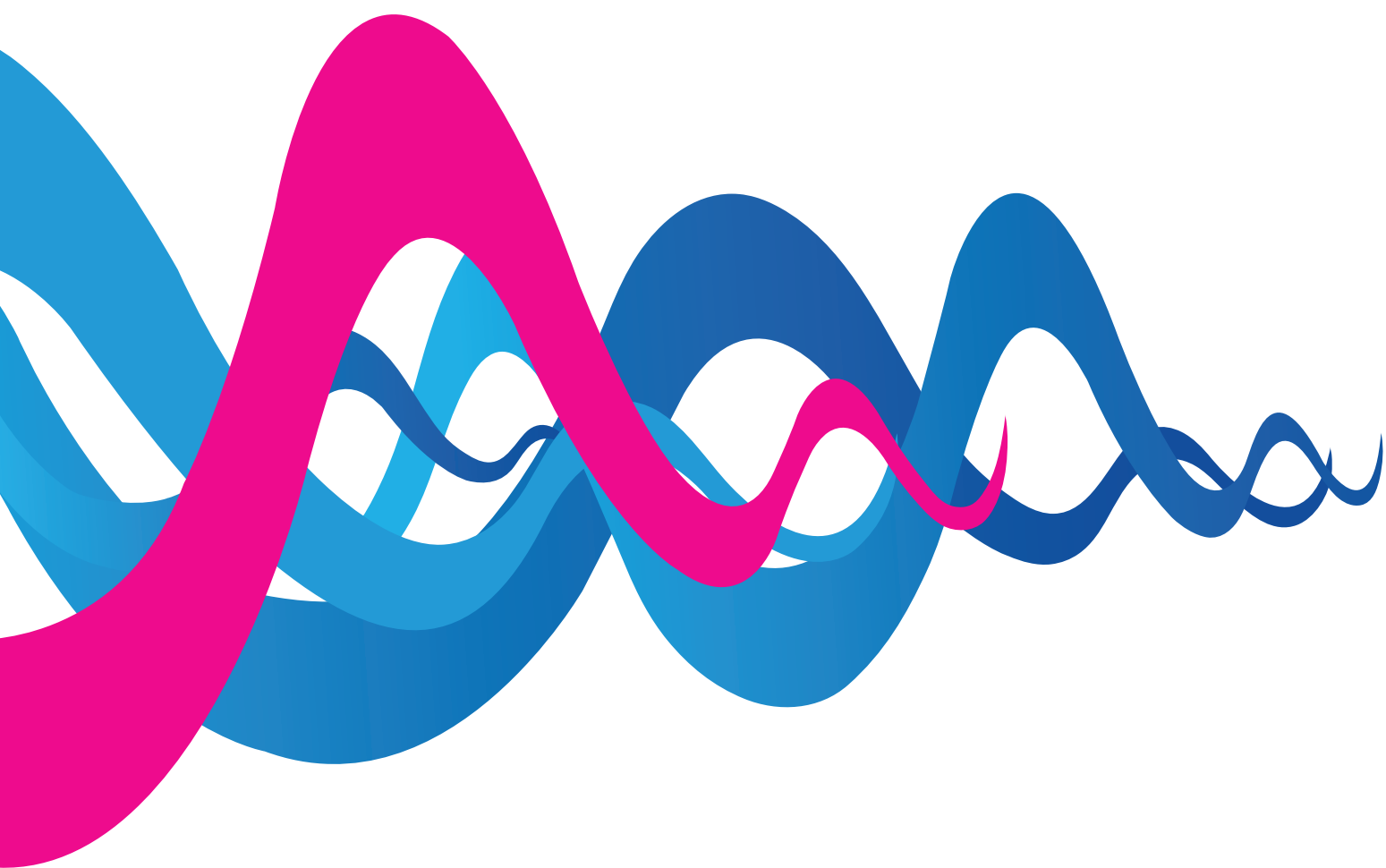


NATIONS TRUST BANK PLC – ANNUAL REPORT 2020

# creating velocity of value



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## HOW TO READ THIS REPORT

As part of our commitment towards reducing our environmental impact, we will only be printing a limited number of copies of this Annual Report. The Report is available for perusal and download through other mediums as listed below.



Limited printed  
copies are  
available upon  
request

Online  
PDF  
version

Digital  
format



The PDF version of the Annual Report 2020 can be read at:  
<https://www.nationstrust.com/>

# creating velocity of value

“Individually, we are one drop. Together, we are an ocean.”

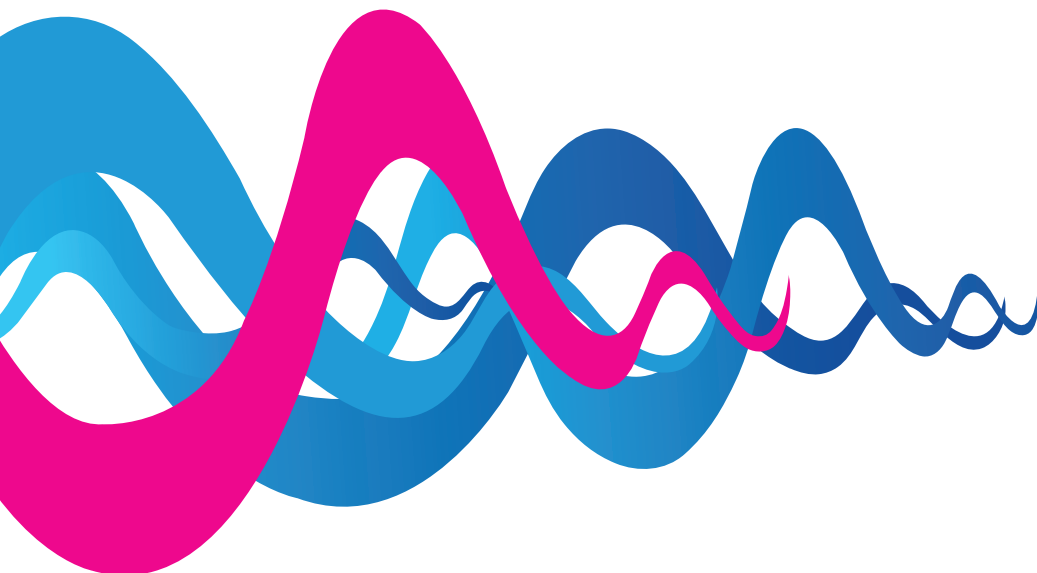
- Ryūnosuke Akutagawa

Amid times of unprecedented change, at Nations Trust Bank we continued to create waves of opportunity and positive change for progressive growth.

Over two decades, our dedicated team has worked tirelessly at a velocity, well-determined to increase the value of our impact. Inspired by a team of energetic, dynamic and tech-savvy individuals who have worked as a collective to serve the people against all odds – your Bank has positioned itself as a truly innovative, responsive and agile entity.

As we faced the uncertainties of the year under review through the power of togetherness – NTB remained a constant support, enabling every stakeholder to forge ahead and overcome tomorrow. We're focused on increasing the velocity of our value in the years ahead.

*The NTB waves are a metaphor for how challenges can be approached with a collaborative and dynamic spirit of complementary skills, optimism and togetherness.*



# our business and leadership

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## about us

In Sri Lanka's intensely competitive sector, Nations Trust Bank PLC has sought differentiation through leveraging transformative ideas and disruptive technology to build a lean, agile and competitive bank.

Its focus on innovation, customer experience and digitisation has enabled it to carve a niche in the sector through customer-centric solutions which are delivered through accessible and seamless channels. With a total asset base of LKR 338 billion as at end-December 2020, it is one of Sri Lanka's fastest growing banks.



## Our Vision

We help people and businesses by providing financial services and information to achieve their goals and aspirations in a sustainable way

## Our Mission

We will work **SMART** to become the most respected financial service provider.

### SMART

**S**peed  
**M**ore with less  
**A**daptable  
**R**esponsible  
**T**ech savvy

## Values

- Agile
- Proactive
- Excellence
- Winning Together
- Trust

# overview

## OUR APPROACH TO REPORTING

This Report has been prepared in accordance with the Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC) and aims to provide a concise, balanced, and accurate reflection of our strategy, performance, opportunities, risks, and outlook. While this Report is primarily intended to serve the information needs of our capital providers, it also includes information that is relevant to our other stakeholders, showcasing how we create value for them.

## SCOPE AND BOUNDARY

**Reporting entity:** The Report covers the operations of Nations Trust Bank (herein referred to as the “Bank”) and its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers (collectively referred to as “Group”). The Report covers the Bank’s primary activities across several business lines and support functions within Sri Lanka.

**Reporting period:** We adopt an annual reporting cycle, and this Report covers the period from 1st January 2020 to 31st December 2020. Our previous report, for the year ending 31st December 2019 is available for download at [www.nationstrust.com](http://www.nationstrust.com).

**Financial and non-financial reporting:** The financial information in the Financial Statements and the narrative represents consolidated information unless otherwise stated. Quantitative non-financial disclosures represent only the Bank, although the narrative extends to the external environment to include opportunities, risks and outcomes attributed to our stakeholders.

**Changes in reporting:** There were no major changes to the Bank’s size, supply chain, shareholding structure or supply chain during the year under review. The structure of the business lines has been refined for better business focus and clarity, resulting in the Leasing division being classified as a sub-sector within Consumer Banking. Comparative financial disclosures for the previous year have been re-stated accordingly. There were no major restatements of non-financial information disclosed in the 2019 Annual Report.

## REPORTING PRINCIPLES AND EXTERNAL ASSURANCE

The financial statements have been prepared based on the Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka. We adopt a combined assurance model to ensure the integrity of the information, which includes engagement by the management, Board, internal audit team and external auditors. External assurance on the financial statements has been provided by Messrs. Ernst and Young. Sustainability Reporting is ‘in accordance’ with the Core criteria prescribed by the Global Reporting Initiative (GRI) Standards; we have not obtained external assurance on our sustainability reporting this year.



## FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements regarding the Group’s performance, financial position, and operations. These statements involve risks and uncertainty as they relate to events that occur in the future. These factors could cause actual results to differ from those expressed/implied by such forward-looking statements.

## FEEDBACK

We are committed to continuously enhancing the quality and readability of our Report and welcome your suggestions, feedback, and comments. Please direct your comments to,

**Evan Ranasinghe,**  
Vice President,  
Management Reporting and Planning  
E-mail : [evan.ranasinghe@nationstrust.com](mailto:evan.ranasinghe@nationstrust.com)

## NAVIGATION ICONS

### OUR CAPITALS



Financial Capital



Manufactured Capital



Human Capital



Digital Capital



Intellectual Capital



Social and Relationship Capital



Natural Capital

### STAKEHOLDERS



Shareholders



Employees



Customers



Business Partners



Government



Communities

### STRATEGIC FOCUS AREAS



Business focus



Cost and efficiency management



Customer experience



Automation and digitalisation

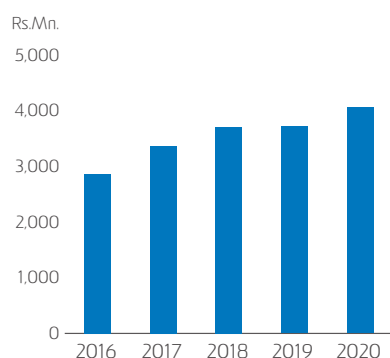
# performance highlights



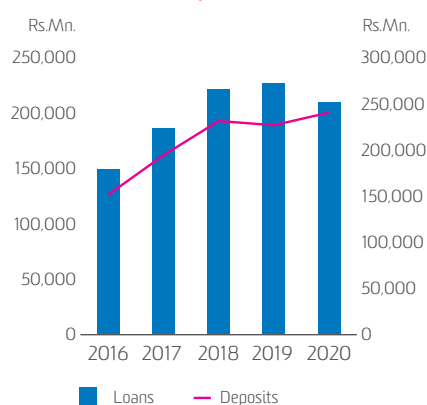
## Financial Capital

FIGURES IN LKR MILLION	2020	2019	Y-O-Y CHANGE
<b>Performance of the year (Group)</b>			
Operating income	21,241	22,559	-9%
Operating expense	9,839	10,808	-9%
Profit after tax	4,055	3,714	9%
<b>Financial Position</b>			
Customer deposits	240,574	226,872	6%
Loans and receivables	210,186	226,794	-7%
Total assets	337,991	325,369	4%
Total equity to equity holders of the Bank	35,125	31,396	12%
<b>Profitability</b>			
Net interest margin (Bank)	4.07%	4.86%	
Cost to income ratio	46%	48%	
Return on assets	1.2%	1.1%	
Return on equity	12.1%	12.8%	
Return on risk weighted assets	1.8%	1.7%	
<b>Investor Information</b>			
Market value per share-voting (LKR)	60.0	80.0	
Market value per share-non voting (LKR)	75.0	80.0	
Net asset value per share (LKR)	123.7	110.6	
Earnings per share-basic (LKR)	14.3	13.1	
Dividend per share (LKR)	2.0	2.3	
Dividend yield (Voting)	3.3%	2.9%	
Market capitalisation (LKR million)	17,612	22,708	
<b>Risk Management (Bank)</b>			
Non-performing-loans ratio	7.2%	6.2%	
Impairment provision/Loans	3.9%	3.2%	
(Stage III Loans – Impairment)/Capital	52%	63%	
<b>Capital adequacy ratio</b>			
Tier 1	14.40%	12.99%	
Total capital	17.98%	17.64%	
Leverage ratio	9.03%	8.47%	
Statutory liquid assets ratio (DBU)	38.79%	23.78%	
Liquidity coverage ratio (All currency)	341.63%	295.15%	
Net stable funding ratio	151.62%	136.08%	

Profit for the year



Loans Vs Deposits





## Manufactured Capital

96

Branches

111

ATMs

62

CRMs

LKR 3,682 Mn

Property, Plant and Equipment



## Digital Capital

82%

Digital transactions

10%

growth in omni-channel users

17

main processes automated

LKR 422 Mn

digital investments during the year



## Intellectual Capital

40

years of collective experience on the Board

2%

increase in brand value

Fully Fledged

digital onboarding mechanism



## Human Capital

2,832

Employees

LKR 11 Mn

investment in training

43,000

training hours

5%

increase in revenue per employee



## Social and Relationship Capital

800k+

customers

76

Net Promoter Score

1,547

suppliers

32

correspondent relationships

23

exchange houses



## Natural Capital

-17%

in Carbon footprint

-14%

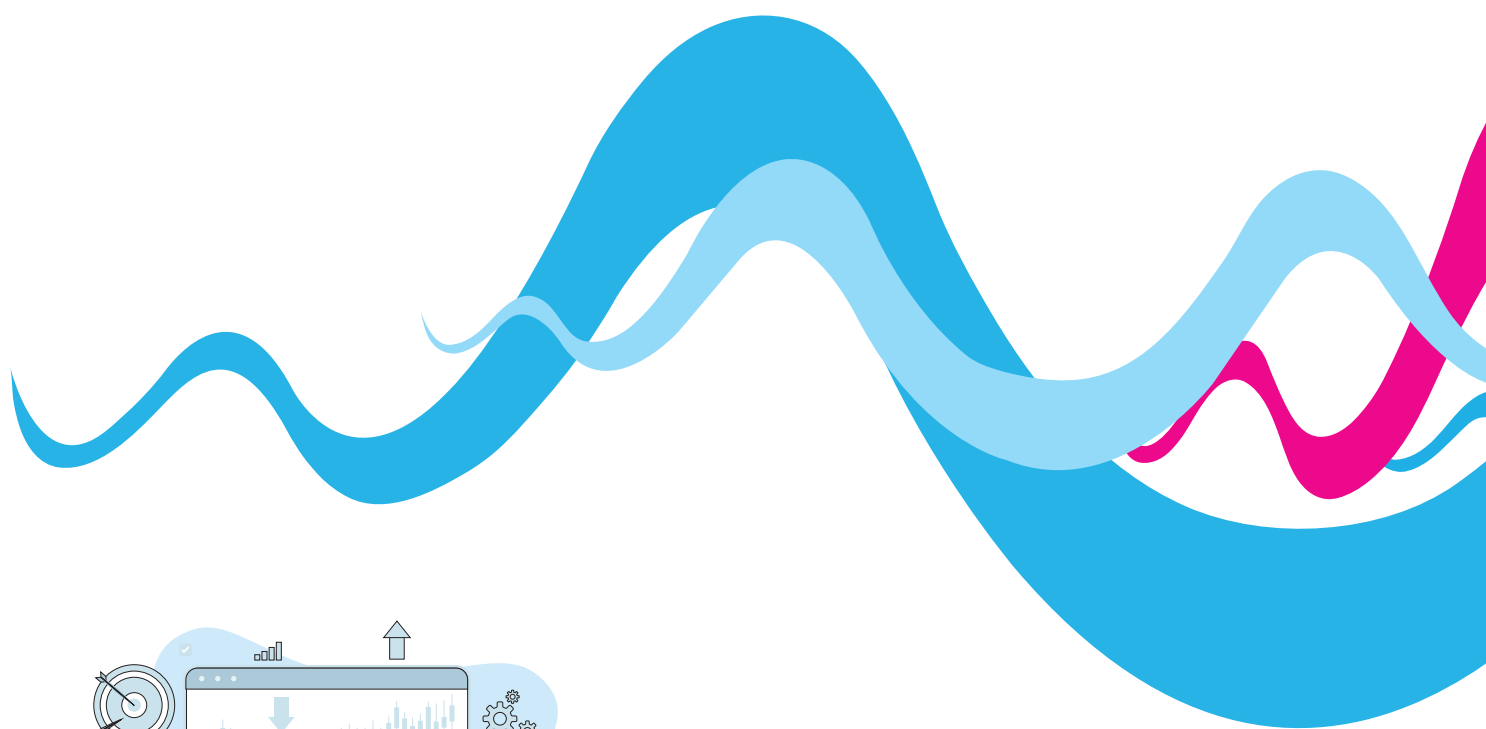
in electricity consumption

-43%

in paper consumption

# reset, reprofile and on a journey of growth

The year 2020 necessitated co-ordinated thinking, strategic agility, and impeccable execution, which in turn enabled the Bank to demonstrate strong resilience to the numerous operating challenges that prevailed. Our proactive and responsive approach during the year has reset and reprofiled the Bank to effectively capture emerging growth opportunities, aptly positioning it for long-term value creation.



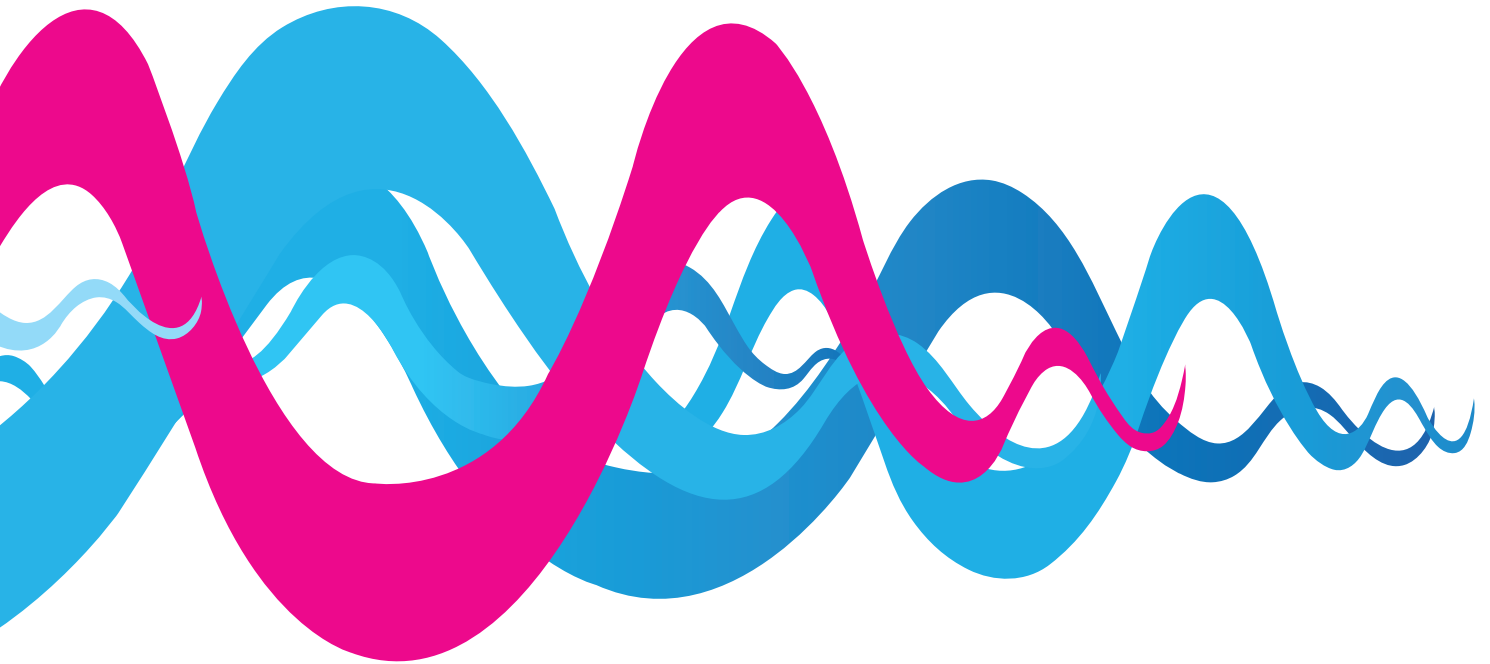
Deep-dive analysis of all revenue streams, costs, and profitability indicators enabled the Bank to identify the optimal risk-return dynamics to adopt in this operating landscape.

Following the outbreak of the pandemic, we created several highly-skilled, task-oriented and empowered teams to drive solutions for critical areas of the business including employee health and safety, preserving liquidity and cost management among others.





Strengthened customer relationships by extending continued support through granting moratoriums, restructuring facilities, and offering personalised repayment schemes.



Reviewed and reinvented our service delivery given prevalent operating constraints; leveraged our best-in-class digital capabilities and personalised approach to customer service to offer uninterrupted support and services to customers.

Reset the HR strategy with focus on ensuring the health and safety of our employees through flexible work arrangements, dividing teams to minimise interactions, facilitating transport and enabling required digital infrastructure.

# chairman's message



Gihan Cooray  
Chairman/Non-Executive Director

## Dear Shareholders,

I am pleased to present the Integrated Annual Report and the financial statements of Nations Trust Bank PLC for the financial year ended 31 December 2020.

In adapting to the extraordinary circumstances that prevailed following the global outbreak of the COVID-19 pandemic in 2020, organisations have been compelled to radically rethink the way they conduct business, reinventing their business models to ensure survival in a changed world. The Bank's agility and responsiveness as a digitally-savvy, future-fit organisation served it well during the year, underpinning its resilience and continued value creation in these turbulent times.

## OPERATING ENVIRONMENT

The human and economic toll of the pandemic has been catastrophic with the global economy estimated to have contracted by 3.5% in 2020. In Sri Lanka, an extended lockdown in the 2nd quarter of the year coupled with subdued demand and closure of the airport for tourists resulted in GDP contracting by 5.3% in the first nine months of the year. The Government sought to accelerate the economic revival through a series of measures aimed at supporting distressed businesses and relaxing monetary policy. Accordingly, the Policy rate was reduced by a total of 250 bps during the year, while the SRR was revised downward twice to 2% by June 2020. The Central Bank also imposed interest rate caps on several key lending products such as credit cards, pawning and housing loans. Meanwhile, the Banking

sector was called upon to support impacted businesses through offering debt moratoriums, relaxing debt recovery measures and channelling concessionary funding to selected economic sectors through the Saubagya scheme. The Sector responded positively to this call, leveraging on digital capabilities to offer uninterrupted services, and pursuing innovative ways to assist clients in weathering the crisis. We are cognisant of the role the Banking sector can play in supporting the country's economic revival and remain committed to doing our part to support the recovery of businesses and the economy at large. While many of the measures across the industry are deemed necessary at times of crisis, aspects such as interest rate caps on lending make it challenging for banks to price risk appropriately, which in turn would distort the allocation of resources and risk.

## OUR PERFORMANCE

At the outset of the crisis, the Bank proactively sought to reinvent and reposition itself by focusing on delivering market-leading digital experiences, relentless focus on operational efficiencies and empowering employees to drive solutions for critical problems. These initiatives are discussed in further detail in the Chief Executive Officer's Review on page 10 of this Report. This approach enabled the Bank to demonstrate strong resilience, with Consolidated Profit-after-tax increasing by 9% to LKR 4.05 billion during the year. We also placed strategic emphasis on supporting our customers through the crisis, allocating LKR 7 billion of internally generated funds to drive business revival and disbursing LKR 1.8 billion

under the Saubagya COVID-19 Renaissance Facility. A deep-dive analysis of revenues, costs, and profitability and proactive efforts to drive efficiencies resulted in overhead costs reducing by 9% while the cost-to-income ratio declined to 46%, from 48% the previous year, despite the impact on income due to lower loan growth and contraction of margins. The gross NPL ratio increased to 7.2% reflecting repayment pressure the Bank continued to maintain close and continued engagement with customers, offering tailor-made solutions and flexible repayment schemes, which in turn allowed us to stem the increase in impairment to a certain extent. Meanwhile, the Bank's balance sheet remained strong with the Tier I Capital and Total Capital Adequacy ratios comfortably above regulatory levels at 14.4% and 17.9% respectively by end-December 2020.

## LEADERSHIP AND GOVERNANCE

The Bank's Executive leadership team also underwent a transition during the year, as part of the succession plans which were announced last year, with Mr. Priyantha Talwatte taking over the reins as Chief Executive Officer in April 2020, following the retirement of Ms. Renuka Fernando. On behalf of the Board, I wish to thank Ms. Fernando for her long-standing contribution to the Bank.

On behalf of the Board, I wish to welcome Dr. Ramesh Shanmuganathan, who was appointed as a Non-Executive Director on 25 January 2021 and brings with him insights and expertise on driving digital strategy and technological transformation.

At the outset of the crisis, the Bank proactively sought to reinvent and reposition itself by focusing on delivering market-leading digital experiences, relentless focus on operational efficiencies and empowering employees to drive solutions for critical problems.

The Board continuously monitored emerging developments in the operating landscape, ensuring that adequate measures were in place to safeguard employees and customers, thereby minimising the risk of infection within the Bank. Other areas of Board focus included deliberations on debt moratoriums and concessionary loan facilities, leveraging the Bank's digital capabilities to ensure uninterrupted service to customers and proactive management of emerging risks. These initiatives are more fully discussed in the CEOs Message and elsewhere in this Report.

## BALANCING STAKEHOLDER INTERESTS

The pandemic has amplified some of the most significant challenges affecting the world today, demonstrating the urgent need for collaborative action in addressing issues such as inclusion, inequality, and climate change. We are committed to doing our part in driving these much-needed changes and have proactively sought to embed the principles of sustainability in our strategy, operations, and processes. The Bank's Sustainability Policy is aligned to the United Nations' Sustainable Development Goals and despite the challenges that prevailed we continued to make progress in our community and environmental initiatives as discussed in further detail on page 44 of this Report. The Bank also contributed to the Government's pandemic response, donating Personal Protective Equipment to frontline workers.

## WAY FORWARD

As we adapt to the new realities of 2021 and beyond, the Bank will continue to pursue growth in selected sectors such as exports and local manufacturing, which have been earmarked to drive the revival of the economy. Our young and dynamic team have been quick to embrace new ways of working and we will leverage on these new operating models to drive greater productivity, diversity, and work-life-balance. From a macro-perspective the conducive interest rate environment, policy stimulus towards thrust sectors and opening of the airport for tourist arrivals is expected to stimulate economic activity, offering renewed hope and optimism. Key downside risks include the country's high debt burden, fiscal challenges, dwindling foreign reserves and the volatile exchange rate environment which could delay economic revival; as an organisation we remain acutely aware of these risks and have taken proactive measures to strengthen our capital base and liquidity buffers which would safeguard the Bank from impending risks.

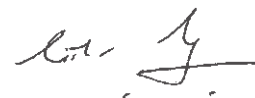
## ACKNOWLEDGEMENTS

I am deeply grateful to the Nations Trust team whose tenacity, agility and commitment enabled the Bank to serve its clients continuously through the uncertainties and complexities of the year. It is this dedication and unwavering team spirit that has enabled the Bank to overcome the numerous challenges during this year.

I take this opportunity to congratulate Mr. Priyantha Talwatte on his leadership and I am confident that he will continue to steer the Bank skilfully in these turbulent times. I wish to thank my fellow Board members for their valuable contributions and guidance during a volatile and challenging year. On behalf of the Board, I would like to extend my sincere appreciation to Mr. Prasanna De Silva who retired from the Board with effect from 31 December 2020 upon reaching his tenure of nine years as a Director.

We also appreciate the support and guidance provided by the officials of the Central Bank of Sri Lanka. I take this opportunity to thank all our customers, business partners and other stakeholders for their continued loyalty and look forward to working with you in the years to come.

Thank you.



Gihan Cooray  
Chairman

24th February 2021  
Colombo

# chief executive officer's review



Priyantha Talwatte  
Director/Chief Executive Officer

## Dear Shareholders,

It was a year in which the mettle of our people and the validity of our strategy was put to the ultimate test. The detailed work we had done in critically reviewing and rationalising our portfolio through data-driven insights and decision making, investments in market-leading digital capabilities and nurturing an agile and dynamic professional workforce proved to be timely, allowing the Bank to be resilient in unprecedented operating conditions. Against this backdrop, I am pleased to report that, Nations Trust Bank recorded a 9% growth in profit-after-tax to LKR 4.05 billion, while continuing to deliver on its' broader stakeholder commitments.

## THE NEW REALITY

The health, humanitarian and economic challenges presented by COVID-19 have been unparalleled and represent the most severe implications on organisations, governments, and communities in nearly a century. As essential service providers, Banks were required to keep distribution channels open despite social distancing requirements, ensuring continued service to the Public. Banks were also called upon to play their role in driving economic revival, supporting customers in addressing rising repayment pressures, in a historically low interest environment. Against this backdrop, the Bank's agility and responsiveness enabled it to quickly adapt to the new realities of the operating landscape. Ensuring the safety of our employees was our foremost priority and we facilitated work-from-home arrangements, provided transport facilities for critical employees, and ensured minimal interaction within and between teams through introducing weekly rotations. Emphasis was also placed on enhancing liquidity buffers, providing a cushion against potential stress. We also maintained proactive and continuous customer engagement, ensuring

that their essential banking needs were fulfilled while offering personalised debt relief solutions and access to concessionary funding as they faced escalating repayment pressure. Apart from supporting the Governments "Soubagya" loan scheme, your Bank launched Nations Diriya - an LKR 7 billion fund to support the recovery of exporters and local manufacturers through access to working capital facilities. Internally, we continued to proactively monitor emerging developments and specific impacts across industry sectors, assessing potential stress by leveraging our data and analytical capabilities combined with our augmented experiences and taking timely action.

## PERFORMANCE OVERVIEW

As economic conditions gradually deteriorated, the Group adopted a cautious approach to lending, exiting from potentially high-risk segments and proactively managing risk-return dynamics. Accordingly, loans and advances contracted by 7% which coupled with the sustained decline and regulatory caps on interest rates led to a 15% reduction in net-interest-income (NII). Net fee and commission income also decreased by 13% in line with the decline in business volumes. Meanwhile, astute management of our investment portfolio enabled the Group to record significant trading gains, which in turn partially offset the drop in fund and fee-based income; accordingly the decline in Operating Income level was curtailed to 6% during the year.

Understandably, the industry experienced a broad-based moderation in portfolio quality and the Bank's impairment charges increased by 17% during the year. The Bank also enhanced our collection and recovery capability by investing in deploying a collection platform developed by our own engineers. A key achievement during the year

was the Bank's ability to considerably enhance efficiency and productivity through digitalisation and new ways of working. This led to significant cost efficiencies, with the Group's overhead costs reducing by 9% during the year under review.

Profitability was also supported by the reduction in the effective tax rate, reflecting removal of the Debt Repayment Levy and NBT on Financial Services. Resultantly, the Group's pre-tax profit increased by 5% to LKR 6.06 billion during the year while profit-for-the-year increased by 9% to LKR 4.05 billion.

Efforts to enhance capital and liquidity have strengthened the Group's balance sheet, providing adequate buffers against potential stresses. Total equity increased by 12% to LKR 35.12 billion while the Group's total capital ratio clocked in at 18.4%, comfortably above the regulatory minimum and affording a strong platform to drive growth as economic revival picks up speed.

## A TIMELY STRATEGY

Prior to the outbreak of COVID-19 we engaged in a comprehensive assessment of our portfolios, capabilities and operating model through a deep-dive analysis of revenues, costs, quality, and profitability. This positioned the Bank in good stead to drive realignment of its strategy upon the outbreak of the pandemic in March 2020. From a portfolio perspective, we focused primarily on the premier segment of the Corporate portfolio and upper-end of the Middle-market segment, exiting relatively risky segments, and thereby balancing our risk return dynamics.

Meanwhile, continued focus was placed on leveraging our digital capabilities to drive best in class solutions for customers and achieve efficiencies in the way we work. We further

A key achievement during the year was the Bank's ability to considerably enhance efficiency and productivity through digitalisation and new ways of working. This led to significant cost efficiencies, with the Group's overhead costs reducing by 9% during the year under review.

strengthened our digital propositions through enhancing our direct banking platform and FriMi while commencing digital onboarding of customers in all our Divisions. As a result of these initiatives, digital transactions accounted for 82% of the Bank's total transactions, compared to 72% in the previous year.

As interest margins narrowed, relentless focus was placed on cost rationalisation and a dedicated Cost Management Unit was established within the Finance group to proactively identify avenues for cost control. Measures adopted included rationalising the branch network, combining roles and redeploying human capital and increasing focus on automation and straight-through-processing to drive efficiencies in transaction processing.

## OUR PEOPLE FOCUS

The Nations Trust teams' ability to quickly embrace new ways of working and adapt to the realities of a drastically different world was key in ensuring that the Bank continued to fulfil customer needs and drive its strategic aspirations despite the numerous challenges that prevailed. As a young and dynamic team, our people demonstrated much-needed agility and responsiveness to emerging developments, thereby ensuring the Bank's resilience. We continued to maintain a high-level of engagement with employees, with interactions shifting to digital platforms. Training was delivered virtually, with the corporate management team also conducting training sessions for employees, which in turn accelerated knowledge sharing within the organisation. Despite the conditions that prevailed, we ensured that all employees were retained at full remuneration, thereby offering complete job security in uncertain times. The management team quickly adopted learnings borrowed from military special task forces on how

to operate and perform in a VUCA environment. The learnings have been embedded in the team that will now support the post pandemic business recovery efforts.

## BALANCING RISK

The prevalent conditions necessitated a robust and proactive approach towards managing headline risks and tails risks. The Bank further strengthened its risk identification and mitigation methods. Escalating impairments was a key risk during the year and we sought to leverage on our advanced data-analytics and behavioural scorecards to effectively manage credit risk, through exiting high-risk segments and preserving portfolio quality. The Bank's increased thrust towards digitalization has inevitably increased vulnerabilities to IT and cyber-risk and during the year we invested in further strengthening our network security mechanisms. A clearly defined IT governance framework, which includes robust policies, governance structures and defence mechanisms ensure that cyber risks are proactively identified, monitored, and mitigated. From a macro-economic perspective, while economic recovery is anticipated to pick up speed in the 2nd half of 2021, the outlook is moderated by the country's impending foreign debt settlements which could insert further pressure on Sri Lanka's weak external position. While these factors remain beyond our control, proactive efforts to augment capital and strengthen our balance sheet has aptly positioned the Bank to withstand headwinds from the operating landscape.

## WAY FORWARD

Sri Lanka's economy is poised for revival following the roll-out of the vaccination drive, policy stimulus towards strengthening selected segments and opening of borders for international tourists. We remain cautiously optimistic on the growth

opportunities presented by this revival and will initially seek to increase penetration in the corporate and upper-middle market segments. Strategic efforts taken to optimise our consumer portfolios have positioned the Bank in good stead to capitalise on an anticipated improvement in consumer sentiments and spending as the year progresses. As we embrace the realities of the post-COVID 19 workplace, we will continue to pursue new and effective ways of working, leveraging the agility of our people and our state-of-the-art digital capabilities to build a leaner, more responsive organisation.

## ACKNOWLEDGEMENTS

I take this opportunity to extend my gratitude to the Chairman and my fellow members of the Board for their guidance and valuable counsel in a challenging year. I am deeply thankful to my Corporate management colleagues and all employees of Nations Trust Bank, whose commitment and untiring efforts have been nothing short of extraordinary. We also appreciate the support and guidance provided by the officials of the Central Bank of Sri Lanka and the Sri Lanka Bankers' Association. I also take this opportunity to thank all our customers, business partners and other stakeholders for their continued loyalty and look forward to working with you in the years to come.

Thank you.



Priyantha Talwatte  
Director/Chief Executive Officer

24th February 2021  
Colombo



# board of directors



**Cihan Cooray**  
Chairman/Non-Executive Director



**Priyantha Talwatte**  
Chief Executive Officer/  
Executive Director



**Conrad D'Souza**  
Independent Non-Executive Director/  
Senior Director



**Suran Wijesinghe**  
Non-Executive Director



**Rachini Rajapaksa**  
Independent Non-Executive Director



**Russell De Mel**  
Independent Non-Executive Director



**Sumith Maheshwari**  
Non-Executive Director



**Savanth Sebastian**  
Independent Non-Executive Director



**Sherin Cader**  
Non-Executive Director



**Chanaka Wickramasuriya**  
Independent Non-Executive Director



**Arjun Fernando**  
Non-Executive Director



**Ramesh Shanmuganathan**  
Non-Executive Director



**Theja Silva**  
General Counsel/Group Company  
Secretary

## GIHAN COORAY

(Chairman/Non-Executive Director)

### Date of appointment:

Appointed to the Board on 1st May 2014.

### Sub-committees served:

Chairman of the Human Resources & Remuneration Committee and the Board Credit Committee of the Bank and a member of the Nomination Committee of the Bank.

### Current appointments:

- Deputy Chairman/Group Finance Director of the John Keells Group and a Board member of John Keells Holdings PLC having responsibility for the Finance, Accounting, Taxation, Corporate Finance & Strategy, Treasury and Information Technology functions of the Group.
- Director of many listed companies of the John Keells Group
- Committee Member of the Ceylon Chamber of Commerce

### Previous appointments:

- President Retail Sector, Head of Corporate Finance and Treasury of the John Keells Group

### Skills and experience:

He has experience in corporate finance, corporate treasury and investor relations in addition to exposure to retail supermarket operations. He has been involved in investment appraisals, capital raising and structuring transactions for the John Keells Group. He holds a MBA from the Jesse H. Jones Graduate School of Management at Rice University, Houston, USA and is a Fellow Member of the Chartered Institute of Management Accountants, UK. He is also a Certified Management Accountant of the Institute of Certified Management Accountants, Australia and holds a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing, UK.

## PRIYANTHA TALWATTE

(Chief Executive Officer/Executive Director)

### Date of appointment:

Appointed to the Board on 19th June 2020

### Sub-committees served:

A member of Related Party Transactions Review Committee of the Bank.

### Current appointments:

- Director - Nations Insurance Brokers Limited
- Director - Allied Properties Limited
- Director - Waldock Mackenzie Limited
- Director - LankaClear (Pvt) Limited

### Previous appointments:

Following positions were held at Nations Trust Bank PLC prior to being appointed as the Chief Executive Officer/Executive Director

- Head of Marketing
- Head of American Express Cards
- Deputy General Manager Cards and Strategic Marketing
- Deputy General Manager Consumer Banking
- Senior Executive Vice President Consumer Banking
- Deputy Chief Executive Officer

### Skills and experience:

He has been an integral part of the Corporate Management Team of Nations Trust Bank PLC for the past 18 years and with over 28 years of general management experience in diverse sectors, has been a transformative business leader in the Bank's journey.

Mr Talwatte is well known for his pivotal role in contracting and launching the American Express franchise in Sri Lanka and developing a best in class credit card issuing and acquiring business for the Bank to become the leading credit card issuer and acquirer in the local market. Mr Talwatte whilst leading and overseeing the Consumer Banking business, established the Bank's sales and service units and expanded the Bank's branch network. He was also a leading proponent of digital banking and the digitization of operations for optimal customer convenience, establishing and strengthening the Banks direct banking and digital channels and founding the Data Analytics and Customer Experience Units of the Bank.

## CONRAD D'SOUZA

(Independent Non-Executive Director/Senior Director)

### Date of appointment:

Appointed to the Board on 18th January 2016

### Sub-committees served:

Chairman of the Nomination Committee and a member of Human Resources and Remuneration Committee of the Bank.

### Current appointments:

- Member of Executive Management and Chief Investor Relations Officer of Housing Development Finance Corporation Limited (HDFC)
- Serves on the Boards of HDFC Investments Ltd., India, HDFC Education and Development Services Pvt. Ltd., India, HDFC Holdings Ltd., India, HDFC Sales Pvt. Ltd., India, Chalet Hotels Ltd., India, Camlin Fine Sciences Limited, Association of Finance Professionals of India (AFPI), Housing Development Finance Corporation PLC, Maldives, First Housing Finance (Tanzania) Limited.

### Skills and experience:

He has been associated with HDFC since 1984 and is currently responsible for investor relations, strategy, corporate planning, budgeting and corporate finance. He had held the position of Treasurer of HDFC for ten years and responsibilities included fund management, investments, resource mobilisation both domestic and international, asset liability management and investor relations. He has been associated with HDFC's international funding from the multilateral agencies and in the international syndicate loan markets. He holds a Masters' Degree in Commerce, a Masters' Degree in Business Administration and is a Senior Executive Program (SEP) graduate of the London Business School.

## SURAN WIJESINGHE

(Non-Executive Director)

### Date of appointment:

Appointed to the Board on 1st November 2012.

### Sub-committees served:

Chairman of the Board Supervisory Committee and the Integrated Risk Management Committee and a member of Board Audit Review Committee of the Bank.

### Current appointments:

- Chief Strategy Officer – Central Finance Company PLC
- Director - Allied Properties Limited
- Director - Waldock Mackenzie Limited

# board of directors

## Previous appointments:

- Group Financial Controller and the Chief Financial Officer of the Financial Services sector of John Keells Holdings PLC
- Group Finance Director of Securicor Botswana Ltd.

## Skills and experience:

He has over 35 years of work experience in the fields of auditing, financial management and general management in both local and overseas organisations. He is a Fellow Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK.

## (MS) RACHINI RAJAPAKSA

(Independent Non-Executive Director)

## Date of appointment:

Appointed to the Board on 29th April 2016

## Sub-committees served:

The Chairperson of the Board Audit Review Committee and a member of Integrated Risk Management Committee of the Bank.

## Current appointments:

- Director - Nations Insurance Brokers Ltd
- Director - Asset Enterprises (Pvt) Ltd
- Director - Lanka Bond House Ltd

## Previous appointments:

- Past President/Director – CFA Society Sri Lanka
- Chief Financial Officer, IBM-Sri Lanka and Bangladesh
- Senior Fund Manager at Ceybank Asset Management
- Audit Supervisor, PricewaterhouseCoopers Sri Lanka

## Skills and experience:

She holds extensive leadership experience in the fields of fund management and finance. She is a Chartered Financial Analyst of the CFA Institute, Charlottesville, Virginia USA and is a Fellow Member of the Chartered Institute of Management Accountants of UK.

## RUSSELL DE MEL

(Independent Non-Executive Director)

## Date of appointment:

Appointed to the Board on 6th June 2016

## Sub-committees served:

The Chairman of Related Party Transactions Review Committee and a member of Board Credit Committee and the Human Resources & Remuneration Committee of the Bank.

## Current appointments:

- Serves on the Boards of TAL Lanka Hotels PLC and Sunshine Teas (Pvt) Ltd.

## Previous appointments:

- Served on the Boards of Singer Finance Lanka PLC and HDFC Maldives (nominee of IFC) & AIA Insurance PLC
- Served as Director/CEO and Group CEO at NDB Bank and Group
- Vice President of Group Risk Management and Corporate Banking at NDB
- Served on the Boards of over 25 listed and non-listed companies.

## Skills and experience:

He is a professional accountant with over 20 years of experience in Development Banking including Project Financing, SME Financing and Merchant Banking and around 9 years of experience in Commercial and Investment Banking. He is a Fellow of the Chartered Institute of Management Accountants, Chartered Global Management Accountant and Fellow of the Certified Management Accountants of Sri Lanka.

## SUMIT MAHESHWARI

(Non-Executive Director)

## Date of appointment:

Appointed to the Board on 4th October 2018.

## Current appointments:

- Appointed as Managing Director and CEO of Fairbridge Capital in 2018.
- Serves on the Boards of Fairchem Organics Limited, Saurashtra Freight Private Limited, Fairfreight Lines Private Limited, National Collateral Management Services Limited, Sterling Holiday Resorts Limited, Bangalore International Airport Limited, Fairfax India

Holding Corporation, Privi Speciality Chemicals Limited, CSB Bank Limited, Thomas Cook (India) Limited, Seven Island Shipping Limited, Fairbridge Capital Private Limited and Anchorage Infrastructure Investments Holdings Limited

## Previous appointments:

- Audit and Accounting Advisory at KPMG in India.

## Skills and experience:

He is a Certified Associate Member of Institute of Chartered Accountants of India. He has completed the Post Graduate Programme in Management from the Indian School of Business, Hyderabad and holds a Bachelor's and Master's Degree in Commerce from the University of Mumbai.

## SAVANTH SEBASTIAN

(Independent Non-Executive Director)

## Date of appointment:

Appointed to the Board on 23rd October 2018

## Sub-committees served:

A member of the Board Supervisory Committee and the Board Audit Review Committee of the Bank.

## Current appointments:

- Serves on the Boards of VogueTex Sri Lanka and Arpico Ataraxia Asset Management

## Previous appointments:

- Director - Subway Development
- Equities Economist and Senior Economist at Commonwealth Bank
- Senior Manager at Commonwealth Securities – International Trading and Wealth Management

## Skills and experience:

Mr Savanth Sebastian brings with him seventeen years of industry experience within the financial services sector. He carried out responsibilities for nine years as the Senior Economist within the research team at Commonwealth Bank in Australia Global Markets, advising Federal and State Governments, High net worth clients, and internal stakeholders including the



Commonwealth Bank senior leadership team. He holds a Bachelor of Commerce in Actuarial Studies & Finance from the University of NSW and he is an Accredited Advisor (Level 1 & 2) of the Australian Stock Exchange.

## SHERIN CADER

(Non-Executive Director)

### Date of appointment:

Appointed to the Board on 15th December 2018

### Sub-committees served:

A member of the Board Supervisory Committee, Integrated Risk Management Committee and the Board Audit Review Committee of the Bank.

### Current appointments:

- Chief Financial Officer, Financial Services Industry Group of John Keells Holdings PLC
- Director - John Keells Stock Brokers (Pvt) Ltd
- Director - Waldock Mackenzie Limited
- Director - Allied Properties Limited

### Previous appointments:

- General Manager – Finance & Planning of Union Assurance PLC
- Financial Controller of John Keells Holdings PLC

### Skills and experience:

Mrs. Cader counts over 20 years of experience in both finance and operations. She has served in diverse fields for companies within the group in the Financial Services Sector, IT-enabled Services Sector and Center Functions.

She is a Fellow Member of both the Chartered Institute of Management Accountants of UK(CIMA) and the Association of Chartered Certified Accountants of UK (ACCA). She is also a Chartered Global Management Accountant UK and a Solution Consultant mySAP Financials – Managerial & Financial Accounting.

## CHANAKA WICKRAMASURIYA

(Independent Non-Executive Director)

### Date of appointment:

Appointed to the Board on 16th December 2018

### Sub-committees served:

A member of the Nomination Committee, Board Credit Committee and the Related Party Transactions Review Committee of the Bank.

### Current appointments:

- Independent Consultant

### Previous appointments:

- Joint Managing Partner of Ironwood Capital Partners Private Equity Fund
- Managing Partner of LR Global Lanka Private Equity Fund
- Partner- Global Portfolio Manager of the Global Private Equity Fund of Aureos Capital Limited
- Country Head Fitch Ratings Lanka Ltd

### Skills and experience:

He is a Chartered Financial Analyst of CFA institute, Charlottesville VA, USA and he holds Bachelors in Electrical Engineering from the State University of New Jersey.

## ARJUN FERNANDO

(Non - Executive Director)

### Date of appointment:

Appointed to the Board on 18th January 2019

### Sub-committees served:

A member of the Board Supervisory Committee, Nomination Committee, and the Board Credit Committee of the Bank. Previously served as a member of Integrated Risk Management Committee and the Board Audit Committee.

### Current appointments:

Serves on the Boards of six companies including Central Finance Company PLC, NDB Capital Holdings PLC, NDB Securities (Pvt) Limited, NDB ZEPHYR Partners Limited and Durdands Medical & Surgical Hospitals (Pvt) Ltd.

### Previous appointments:

- Served as Chief Executive Officer/(Ex-Officio) Director of DFCC Bank
- Served as Chairman/Director on the Boards of Directors of DFCC Bank's Subsidiaries, Joint Ventures and Associates
- Served as the DFCC Bank's Nominee Director on the Boards of Credit Information Bureau of Sri Lanka and the Sri Lanka Banks Association
- Served as Chairman of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and the World Federation of Development Finance Institutions
- Served as an Independent Director on the Board of Home Finance Company in Fiji

### Skills and experience:

Mr Arjun Fernando is a professional banker with over 30 years of experience in banking, finance and business administration. He is an Associate of the Chartered Institute of Bankers (UK). He holds a MSc in Management from Clemson University of South Carolina, USA and a BSc in Engineering from Southern Illinois University of Illinois, USA.

## (DR) RAMESH SHANMUGANATHAN

(Non Executive Director)

### Date of appointment:

Appointed to the Board 25th January 2021

### Current appointments:

- John Keells Holdings PLC -Executive Vice President/Group CIO
- John Keells IT- Executive Vice President/Chief Executive Officer

### Previous appointments:

- Keells Business Systems Limited (KBSL), Sri Lanka –Director/Chief Executive Officer
- John Keells Computer Services (JKCS), Sri Lanka - Director – Strategy and New Business Initiatives

### Skills and experience:

Dr Ramesh Shanmuganathan is an Executive Vice President of the John Keells Group and provides stewardship for the Business led Digital/IT strategy & execution across the John Keells Group as the Group Chief Information Officer. He also provides leadership to John Keells IT and John Keells X as the Chief Executive.

Dr Shanmuganathan has 25 years of experience, with 20+ at the C-level. He is a Hayes-Fulbright Scholar and holds to his credit a Doctor of Philosophy (Technology Management) from Keisei International University (Seoul, South Korea), Master of Science (Information Technology and Computer Science) with Phi Kappa Phi Honours from Rochester Institute of Technology (New York, USA), Master of Business Administration from Postgraduate Institute of Management, University of Sri Jayewardenepura, Bachelor of Science in Electronics and Telecommunications Engineering with First Class Honours from the University of Moratuwa. He has obtained a Doctorate of Business Administration (DBA) from the International School of Management, Paris. He is a Chartered Engineer, Chartered IT Professional and a Fellow of the British Computer Society and The Institute of Engineers, UK.

# corporate management



**Priyantha Talwatte**  
Director/Chief Executive Officer



**Hemantha Gunetilleke**  
Deputy Chief Executive Officer



**Theja Silva**  
General Counsel/  
Group Company Secretary



**Ramanika Unamboowe**  
Executive Vice President  
- Human Resources



**Ajith Akmeemana**  
Chief Financial Officer



**Indrajith Boyagoda**  
Executive Vice President - Treasury/  
Investment Banking



**Senal Seneviratne**  
Executive Vice President  
- Corporate Banking



**Lasith Nanayakkara**  
Chief Transformation Officer



**Gayan Ranaweera**  
Chief Credit Officer



**Sheahan Daniel**  
Senior Vice President  
- Branch Network



**Niluka Gunatilaka**  
Senior Vice President  
- Cards and Consumer Assets



**Randil Boteju**  
Senior Vice President  
- Sales and Digital Banking



**Chamila Sumathiratne**  
Chief Risk Officer



**Arosha Liyanaarachchi**  
Senior Vice President  
- Commercial Banking



**Sampath Perera**  
Chief Data Officer



**Priyantha Samaradiwakara**  
Senior Vice President - Leasing



**Nisaja Argasinghe**  
Senior Vice President  
- Collections & Recoveries



**Kushlani Allis**  
Senior Vice President  
- Internal Audit



**Sanjaya Senarath**  
Chief Marketing Officer

# vice presidents



**Saaraa Warnakulasooriya**  
Chief Compliance Officer



**Shiyamal De Silva**  
Vice President - Banking Operations



**Renuka Senadheera**  
Vice President - Consumer Services



**Rasanja De Silva**  
Vice President - Branches



**Menaka Wavita**  
Vice President - SME Banking



**Lasith Ranatunga**  
Vice President - Corporate Credit &  
Special Asset Mangament



**Druvi Vaidyakularatne**  
Vice President  
- IT Infrastructure & Services



**Milroy Fernando**  
Vice President  
- Branch Operations & Compliance



**Yamuna Silva**  
Vice President - Legal



**Evan Ranasinghe**  
Vice President  
- Management Reporting & Planning



**Vidharshana Perera**  
Vice President  
- Consumer Collections



**Thushara Asuramanna**  
Vice President  
- SME Credit Management



**Nishantha Pathirage**  
Vice President - Corporate Banking



**Chamayne Fernando**  
Principal Software Architect



**Shohan Alles**  
Vice President - Transaction Banking



**Jeremy Gnanapragasam**  
Vice President  
- Nations Transformation



**Asela Wijesinghe**  
Vice President/Head - Forex and  
Money Markets



# our strategy and performance

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## business overview

Nations Trust Bank PLC is one of Sri Lanka's fastest growing banks, offering an array of customer-centric and innovative solutions to the Corporate, Consumer and Commercial customers.

The Bank's unique competitive edge is underpinned by its technology-centred strategy, which has enabled it to build a future-fit, agile and responsive business model. Our right-fit talent and corporate culture are also key competitive differentiators, and our young and dynamic team plays a vital role in facilitating the customer experience and driving innovation. The Bank's focus on tailor-made solutions, personalised service, and its proactiveness in embracing the digital frontier has enabled it to redefine the customer experience, thereby carving a niche for itself in the intensely competitive Sri Lankan banking sector.

### WHAT DIFFERENTIATES US



Agile and responsive operating model which ensured resilience in unprecedented challenges (page 21)



Digital strategies and innovation that enable us to be more competitive, lean and customer-centric (page 33)



Young and tenacious team whose skills and attitudes are aligned with our strategic aspirations and corporate values (page 37)



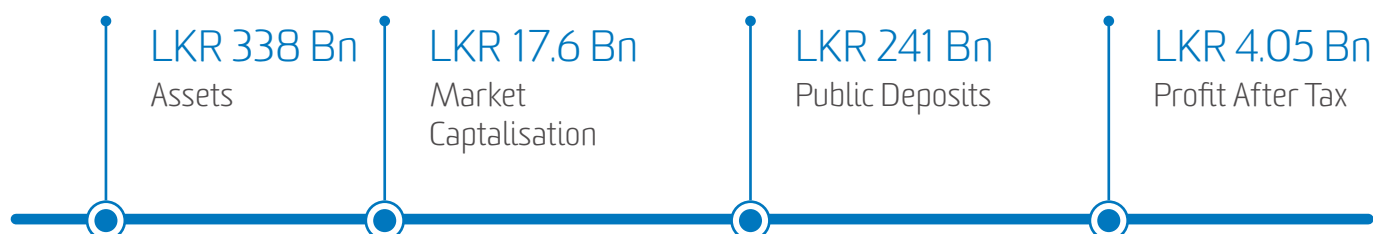
Omni channel delivery platforms (page 33)



Strong leadership team and robust corporate governance practices (page 48)



Sustainable approach to value creation (page 44)



# value creation model



# our operating environment

## ECONOMIC AND INDUSTRY OVERVIEW

The COVID-19 pandemic wreaked human and economic devastation across the world in 2020, with severe impacts on developing countries such as Sri Lanka. As the first wave of infections strikes Sri Lanka in March 2020, the Government mandated extended lockdowns across the island which allowed containment of the virus. The economic consequences, however, were severe with GDP contracting by 1.6% and 16.3% in both first and the second quarters of year 2020 respectively. Positive growth of 1.5% was recorded in the 3rd quarter as economic activity resumed gradually. However, economic conditions deteriorated following the outbreak of the 2nd wave in October 2020, with infections surging over the ensuing months.

In accelerating the economic recovery, the CBSL introduced a range of monetary policy easing measures along with debt relief and

concessionary loan schemes to the individuals and businesses impacted by the pandemic. As a result, the policy rate declined by a total of 250 bps during the year while the SRR was revised downward twice to 2% by June 2020. Following these measures, market liquidity increased significantly whilst interest rates including yields on government securities, deposit rates and eventually lending rates recorded consistent decline. Meanwhile, subdued demand conditions for most part of the year resulted in benign inflation levels which averaged 4%-6%.

A flight to quality from emerging markets, drastic fall in tourism earnings and export income resulted in significant pressure on the country's external sector. In order to stem the outflow of foreign currency, the Government imposed import restrictions on non-essential items. Overall, the Sri Lankan Rupee experienced volatility during the year, with the monthly average exchange rate depreciating

by 3% in December 2020 to LKR 187.18/USD; the currency recorded further depreciation in the early weeks of 2021, prompting the Central Bank to prevent banks from buying/selling foreign exchange in the forward market in a bid to preserve value.

## OUTLOOK

The approval and roll-out of the vaccination in January 2021 has raised optimism of an eventual end to the pandemic and a gradual recovery of the economy by mid-2021. Monetary policy is expected to remain accommodative, thereby driving credit demand as households and organisations release pent up demand through stronger consumption, investments, and capacity expansions. On the other hand, macro-economic imbalances pose significant risks, with foreign debt settlement to the tune of USD 4 billion per annum in 2020-2023 likely to lead to significant constraints in driving monetary and fiscal policy.

## BANKING SECTOR DEVELOPMENTS

It was a year of unprecedented challenges for the Banking Sector, which experienced a sharp slowdown in credit demand, rising impairments and numerous difficulties in ensuring uninterrupted service to customers. The sector's performance highlights during the year 2020 are presented in the table below:

PERFORMANCE/ FINANCIAL POSITION	KPI	DEVELOPMENTS IN 2020
Growth	Loan growth: +11% NII: -2%	Credit demand was moderated amidst challenging macro-economic conditions, stresses on individuals/businesses and import restrictions. NII was impacted by narrower NIMs as the decline in interest rates led to margin pressure.
Profitability	Operating expenses: -4% Impairment costs: +55% Pre-tax profit: -7% Post-tax profit: +18%	Limited branch operations during the lockdown coupled with strategic focus on cost rationalisation led to a decline in costs. PBT was affected by an escalation in impairments while PAT recorded a growth, reflecting reduced tax liabilities following the removal of the Debt Repayment Levy.
Asset quality	NPA ratio: 4.9% (2019 : 4.7%) Provision coverage: 61% (2019 : 52%)	Credit quality weakened in view of increasing repayment pressure as businesses and households felt the inevitable toll of the pandemic.
Funding	Deposit growth: 22% CASA growth: 34%	The funding profile was dominated by deposits with a share of 76%, while borrowings increased by just 1%.
Capital	Tier 1 capital ratio: 12.2% (2019 : 13%) Capital adequacy ratio: 16.5% (2019 : 16.5%)	Capital adequacy levels declined marginally during the year, while remaining comfortably above statutory minimums

## OPPORTUNITIES AND RISKS

The developments during the year have underscored the critical importance of developing agile and responsive business models which are able to navigate through complex externalities. As new dynamics continue to reshape the Bank's operating landscape, we will continuously scan the environment to identify any opportunities and respond to the developments through strategic alignment.

### Economic uncertainty

Monetary and fiscal imbalances and macro-economic uncertainty will feature prominently in our risk landscape, as Sri Lanka's high debt servicing burden, pressured external position and fiscal deficits weigh heavily on the economic outlook. The Government has revealed intentions of pursuing debt relief from bilateral creditors while exploring avenues of foreign investment, which provides an opportunity for economic recovery and fiscal consolidation.



- Policy impetus towards supporting the export sector
- Stable fiscal and monetary policy to support a more conducive environment



- Exchange rate volatility
- Difficulties in pursuing international borrowings following the downgrade of the sovereign rating

#### OUR RESPONSE

We will continue to monitor emerging developments and are committed to support the Government's development agenda through offering debt relief, concessionary loans and supporting sectors earmarked for growth

### Digitisation and disruption

In 2020, ability to engage and transact with customers digitally was a key differentiator for banks and showcased the critical importance of embracing the digital frontier. Advances in technology are likely to transform every sphere of banking including the customer experience, disintermediation, delivery channels, process automations and competition, among others having wide ranging impacts on financial services over the next few years.



- Best-in-class digital capabilities to sharpen the Bank's competitive edge
- Decreasing operating costs and enhancing customer service



- Emergence of new risks pertaining to technology, cybersecurity, and information
- Competition for skills in IT and data analytics, among others.

#### OUR RESPONSE

The Bank has successfully carved a niche position as a digital frontrunner in the industry and deploying technology to transform customer experience and drive efficiencies will continue to be a key priority.

### Customer Sophistication

The expectations of our customers continue to evolve, driven by increased sophistication, connectivity, and demographic changes. Customers are increasingly demanding more convenient access and control of their finances, which in turn has transformed the way they prefer to interact with banks. Banks which are unable to respond to these dynamics are likely to see an erosion of competitive position over time, as niche digital banks offer more attractive value propositions.



- Sharpen competitive edge through offering unique customer experience
- Offer customer centric products and services



- Increased competitive intensity for customer acquisition

#### OUR RESPONSE

Customer focus is a key pillar of our strategy and we seek to redefine the customer experience by focusing on convenience, service, and relevant products.

### Implications of climate change and environmental impacts

Environmental disasters and climate action failure can have severe ramifications on businesses and households, the implications of which have continued to intensify in recent years.



- Contribute to sustainable finance initiatives aimed at addressing these challenges
- Sharpen competitive edge through positioning as a sustainable bank



- Emergence of new risks, particularly with regards to climate change

#### OUR RESPONSE

The Bank is a signatory to the SLBA's Sustainable Banking Initiative, which encourages a multi-stakeholder approach towards contributing to sustainable development. The Bank's sustainability agenda is also clearly articulated in a Sustainability Policy which is aligned to the Sustainable Development Goals.

# stakeholder engagement

The operating conditions that prevailed during the year, necessitated a further strengthening of the Bank's stakeholder engagement to ensure that we proactively identified and responded to the concerns of our stakeholders. The Bank shifted most of its engagement to digital platforms, particularly with employees and customers, thereby offering uninterrupted and seamless communication channels despite the restrictions that were imposed on face-to-face interactions.

	 Shareholders	 Employees	 Customers
Engagement mechanism	<ul style="list-style-type: none"> <li>Annual General Meeting (Annual)</li> <li>Investor forums (Annual)</li> <li>Annual Report (Annual)</li> <li>One-to-one engagement (Ongoing)</li> <li>CSE Announcements (Ongoing)</li> <li>Periodic engagement with credit rating agencies</li> </ul>	<ul style="list-style-type: none"> <li>Employee Engagement Surveys (Annual)</li> <li>Performance appraisals (Annual)</li> <li>Digital engagement (Ongoing)</li> <li>Staff meetings at multiple levels (Ongoing)</li> <li>Employee suggestion schemes (Ongoing)</li> <li>Grievance Reporting Procedure (Ongoing)</li> <li>Work-life balance events (Ongoing)</li> </ul>	<ul style="list-style-type: none"> <li>Online and local engagement by branch teams and relationship managers (Ongoing)</li> <li>Customer satisfaction surveys (Annual)</li> <li>Market research (Ongoing)</li> <li>Product promotion campaigns (Ongoing)</li> </ul>

## TOPICS AND CONCERNS

Sustainable business growth and performance	●		
Corporate governance and risk management	●		
Reputation	●	●	
Transparency	●		
Competitive remuneration		●	
Dynamic and agile environment		●	
Opportunities for training and development		●	
Career progression and succession		●	
Safe operating environment		●	●
Responsible banking practices			●
Customer convenience			●
Experience and service quality			●
Ease of transacting			
Opportunities for collaboration			
Regulatory compliance			
CSR activities and sponsorships			
Job creation			
Minimise environmental impacts			

## OUR RESPONSE

Relentless focus on a timely and astute strategy enabled the Bank to show strong resilience during this challenging times, thereby generating consistent shareholder value.	Adapted to the new realities of 2020 through implementing new ways of working and increased focus on digital platforms while ensuring the safety of all employees.	Customer-centric solutions and personalised service in supporting customers through the challenging times.
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## Business Partners

- One to one engagement (Ongoing)
- Written communication (Ongoing)
- Relationship building initiatives (Ongoing)



## Government

- Statutory reporting (Ongoing)
- Meetings and industry forums (Ongoing)



## Community

- Local branch engagement (Ongoing)
- Social events and sponsorships (Ongoing)



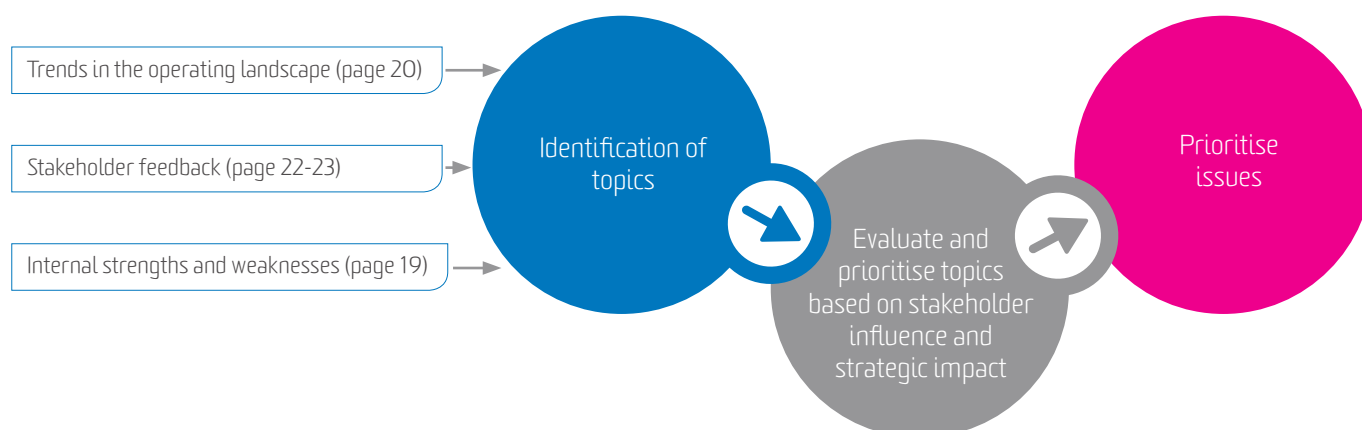
We maintain fair and transparent relationships with all our business partners, leveraging on mutual opportunities for growth.

A dedicated compliance unit ensures ongoing compliance to all rules, regulations, and guidelines.

Continued to invest in strategic and impactful community and environmental initiatives.

# material matters

The Bank's materiality assessment takes into consideration feedback received from stakeholders, emerging risks, and opportunities in the operating landscape with reference to our strategic aspirations. The material topics represent the issues that could potentially impact our ability to create value in the short, medium and long-term and are an important determinant in strategy formulation, risk management and performance measurement. The process for determining material topics is presented below:



The Bank's material topics for year 2020 are listed below: health and safety emerged as a key material topic during the year, given the outbreak of the pandemic and the magnitude of its impact. Meanwhile, operational efficiency and digitisation increased in importance during the year, reflecting the strategic focus placed on optimising resources, rationalising costs and leveraging our digital capabilities to ensure continuity of business. There were no significant changes to the reporting boundaries of these material topics. We have also mapped these material topics to those prescribed by the GRI Standards, as described in further detail on page 181 of this Report.

Material topic	Materiality compared to 2019	Page No
Growth and profitability	↑	31
Health and safety	New topic	37
Responsible lending	●	44
Customer experience	●	25, 41
Digitisation	↑	33
Operational efficiency	↑	26
Employee attraction	●	37
Training and development	●	37
Employee satisfaction	●	37
Corporate Governance and Compliance	●	48
Preserving the environment	●	44
Corporate Social Responsibility	●	41

↑ Increased in importance    ● Unchanged

# delivering our strategy

Detailed work done on realigning our strategy and operating model through a deep-dive analysis of revenues, costs and profitability positioned the Bank for strong resilience and agility following the outbreak of the pandemic. Our strategy for the year centred on 4 key pillars (as described below), were executed by several highly-skilled, empowered and task-oriented teams. This unique approach enabled the Bank to successfully navigate the complexities arising from the economic fallout while positioning it for sustainable, long-term business growth.



## BUSINESS FOCUS

Clear focus on which business lines to grow, recalibrate, reposition or exit based on market opportunities, internal capabilities, and long-term strategic aspirations.

### Strategic drivers

- Focus on premier segment of the Corporate segment and upper-end of the Middle market segment to ensure optimal risk-return dynamics
- Pursued growth opportunities in the export sector through Nations Diriya
- Selective growth in the Consumer division
- Multi-faceted, organisation-wide drive to build liquidity buffer
- Relentless focus on portfolio quality through data analytics and customer scorecards
- Positioned FriMi as a sustainable revenue model
- Pursued cross-sell opportunities

### KPIs

- Profit growth of 9%, despite a 7% contraction in portfolio
- Maintained divisional RAROCs despite prevalent conditions

#### Profitability Indicators



### Way forward

We will maintain focus on pursuing selective growth opportunities in the corporate and middle-market segments while leveraging organisation-wide synergies to seek cross-sell opportunities.



## CUSTOMER EXPERIENCE

Transform the customer experience through digital delivery, increased convenience, and personalised solutions.

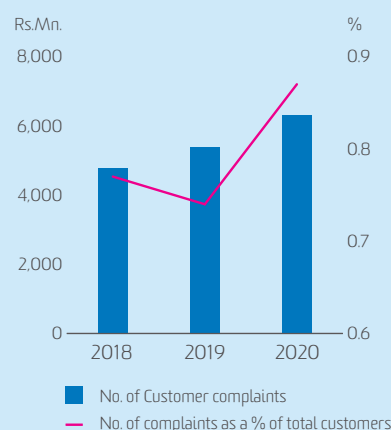
### Strategic drivers

- Strengthened engagement through digital platforms
- Enhanced digital delivery through offering online and mobile onboarding and payment options
- Supported customers through the crisis by granting moratoriums and flexible repayment schemes
- Enhanced value proposition to corporate customers through rollout of the cash management and trade platforms
- Dispatched mobile ATM for customers during the lockdown period

### KPIs

- Cross-sell ratio: 1.5
- Net Promoter Score: 76%
- Customer satisfaction score: 96%

#### Customer experience



### Way forward

We will continue to leverage our digital capabilities in offering an enhanced customer experience while offering personalised solutions across the customer life cycle.

# delivering our strategy



## COST AND EFFICIENCY MANAGEMENT

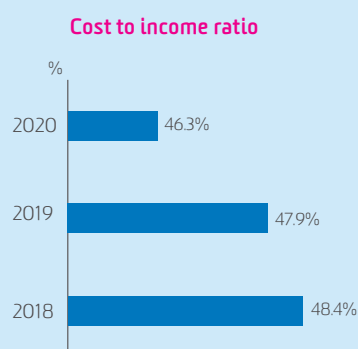
Achieve sustained reductions in cost through rationalising operational expenditure, driving process efficiencies and effectively managing credit/impairment costs

### Strategic drivers

- Consolidated and rationalised the branch network
- Established a Cost Management Unit within the Finance function to proactively identify avenues for cost control
- Combined roles and redeployed employees to ensure the optimal utilisation of human resources
- Proactive negotiations with suppliers/vendors
- Empowered our dedicated team to drive process efficiencies and optimisation
- Increased focus on straight-through-processing to drive efficiency in transaction processing

### KPIs

- Cost to income ratio of 46.3% (2019 : 47.9%)
- Processes and workflows automated: 17



### Way forward

Implementation of Activity Based Costing across key processes is anticipated to drive increased efficiencies, while ongoing focus on digitisation and automation is expected to lead into sustained reductions in overhead costs.



## DIGITISATION AND AUTOMATION

Leverage our best-in-class digital capabilities to drive innovation, efficiencies and enhance the overall customer experience.

### Strategic drivers

- Achieved progress on internal digital transformation by automating processes and workflows
- Digital onboarding of customers in the Consumer Division
- Leveraged our data analytical capabilities to identify processes that could be migrated to digital platforms
- Enhanced the mobile banking platform and FriMi through the introduction of new features including account opening and fixed deposit transactions
- Strengthened network stability and security for investments in ACI network topology
- E-box initiative for easy access to account details through online channels

### KPIs

- Digital transactions: 82% of total transactions
- 10% increase in digitally active clients

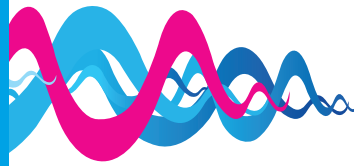
### Way forward

Digital capabilities are amongst our core competencies and a key element of our corporate strategy. Future priorities will be pursuing opportunities to widen our ecosystem by leveraging on the FriMi infrastructure, re-platforming our digital nodes and leveraging our data analytical capabilities for better customer insights.

# business line reviews

## CORPORATE BANKING

Focus on building a good quality, profitable corporate portfolio enabled the Division to demonstrate resilience in an extremely challenging year and a proactive strategy to capture emerging growth opportunities has positioned it for continued growth

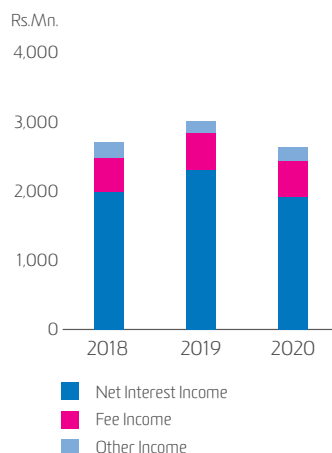


### Product Portfolio

Working Capital Financing | Structured finance & Syndications | Trade Finance  
Cash Management | Corporate Cards

- The Corporate Banking Division's performance reflected the unprecedented challenges in the operating environment in 2020; the loan portfolio showed a marginal growth, despite the sharp decline in imports and deceleration of the NBFI, Consumer Durables and Automobile Sectors. Further, the offshore lending, which was a key strategy for asset growth in 2020, was impacted greatly, which resulted in a contraction in the offshore portfolio. Performance was also affected by narrower NIMs, due to the declining benchmark rates, driven down by excess liquidity in the market. However, we maintained relentless focus on preserving portfolio quality, improving additional fee income and generating cost efficiencies which in turn supported profitability during the year.
- New to bank relationships were pursued in the Export sector through "Apanayana Diriya" and local manufacturing sector through "Vyaparika Diriya" through NTBs "Diriya" funding program exceeding the target of LKR 7 billion with actual approvals exceeding LKR 9 billion.
- The Division placed strategic focus on maintaining close customer engagement, supporting them through the crisis with moratoriums of around LKR 1 billion and providing flexibility in repayment terms and other solutions to overcome the impact. In addition to the Government-imposed moratoriums we offered customised solutions, thereby strengthening customer relationships, and ensuring long-term retention. Deep industry insights and proactive risk assessments enabled us to identify potentially stressed sectors early and offer relevant solutions. We also disbursed around LKR 600 million through the Saubhagya loan facility, thereby providing access to low-cost working capital funding for affected clients.
- Portfolio quality remained healthy, with a gross NPL ratio of just 2.2%. This was underpinned by objective risk profiling, continued client engagement, and proactive portfolio monitoring. We also ensured the quality of new facilities through enhanced security structures and cashflow ring-fencing.
- We used the Bank's superior digital payment platforms to provide the corporates with much needed solutions to the issues faced due to the pandemic situation. This resulted in the onboarding of significant number of clients for Nations Direct Commercial during the year.
- We pursued opportunities for cross-sell by leveraging relationships with the Bank's credit card merchants, the FriMi ecosystem and existing treasury customers. The Division also strengthened its position in Supply Chain financing by deepening relationships with corporate clients.
- The Division also launched a multi-faceted deposit drive through customised solutions and proactive engagement, which led to a near 28% increase in deposits during the year.

### Corporate Banking Performance



## CONTRIBUTION TO GROUP

Net Interest Income	13%
Loans and advances	32%
Liabilities	7%

## OPERATING ENVIRONMENT

- Significant decline in imports following restrictions
- Sharp drop in credit demand from the NBFI Sector
- Emerging opportunities in the export and import substitution sectors
- Pressure on NIMs

## STRATEGY IN ACTION

- Proactive customer engagement and granting moratoriums/flexible repayment schemes
- Pursued growth opportunities in the exports sector
- Strategic focus on preserving portfolio quality

## PERFORMANCE

Loans & Advances	-1%
Revenue	-13%
Deposits	+28%
Cost to income ratio	24%

## OUTLOOK

- Capitalise on opportunities presented by tax concessions, capital market developments and impetus given to the export sector through a holistic strategy
- Pursue growth opportunities in supply chain financing and structured financing solutions
- Support import substituting industries such as agriculture and assembly of vehicles
- Continued focus on the digital drive and trade platforms

# business line reviews

## TREASURY

The Treasury Unit is responsible for managing the Bank's investment portfolio, facilitating foreign exchange trading, and ensuring that the Bank has sufficient funding to drive its strategic objectives. It also plays a vital role in managing the Bank's market risk and liquidity risk exposures through the ALM desk



### Product Portfolio

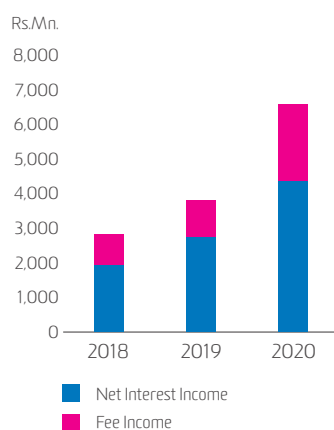
Foreign exchange trading & hedging |  
Fixed income securities trading |  
Corporate debt issuance

- The Treasury Unit delivered a year of strong profitability supported by sustained reduction in interest rates and astute management of the fixed income securities portfolio; the Unit's revenue increased by 73% with net trading gains for the year amounting to LKR 1.5 billion.
- **Fixed Income:** The CBSL aimed to stimulate the economy through an accommodative monetary policy in 2020, which led to multiple reductions in policy rates and downward revision in the SRR, which in turn resulted in the sustained reduction of market interest rates. As prices increased, the Bank's Treasury Unit sought to gradually divest its AFS portfolio from the 2nd quarter of 2020 leading to a considerable increase in profitability. The Division outperformed its budgets and was the key contributor to the Bank's profitability during the year.
- **Forex Trading:** Our forex operations comprise customer forex trading and proprietary trading. Import restrictions imposed by the Government led to a sharp fall in volumes during the year, which in turn affected the Division's profitability. Smart margin management offset the volume drop thereby achieving sales targets but falling short of overall forex profitability targets due to market valuation of the forward forex portfolio. The Bank continued to adopt the strategy of utilising FX SWAP book to fund its rupee loan growth due to the benefit arising from the relatively lower funding costs of the FX SWAPS compared to rupee deposits.

- **Asset Liability Management:** The ALM desk is responsible for ensuring that the Bank has sufficient funding to drive its strategic growth objectives. Funding costs recorded gradual decline for most part of the year, although low yields on surplus liquid assets and concessionary loans granted during the period adversely impacted NIM. The Deposits accounted for 70% of total funding during the year and recorded an increase of 6%.

During the pandemic situation ALM desk played a pivotal role while managing the Bank's liquidity position with increase credit exposure.

### Treasury Performance



## CONTRIBUTION TO GROUP

Revenue	29%
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## OPERATING ENVIRONMENT

- Monetary policy easing with 250 bps reduction in policy rates and 300 bps reduction in SRR
- Sovereign rating downgrades from all 3 rating agencies
- Exchange rate volatility during the year, leading to a 3.5% depreciation in 2020
- Excessive demand for foreign currency
- Government restrictions on imports to stem foreign currency depreciation

## STRATEGY IN ACTION

- Astute management of the FIS portfolio
- Proactive engagement with FX customers

## PERFORMANCE

Revenue	+73%
FIS portfolio	+57%
Customer FX income	-3%
Cost to income ratio	6.7%

## OUTLOOK

- Low interest, high liquidity environment expected to continue over the short-to-medium term.
- Focus will be placed on effectively managing the duration when gradually increasing the FIS portfolio

## COMMERCIAL BANKING

The Bank's concerted efforts to harness the potential in SME Sector with a relationship based on the long term view has allowed for increased diversification of its portfolio, improved profitability and new customer acquisition while supporting the country's engine of economic growth



### Product Portfolio

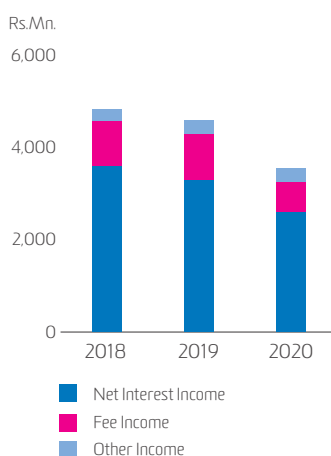
Business Banking | Investment products |  
Business loans (Working capital financing,  
Trade financing, Fixed term financing)

- The Division's performance was impacted by the sharp deceleration in economic activity and weaker investor sentiments which led to a 13% contraction in the loan portfolio and a 21% reduction in NII.
- The Division was rebranded as Commercial Banking during the year with a wider coverage of our Small and Medium scale enterprises. This proposition is expected to support customers through their lifecycle with a holistic view, where customer relationships are nurtured and maintained as they achieve growth.
- Strategic focus placed on preserving portfolio quality paid dividends during the year, with the Division recording prudent management of impairments. The portfolio was categorised into several risk buckets and resources deployed accordingly to ensure strong monitoring, remediation and collections. Meanwhile, a dedicated Portfolio Risk Management team was also established to centrally monitor the quality of the portfolio and take corrective action with a client centric approach.
- We strengthened customer relationships by promptly reaching out to them and granting customised restructuring solutions to support business sustenance and recovery during the pandemic. Accordingly, the Division granted moratoriums of approximately LKR 12 billion during the year and offered access to concessionary funding through LKR 1.19 billion of Saubhagya loans.
- 'Nations Diriya', a dedicated financing scheme was also launched during the year, with the aim of supporting key sectors such as manufacturing, industries and exports through providing working capital facilities to cushion liquidity stresses utilizing internally generated funds on the bank.

During the year, new credit lines amounting to LKR 10.6 billion were granted under the Nations Diriya scheme.

- The Division adopted a cautious approach to growth, pursuing selective lending opportunities and refined the credit criteria to reflect emerging industry conditions and risks. Parallel importance was placed on strengthening the credit culture through numerous digital training sessions on credit management, product knowledge and relationship-based banking.
- In line with the Bank's overall strategy, the Division continued to harness cross sell opportunities by leveraging synergies across the Bank's business verticals.
- Ongoing focus was placed on cost management and internal efficiencies through automation and migrating to digital platforms. During the year, nearly 30% of the portfolio was migrated to digital platforms, enhancing the customer experience, and driving process efficiencies.

### Commercial Banking Performance



### CONTRIBUTION TO GROUP

Net Interest Income	20%
Loans and advances	29%
Liabilities	16%

### OPERATING ENVIRONMENT

- Economic fallout of COVID-19 and its impact on repayment capability
- Sharp deceleration in credit demand
- Intensifying competitive pressures in a low interest environment

### STRATEGY IN ACTION

- Supporting business sustenance and recovery through the pandemic by granting flexible repayment schemes and moratoriums
- Refined credit criteria and focused lending to support economic revival
- Focus on preserving portfolio credit quality
- Ongoing focus on automation and migration to digital platforms

### PERFORMANCE

Loans & Advances	-13%
Revenue	-23%
Deposits	+16%
Cost to income ratio	43%

### OUTLOOK

- Benefits of tax concessions and other stimuli expected to support economic revival by 2nd quarter of 2021
- Pursue identified growth opportunities in key industry sectors through tailor-made financing solutions
- Maintain focus on portfolio quality

# business line reviews

## CONSUMER BANKING

Offering a value proposition centred on personalised service, innovation and digital delivery, the Consumer Banking division has retained its market position as a key player in the mass affluent segment and nurtured deeper relationships with its customers



### Product Portfolio

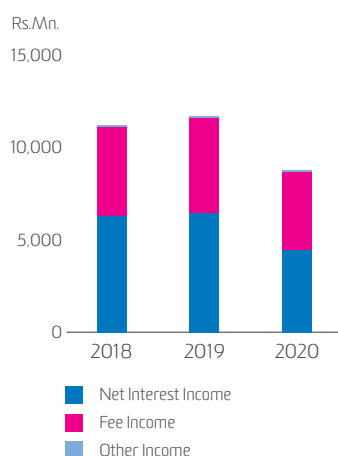
Savings & Investment products | Leasing  
| Loans (personal loans/vehicle loans/  
housing) | Payments and cards |  
Bancassurance

- The Consumer Banking Division experienced the inevitable toll of the pandemic as credit demand decelerated and customers faced repayment pressure. We adopted a cautious approach to growth, instead focusing on preserving portfolio quality and profitability by adopting the RAROC model. Resultantly, the Division's loan portfolio contracted by 9% , while NII also declined by 31%. Understandably impairment costs increased during the year, adding further pressure on profitability.
- We adopted a long-term view to customer value creation and proactively supported customers by granting moratoriums of around LKR 15 billion and offering flexible repayment terms.
- At the onset of the crisis, we placed immediate focus on building a liquidity buffer through pursuing a strong deposit drive- targeting both existing customers and new customers. Although these efforts were relaxed in ensuing months, the Division's deposit base grew by 6% in 2020 and, accounted for 76% of the Bank's total deposit base.
- The Division adopted a cautious approach to loan growth, pursuing cross sell opportunities to increase customer wallet share and utilising analytical scorecards for better quality underwriting.
- The Division made significant progress in its digital delivery, launching digital onboarding for key products, and proactively migrating customers to digital platforms. Transactions performed through digital platforms

increased by 10% and accounted for 82% of total transactions during the year.

- Despite a drop in customer spend stemming from the decline in travel and entertainment costs, we maintained our position as the largest issuer of credit cards in Sri Lanka. Emphasis was placed on driving growth through e-commerce channels and unique promotions while proactively managing portfolio quality.
- Understandably, the Leasing segment was affected by restrictions in vehicle imports, although we successfully capitalised on our strong position in the used vehicles segment to curtail portfolio contraction to 12%. Performance was upheld through focus on locally assembled vehicles, digitisation of the delivery platform and refinements of the collections and incentive structures.
- FriMi was strategically repositioned from a wallet-based offering to a fully-fledged digital bank featuring digital onboarding and account creation. This move is anticipated to drive the acquisition of new customers while affording a sustainable revenue model over the medium-to-long term.

### Consumer Banking Performance



## CONTRIBUTION TO GROUP

Net Interest Income	37%
Loans and advances	39%
Liabilities	76%

## OPERATING ENVIRONMENT

- Economic fallout of COVID-19 pandemic and resultant impact on disposable incomes and repayment capability
- Increased pressure on margins
- Regulated credit card interest rate and fee waivers for a specific period
- Restrictions on vehicle imports impacted the leasing business

## STRATEGY IN ACTION

- Strengthened digital delivery across key products
- Repositioning FriMi as a full service Digital Bank
- Proactive customer engagement and granting loan moratoriums and flexible repayment schemes
- Combining roles and redeploying employees to ensure optimal utilisation of human capital

## PERFORMANCE

Loans & Advances	-9%
Revenue	-25%
Deposits	+6%
Cost to income ratio	75%

## OUTLOOK

Expectations of economic recovery by 2nd quarter of 2021

Consolidate position in the mass affluent segment through pursuing growth in the salaried segment



# capital management

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## Financial Capital

At Nations Trust Bank, technology is a key enabler which is deployed effectively to transform customer experiences, optimise process efficiencies and provide management insights for better decision making.

### INPUTS

Shareholders' funds  
LKR 35.12 Bn

Deposits  
LKR 240.57 Bn

Borrowings  
LKR 47.70 Mn

### VALUE ADDITION THROUGH STRATEGY

- Conscious credit underwriting
- Cost efficiencies through automation and productivity improvements
- Strengthened liquidity and capital position

### STAKEHOLDER OUTCOMES



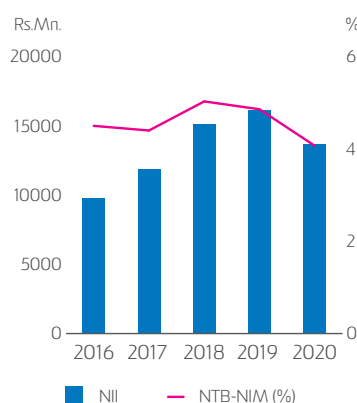
9% increase in Profit-after-tax  
12% increase in NAVPS  
Return on equity of 12.2%

### FINANCIAL PERFORMANCE

#### Net Interest Income

The Group's Consolidated NII declined by 15% during the year, reflecting the slowdown in credit demand, sustained reduction in interest rates and interest rate ceilings on several product categories. Interest income was also impacted by the debt moratoriums and concessionary loan facilities granted to revive affected businesses. The sluggish credit demand from the private sector and the selective lending approach adopted by the Bank amidst the elevated credit risk prevalent in the market resulted in loans and advances contracting by 7% during the year. In line with broader industry trends, the Group's net interest margin (NIM) also narrowed to 4.07% from 4.86% the previous year, reflecting regulator-imposed rate ceilings and the reduction in market rates during the year.

#### NII Trends



#### Other Income

Low level of economic activity and restricted hours of business operations during the pandemic, had a sizable impact on the volume of fee-based transactions carried out by the Bank during the year. Further, suspending or refunding of certain charges by the Bank, considering the current difficulties faced by customers due to the COVID-19 pandemic, also negatively impacted the Bank's fee-based income resulting in a drop of 12.9% over last year. Cards income resulted in the highest drop of 26% with the drop in card spend due to changes in customer spending pattern owing to the pandemic. The restrictions on non-essential imports and an overall decline in exports caused a 7% drop in the trade fee.

However, gains on trading FX increased as a result of FX funding swaps with the depreciation of the rupee during the current period in contrast to the appreciation experienced during the same period last year. The Bank continued to benefit from the low cost funding Swaps compared to the cost of rupee deposits. The bank also benefited with trading profits on its' fixed income securities portfolio with the drop in market rates resulting in an overall growth in Non-Fund Based Income by 18% over last year despite the drop-in fee-based income.

# capital management

## Financial Capital

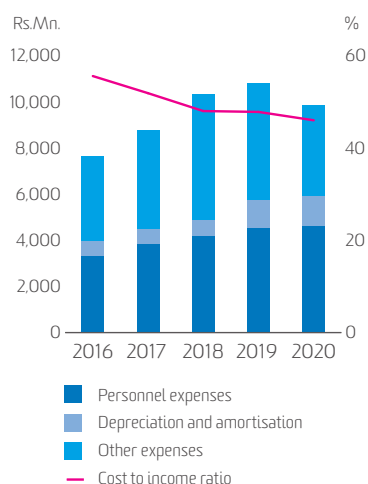
### Impairment

The Group's impairment charges increased by 16% during the year, relatively slower than the industry accretion of 37%. The collection efforts were disrupted heavily due to the Pandemic resulting in the non-performing loans ratio increasing to 7.2% compared to 6.2% reported last year. The Bank made additional provisions on impairment for identified customer segments for possible cash flow delays based on available information and on certain risk elevated industries they operate in. With the cascading impacts of above coupled with the downgrading of the country's sovereign rating the overall impairment provisions increased by 16.5 over last year. We continue to engage closely with customers in offering personalised repayment plans/facility restructuring as proactive efforts are made to stem the escalation of NPLs.

### Cost Management

During the year, strategic emphasis was placed on driving cost efficiencies through process automation, lean initiatives and enhancing employee productivity. Resultantly, total operating expenses declined by 9%, at a faster rate than the decline in business volumes. It is noteworthy that this decrease stemmed primarily from a 22% reduction in other operating expenses reflecting increased operational efficiencies, rationalisation of transport and marketing expenses and volume-related costs. Despite the difficulties that prevailed, the Group retained all its employees at full remuneration. Overall the Group's cost-to-income ratio declined to 46% from 48% the previous year and considerably better than the industry average of 52%.

#### Cost Management



### Taxation

The Group's tax expenses declined by 26% to LKR 3.50 billion reflecting changes in the tax regime, as the Debt Repayment Levy and NBT on Financial Services was removed. Accordingly, taxes and levies on financial services reduced by 44% to LKR 2.66 billion while income tax declined by 3% to LKR 2 billion during the year.

### Profitability

Although operating profit declined in line with impacts on operating income and higher impairment charges, the Group's pre-tax and profit-after-tax increased by a respective 5% and 9% during the year, supported by cost efficiencies and the reduction in the effective tax rate. Accordingly profit attributable to equity holders amounted to LKR 4.05 billion, compared to LKR 3.71 billion the previous year while Return on Equity clocked in at 12.2%.

### FINANCIAL POSITION

#### Asset Growth

Despite the 7% contraction in loans and advances, the Group's asset base grew by 4% to LKR 338.0 billion during the year. In optimising risk-return dynamics the Group pursued only selective lending opportunities. Given the operating conditions that prevailed, the Group sought to strengthen its liquidity buffers and liquid assets (DBU) accounted for 38.79% of total assets (compared to 24% the previous year). Resultantly, credit assets accounted for 62% of total assets compared to 70% the previous year.

#### Capital and Funding

Total liabilities declined by 3% during the year as the Bank reduced exposure to borrowings. Given the conditions that prevailed, the Group did not pursue deposit mobilisation, although deposits grew by 6% during the year, due to moderations in consumer spending. The Bank also secured a USD 20 million funding line from a Development Finance Institution during the year. Meanwhile capital increased by 12% during the year to LKR 35.12 billion, funding 10% of the Group's total assets. Accordingly, the Group's capital position strengthened further with the tier 1 and total capital ratio increasing to 14.79% and 18.37% respectively, compared to 13.3% and 17.96% the previous year.

### Outlook

Given its strong capital and liquidity buffers, the Group is aptly positioned to drive growth upon the anticipated revival of economic conditions. We will continue to adopt a cautious approach to lending, initially pursuing growth in the corporate and upper-mid market segments prior to increasing penetration in the consumer book. Consistent focus will be placed on generating cost efficiencies and preserving portfolio quality through leveraging on digital capabilities and advanced data analytics.

#### CAPITAL TRADE-OFFS

-  Significant investments in digital capabilities will adversely affect financial capital but support cost efficiencies, enhance customer experience and improved decision-making over the long term.
-  Debt moratoriums and concessions will enhance Social and relationship capital through stronger customer relationships
-  Investments in engagement and training will nurture the quality of the talent pool



At Nations Trust Bank, technology is a key enabler which is deployed effectively to transform customer experiences, optimise process efficiencies and provide management insights for better decision making.

#### INPUTS

IT hardware  
LKR 505 Mn





Software licenses  
LKR 1,222 Mn

Best-in-class digital offerings

#### VALUE ADDITION THROUGH STRATEGY

- Enhanced customer experience through FriMi and the mobile banking app
- Reduced over the counter transactions
- Transformation of FriMi to a fully-fledged digital bank and thereby a sustainable revenue model
- Efficiencies through Straight Through Processing and RPA technology

#### STAKEHOLDER OUTCOMES

-  82% of total transaction on digital
-  10% increase in digitally active clients
-  Over 700 employees facilitated with remote working arrangements
-  Cost to income ratio: 46% (2019: 48%)

The Bank was aptly positioned to leverage its digital capabilities to drive better solutions for customers and ways of working following the numerous challenges presented by the pandemic during the year. In 2020, the Bank proactively enabled customers to perform their transactions on digital channels, an increase of 10% over 2019 customer base and accounting for 82% of total transaction. Investments in digital capabilities amounted to LKR 422 million of the Bank's total capital expenditure and attesting to the strategic emphasis placed on technology as an enabler.

The Bank's digital architecture and strategy played a vital role in ensuring uninterrupted services to customers and continued operations during the year. Key priorities and strategic developments during the year were as follows:

- Facilitating work from home/remote working arrangements: Job roles were categorised based on criticality of functions with mobility enabled for over 700 employees across all non-critical functions. For critical functions, the Bank enabled several hubs to ensure continued service while minimising physical staff interaction.

- Migrate over the counter transactions to digital platforms: Data analytics were deployed to proactively identify the transactions that could be moved to digital platforms and branch employees were incentivised to drive growth in digital channels. These efforts enabled the Bank to accelerate customer digital adoption, with nearly 18% of our customers now transacting on digital channels.
- Infrastructure and stability: The Bank invested on enhancing network stability and added security through implementing the ACI network topology during the year. Investments were also directed towards upgrading the card system, contactless credit card transactions and enhanced features on FriMi and the Mobile Banking app.
- Process efficiencies: 17 processes were automated during the year through STP, workflows and RPA assisted to an overall 9% reduction in the Bank's overhead costs.
- Enhancing the customer experience: Considerable investments were directed towards providing customer-centricity and increased convenience through our digital channels as listed below:



Feature enhancement in mobile-banking platform



Launch of 'Savings Pots'

# capital management




## Digital Capital

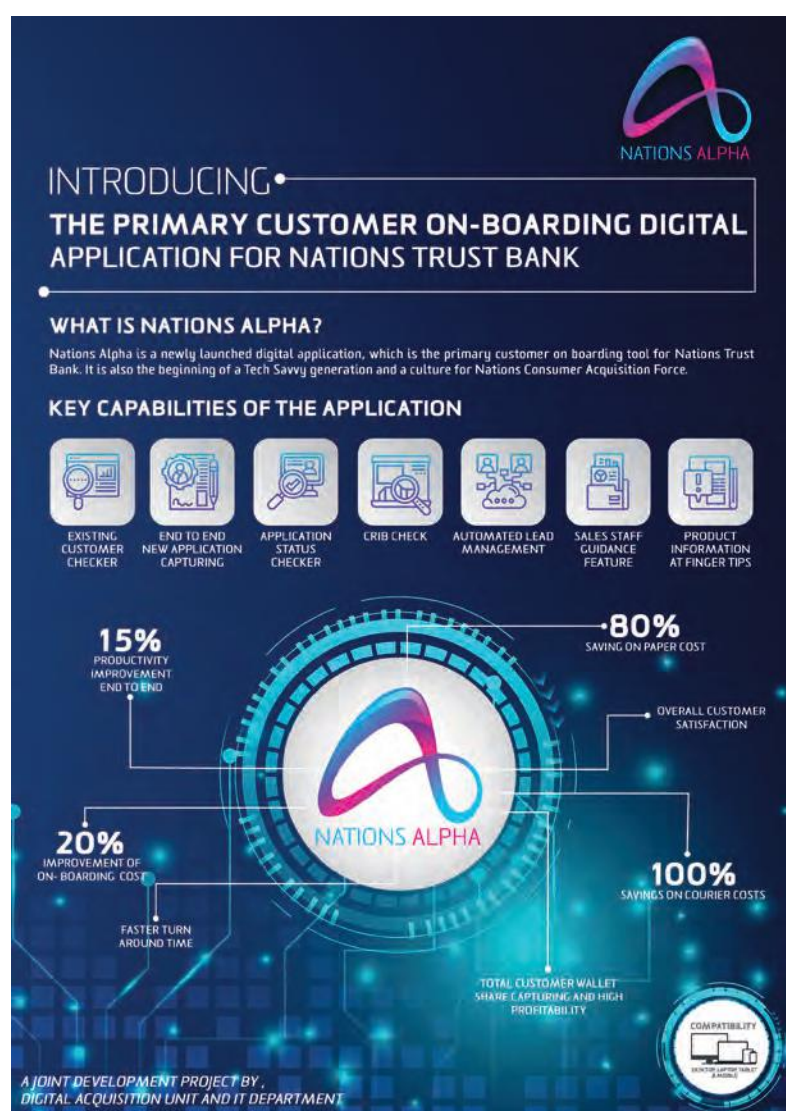
Innovations	Value to client	Value to the Bank
Transformation of FriMi from an e-wallet to a fully-fledged digital bank	Convenience of a single lifestyle app offering banking, mobile wallet, and payments systems.  Offers digital onboarding and account creation, thereby eliminating the need to visit a branch.	Repositioned as a sustainable revenue model and effectively used as a brand to attract new mass affluent customers to the Bank- in line with our overall target market.
Upgraded the mobile-banking platform	New features added include opening fixed deposits conveniently through just 3-clicks	Reduced customer visits to the Bank, thereby ensuring safety during the pandemic and overall optimisation of costs
'E-box' convenient log in to view financial transactions	Simple and convenient accessibility through logging in using card details/FriMi ID	Cost optimisation through eliminating expenses on paper consumption and postal services.
Digital onboarding for Consumer loans, cards, and accounts	Ability to apply for a credit card, loan, and account without visiting the branch	Faster processing time for key onboarding processes
Nations Pay for AMEX customers	AMEX customers are able to conveniently schedule recurring payments through the payment gateway	Widen our ecosystem through the addition of new merchants/vendors

### WAY FORWARD

The digital pillar is an integral part of the Bank's 3-year corporate strategy and we will focus on delivering value-added digital services and experience to customers which will drive improved satisfaction levels while allowing the Bank to sharpen its competitive edge.

### CAPITAL TRADE-OFFS

-  Reduced need for direct human interaction and therefore human capital, given increasing thrust towards digital platforms
-  Impact on natural capital through reduced consumption of paper
-  Although financial capital will be adversely affected in the short-term due to the quantum of digital investments, over the long-term operational efficiencies are expected to drive considerable cost savings



Launch of 'NATIONS ALPHA' customer onboarding platform





## Manufactured Capital

Our physical infrastructure comprising a network of 96 branches, 3 main premises, 111 ATMs and 62 CRMs are an integral part of driving customer accessibility and reach, thereby facilitating business growth.

### INPUTS

Property, plant, and equipment  
LKR 3,682 Mn

96  
branches

62  
CRM

111  
ATM

### VALUE ADDITION THROUGH STRATEGY

- Rationalisation and consolidation of network
- Cost efficiencies across the branch network
- Ensured safety of customers and employees across the network
- Pursued deposit growth through branch network

### STAKEHOLDER OUTCOMES



Continued service to customers

26% CASA growth

LKR 160 billion disbursement of credit

39% cost savings across the branch network



8% cost saving through rationalising premises

The Bank's physical infrastructure (represented primarily as Property, Plant and Equipment and excluding IT infrastructure which is discussed separately under Digital Capital) amounted to LKR 3,177 billion as at end-December 2020, accounting for 1% of its total assets. During the year, LKR 36 million was directed as capital investments.

### BRANCH OPERATIONS IN 2020

With banking being classified as an essential service, the majority of our branches remained open to customers during the lockdown period, thereby ensuring continued service. A dedicated task force was assigned the responsibility of determining the opening of branches based on the risk of infection in the relevant areas thereby ensuring the safety of our employees. Stringent safety and hygiene measures were introduced across all branches, in line with the requirements of health authorities. We sought to combine employee roles within branches to minimise the risk of infection while offering consistent service delivery through maintaining 50% of the branch staff capacity. During the year, several branches were also relocated for improved visibility and easy customer access.

The Bank's strategy continues to reflect increased emphasis on digital channels and given the operating conditions that prevailed during the year, we sought to motivate and incentivise branch employees to drive digital adoption among customers.

26%

CASA growth

LKR 160 Bn

Credit disbursed

### BANKING OPERATIONS IN 2020

In line with our strategic emphasis on driving cost efficiencies, we proactively explored means of rationalising and consolidating the banking operations to ensure optimum resource allocation. Key initiatives carried out included the following:

- Effective utilisation of space through combining and optimising operating locations: Two of the Bank's five operating premises within Colombo were shifted to other existing premises, which resulted in considerable cost savings and more optimum utilisation of space. We also upgraded the Bank's city office in Fort, with the aim of shifting our sales team to unutilised areas of the building.
- Process automation at HIVE: We automated nearly 30% of the processes at the Bank's back office centre- 'HIVE' through implementing workflows and straight-through-processing, which in turn has enabled us drive increased employee productivity and redeploy talent to more value adding functions.
- Simplification of organisational structure: Creating a leaner and more responsive organisational structure through simplifying reporting lines and re-alignment of departments.

### CAPITAL TRADE-OFFS



As our service delivery is increasingly digitised, client activity shifts from physical products and outlets to digital services and channels



As we drive sustainable improvements in productivity, the human capital required for traditional roles will decline



## Intellectual Capital

Our intellectual capital comprising of our in-depth organizational knowledge, robust systems and processes and strong brand value, enable us to continue to forge ahead by offering innovative, relevant banking solutions in the most efficient and sustainable way

### INPUTS

Systems and processes  
Organizational Knowledge  
Brand Equity

### VALUE ADDITION THROUGH STRATEGY

- Increased focus on digitisation and automation to drive efficiencies and cost optimisation
- Enhancing the customer value proposition through convenience and accessibility of digital platforms

### STAKEHOLDER OUTCOMES



2% increase in brand value



17 process improvements implemented during the year

### ORGANIZATIONAL KNOWLEDGE

Our extensive organizational knowledge built on the collective knowledge, skills and experience of our employees is one of our key assets. With an average age of 30 years, our young team is agile and responsive to change, a core strength which has enabled the Bank to strengthen its digital propositions, both to internal and external customers. A culture of knowledge-sharing and mentoring enables us to continue to harness this unique organisational knowledge. We are also increasingly utilizing data analytics to gain insights into customer behaviour and predict customer requirements in a changing operating environment. Meanwhile our involvement in policy dialogue and research collaborations relating to sustainable finance has built capacity and knowledge in this emerging area.

### SYSTEMS AND PROCESSES

Our robust systems and processes provided us with the flexibility needed to adapt to the rapidly changing circumstances during and post COVID-19. Systems were in place to swiftly activate work-from-home arrangements while our digital platforms enabled us to continue to operate with minimal disruptions to our customers. We proactively sought to activate digital transactions through improvements to our mobile app, FriMi and digital onboarding (refer page 34 for further information). Meanwhile automation of several key functions continued during the year bringing about further cost and process efficiencies. Investing in our digital pillar remains a priority and is a key element of our corporate strategy as we face the new realities of COVID-19.

### BRAND EQUITY

The Bank's brand value increased by 2% to LKR 5,769 million in 2020 and notched up 2 ranks to achieve 26th position, with a rating of A+ in the top 100 most valuable brands published by Brand Finance. The Bank also maintained its position as one of the top 15 business establishments in Sri Lanka in 2019 by the Business Today Magazine and was ranked among the top 25 most respected entities in Sri Lanka for 2020 by LMD. Despite the tough economic conditions our brand equity continued to grow during the year, a true testament to the adaptability and resilience associated with our Brand.

### CAPITAL TRADE-OFFS



Nurturing intellectual capital enhances our competitive advantage by facilitating innovation and enhancing the competencies of our employees. These in turn have a direct impact on our financial performance in the medium to long term.



A culture of knowledge-sharing and mentoring creates a more fulfilling work environment for employees whilst providing them with opportunities to grow and learn.



Ongoing process improvements and technology investment improve the customer experience, contributing to stronger customer relationships.





## Human Capital

The Nations Trust team comprise 2,832 young and dynamic individuals who are critical in our positioning as an agile and responsive Bank. Their ability to quickly embrace new ways of working and adapt to the post-COVID 19 realities ensures that we continued to service our customers and drive our strategy despite the prevalent challenges.

### INPUTS

**2,832**  
strong team

**44%**  
female representation

Average age of 30 years

Capable and experienced leadership team

**LKR. 11.4 million**  
investment in training

### VALUE ADDITION THROUGH STRATEGY

- Increased efficiencies and redeployment of human capital
- Collective efforts in driving business growth despite the numerous challenges that prevailed
- Employees encouraged to drive digital adoption among customers

### STAKEHOLDER OUTCOMES



Uninterrupted service to customers despite the challenges that prevailed



Only 2% increase in personnel costs driven entirely through efficiencies

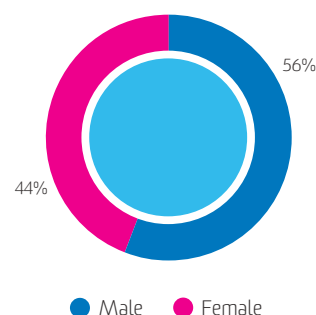
### MANAGEMENT APPROACH

The Bank's approach to managing its human capital is clearly articulated through its HR Framework, which comprises a Board-approved suite of policies governance structures, systems, and processes. The HR framework is implemented by the HR Department, which reports to the Director/CEO and to the Remuneration Committee on matters assigned to them by the Board. All policies are reviewed and updated once in every two years. Nations Trust has sought to consistently evolve its people practices and employee experience in line with the demographics of its talent pool and in response to changes in the operating context, thereby positioning itself as a preferred employer in the industry.

#### Team Profile

Given the conditions that prevailed during the year, the Bank placed strategic focus on effectively deploying its existing human capital while recruitments were frozen after the outbreak of the pandemic. Resultantly, the Bank's total talent pool decreased by 10% in comparison to the previous year.

#### Employees by Gender



#### Workforce by Region

Region	Permanent	Temporary	Total
Western Province	1,881	377	2,258
Central Province	102	8	110
North Central Province	21	7	28
Eastern Province	44	1	45
Southern Province	140	15	155
North Western Province	85	8	93
Uva Province	44	5	49
Sabaragamuwa	40	8	48
Northern Province	43	3	46
<b>Total</b>	<b>2,400</b>	<b>432</b>	<b>2,832</b>

# capital management

## Human Capital

### RESPONDING TO COVID-19

The outbreak of the COVID-19 pandemic during the year presented an array of employee-related challenges, which required a complete reset of our people priorities. A command centre, driven by the Director/CEO and several members of the senior management team was tasked with the responsibility of determining how daily operations would be conducted, based on emerging developments. Despite the challenging conditions, the Bank retained all its employees at full remuneration. Ensuring the safety of our employees was of paramount importance and a range of measures were introduced as listed below:

#### Ensuring hygiene and safety

- (1) Provision of sanitising facilities, masks and gloves to all employees and awareness campaign through posters and social media.
- (2) Facilitated transport services for employees.

#### Minimising staff interaction

- (1) All functions were divided into 2 teams and given weekly rotations, thereby avoiding interaction between the 2 teams. Premises disinfected between shift changes.

#### Flexible work arrangements

- (1) Leveraged our digital capabilities to facilitate work-from-home and remote working arrangements based on the criticality of the employee.

### PERFORMANCE AND PRODUCTIVITY

The new ways of working that were adopted during the year also provided an opportunity for the Bank to engage in a deep dive analysis of its processes and proactively identify ways of increasing efficiencies and redeploying talent. This allowed for processes to be decentralised and made leaner, thereby leading to considerable cost efficiencies. Resultantly, the Bank's personnel expenses increased only by 2% in 2020, despite the retention of all staff. The Bank's performance was also upheld by strong collaboration across units, which saw the emergence of new leaders and breakdown of silos.

### ENGAGEMENT

Employee engagement initiatives were shifted to digital platforms including virtual townhalls and social media campaigns; the key engagement objective during the year was maintaining employee morale given the conditions that prevailed. The Bank also conducted an organisation-wide employee-call out in the immediate aftermath of the 1st wave, engaging with all employees to identify their concerns and difficulties. The CEO also directly engaged with a cross-section of the employees to gauge preferences for working from home. Other engagement activities carried out during the year are presented below:



Engagement activities during the lockdown

### DIVERSITY AND INCLUSION

Creating diverse teams remains a key HR priority for the Bank and we are pursuing systematic ways in which we can empower our female employees to take on leadership roles, through offering flexible operating models and creating a conducive environment for women to thrive. While our overall female representation is around 44%, it remains relatively low 17% at senior and corporate management levels.

We are also pursuing avenues through which the Bank could play a broader role in empowering women through implementing an agent model in which we would provide the digital infrastructure required to perform specific duties. This will drive socio-economic empowerment through providing a sustainable source of income to these women, while offering a cost-effective way for the Bank to conduct certain operations.



#### Policy on equality and diversity

We are an equal opportunity employer, and our policies are designed to employ, remunerate, and evaluate employees based on their skills, experience, and performance irrespective of gender, age, or religion.

**The remuneration ratio between men and women at entry level is 1:1**

## TRAINING AND DEVELOPMENT

The Bank's development agenda centres on competency model (presented below), which involves developing skills required to conduct banking in a digital world; this is delivered through a lifecycle approach which comprises training interventions at each grade. In 2020, training was delivered primarily through virtual means, with nearly 70% of the lifecycle training converted to digital platforms. In nurturing a culture of mentoring and knowledge sharing, the Bank also launched a training faculty during the year, through which the senior leadership including the Director/CEO conduct ongoing training sessions for employees.

LKR 11.4 Mn

Investment in training

42,993

Total training hours

89%

Training coverage ratio

**SUSTAINABLE BANKING**  
Learning Modules by Sri Lanka Banks' Association  
Complete all six modules and get an internationally recognized qualification;  
Target Group: Selected Staff  
Course Content  
Please note: Your logins will expire on 10th November 11.59 PM & you will not be allowed to log in to the system.  
Use the shared password and change it on your first login.  
CLICK HERE TO LOGIN

**Design Thinking**  
Introduction to Design Thinking and People Centered Design  
Your learning outcomes  
Offered by Alison  
www.alison.com

Training highlights

## Competency framework

- Demonstrate Business Awareness & an Entrepreneurial Mindset
- Drive Unparalleled Customer Experiences
- Exercise Innovative Leadership
- Focus on Data Centric Decision Making
- Commit to Excellence

## Average Training Hours

	Male	Female
Corporate management	8	6
Senior managers	23	27
Managers	20	17
Assistant managers	18	18
Senior banking assistants	13	12
Banking assistants	14	13
Banking trainees	10	72

Key training programmes carried out during the year are given below:

Programme name	Target group	Completion No	Completion %
Essentials for banking conducted through online platform			
Essentials of Branch Operations	Banking trainees	114	98%
Essentials of Risk	Banking assistants to Senior managers	864	38%
Essentials of Credit	Selected group from Banking assistants to Senior managers	660	35%
Mandatory banking trainings covered through learning management system			
Lean, 5S, Information Security, Ethics, Concepts of Money Laundering, General Compliance	All permanent staff	1363	58%
Sustainable banking initiatives facilitated by IBSL			
Sustainability banking Initiative	All permanent staff	397	17%
Trainings conducted by Nations Faculty			
Aspiring Leaders: Strategy & Financial Planning	Selected leadership Staff	78	90%
Management Trainee Discussion with Director/CEO	Selected Staff	16	100%
Leadership Insights (six session and completed)	Senior Managers	211	90%
Soft-skill trainings conducted by Nations Faculty		1,917	87%
Nations Sales Academy conducted by Nations Faculty			
Digital Prospecting & Call Management	Selected sales teams	115	98%
Nations Product Webinar	Selected sales teams	74	52%
Performance Coaching for Sales	Selected sales teams	26	74%

# capital management

## Human Capital

We anticipate operating conditions to remain largely unchanged during the first half of 2021, and employees will continue to operate under stringent health and safety guidelines.



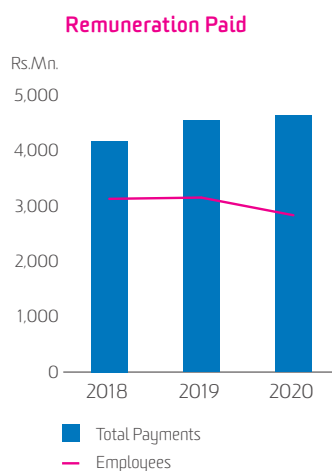
Online toastmaster events



Women's Day celebrations

## REWARDS AND SUCCESSION

The Bank strives to nurture a performance driven culture through transparent remuneration schemes, annual performance appraisals for all permanent staff and an appropriate balance between guaranteed and performance-based components of remuneration. There were no major changes to the reward schemes during the year under review. In developing a strong pipeline of talent and retaining high-performing employees, we filled 106 vacancies internally as promotions. During the year, focus was also placed on identifying high-performing employees and developing the second tier of leaders through providing the necessary training and development.



## WAY FORWARD

We anticipate operating conditions to remain largely unchanged during the first half of 2021, and employees will continue to operate under stringent health and safety guidelines. We will also continue to offer work-from-home and remote working options to employees. In adapting to the new realities post-COVID 19, the Bank is currently pursuing alternative model for specific activities which will ensure the safety of employees while improving work-life balance. Driving productivity and efficiency will be a key priority in 2021 and we are hope to onboard digital mechanisms through which productivity can be measured and rewarded.

## CAPITAL TRADE-OFFS



As we increasingly shift towards automation and digital platforms, employee reskilling will be required to embrace new operating conditions. As digital solutions increase in popularity and sophistication, the need for human interaction will also gradually decrease



The learnings from 2020, including new ways of working, resilience and adaptability to challenging conditions have strengthen the team's tacit knowledge base, thereby enhancing the quality of the human capital





## Social and Relationship Capital

The challenges that prevailed in 2020, made it all the more important that we continue to support our customers, business partners and communities, whether the crisis. We focused on strengthening our relationships with these important stakeholders and offering unique propositions that generate mutual value.

### INPUTS

Over 800k+ customers

Business partner  
Relationships

Community Relationships

### VALUE ADDITION THROUGH STRATEGY

- Transform the customer experience through personalised solutions and omni-channel delivery
- Automation and digitisation to improve service delivery
- Continued investments in CSR engagements

### STAKEHOLDER OUTCOMES



Net Promotor Score 76%

Customer satisfaction rate 96%



Cross sells ratio 1.5

CSR Investment LKR 14 million

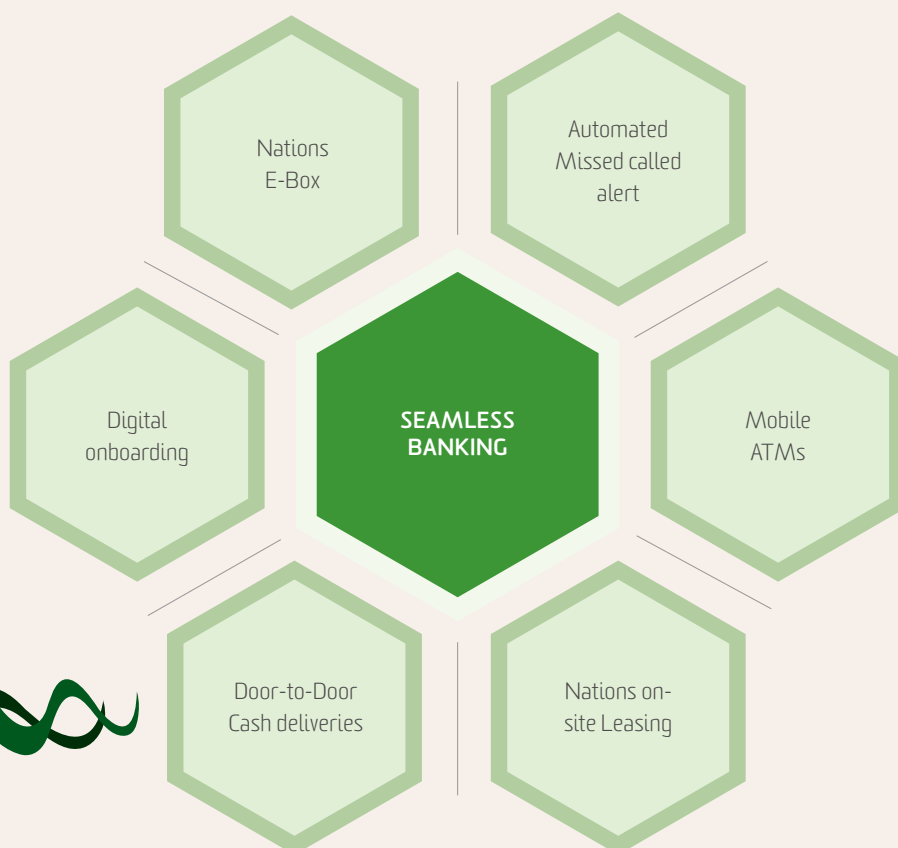
### CUSTOMERS

#### Value delivered to Customers

The Bank caters to over 800,000 Consumer, Corporate and Commercial customers through several business verticals. Our target market is the mass affluent segment, and we continue to drive concerted efforts to drive customer acquisition in this segment. Changing dynamics in the banking landscape brought about by unprecedented technological and social changes have made it imperative that we continue to enhance our customer value proposition through innovative and market-leading solutions. Our customer proposition during the year centred on the following:

#### A Seamless Banking Experience

Ensuring that customers had uninterrupted access to our banking services was our priority as the COVID-19 pandemic began to unfold. We proactively enabled digital banking resulting in almost 82% of banking transactions being carried out through digital channels and thereby ensuring continued services to customers with minimal disruptions. We continued to expand our digital value proposition during the year, adding several new features to drive customer convenience and satisfaction.



# capital management

## Social and Relationship Capital

In addition to digital onboarding through our mobile App we also introduced several features such as an automated missed call alert system and “Nations E-Box”, a pioneering online statement platform that allows customers to access their bank statements and transaction histories using only their registered mobile number (refer to page 34 for further information) We also engaged in door-to-door cash delivery services and launched mobile ATMs during the lockdown period. Meanwhile all our customer contact points remained open under stringent health and safety protocols, operating 24x7 services throughout the period.

### Customer Engagement

Maintaining an ongoing dialogue with our customers was important in proactively identifying needs and addressing these needs with value adding solutions. In addition to our 24x7 contact centre that operated uninterrupted, we maintained close contact with our customers by activating a call-out program and by assigning staff to specifically reach out to clients to assess the impact and offer support. We also ensure that information on product features, interest rates, terms and conditions are easily accessible and clearly communicated through multiple channels. There were no instances of non-compliance concerning product and service information, labelling or marketing communications during the year.

### Supporting customers through the crisis

Given the challenges that prevailed during the year, we understood the importance of adopting a long-term view in customer satisfaction and retention during the year. Accordingly, we proactively sought to support our customers through the pandemic, truly understanding their difficulties and offering tailor-made banking solutions that would help them get back on track. We granted moratoriums for more than 45,000 customers during the year. Meanwhile in addition to the Government loan scheme “Saubhagya Covid-19 Renaissance Facility scheme” we also allocated LKR 7 Billion of our own funds towards our “Nations Diriya Loan scheme” which seeks to support several growth industries through working capital facilities.

### Customised Banking solutions

The need for customised banking solutions has continued to gain prominence and we leverage our capabilities in data analytics, to gain insights into customer behaviour and offer our customers tailor made, forward thinking banking solutions. During the year we introduced the revolutionary “Round up Savings” feature for the first time in Sri Lanka which gives customers the opportunity to save each time they spend through FriMi. We also launched “Nations On-Site Leasing” an online leasing system that digitises the entire leasing

process and enables eligible buyers to possess a vehicle within a few hours. Meanwhile for our corporate customers we rolled out cash management and trade platforms. The rapid uptake in digital channels has also necessitated stronger security protocols, systems and processes. Accordingly, we continued to invest in network security and stability ensuring that we meet the highest standards in information security. There were no substantiated complaints regarding breaches of customer privacy and losses of customer data during the year.



Donation of 4,500 scrub suits for front line health care workers



School ICT lab Project

## BUSINESS PARTNERS

Our partner ecosystem includes over 55 business collaborators, 1,547 suppliers, franchise partners, merchant networks and outsourcing partners. We strive for mutual value from these relationships by ensuring that all our transactions are fair and transparent and by continuously finding innovative ways of collaborating to drive synergies.

We also interact closely with industry stakeholders to promote best practices in the Banking sector. We are one of the core members of the Sustainable Banking Initiative put forward by the Sri Lanka Banks' Association (SLBA) and hold memberships in key industry associations such as Institute of Bankers of Sri Lanka, Ceylon Chamber of Commerce and the Leasing Council of Bankers of Sri Lanka among others.

Facilitates the Bank's global connectivity.

### Collaborators

Correspondent banks: 32  
Exchange houses: 23

### Suppliers

Local suppliers: 1,513  
Foreign suppliers: 34

We source a range of consumables, computer equipment and other supplies required for our day to day activities

Key partner in our digital drive, facilitating ease of transactions, offering exciting promotions and enhancing the customer experience

### Merchant network

AMEX  
Master Card  
Diners Club

### Other service providers

Utility providers  
Security services  
Maintenance  
Operations

Essential for business continuity and the smooth functioning of the Bank's operations.



## COMMUNITIES

As a leading corporate entity and financial services provider in Sri Lanka, we see it as our responsibility to contribute to the upliftment and betterment of the communities we operate in. A clear sustainability mandate and governance structure ensures that our sustainability goals are entrenched into our overall strategy. 75% of the available funds are allocated on national level action and the remaining 25% are allocated for regional and branch level action.

Our CSR initiatives have the over arching goal of "Empowering the Next Generation" and revolve around two key focus areas, Quality Education (SDG 4) and Environmental Stewardship (SDG 13, 14, and 15). We also allocate funds to provide immediate support/relief on national emergencies/disasters.

During the year, significant efforts were directed towards assisting adversely affected businesses and supporting the revival of the economy post COVID-19. The Bank allocated LKR 7 Billion of internally generated funds towards extending financial support to key industries, in the immediate aftermath of the pandemic. We also introduced a Special Deposit Account (SDA) with the aim of attracting foreign currency remittances into the country in support of the COVID-19 response. Meanwhile we supported COVID-19 relief efforts through contributions of Personal Protective Equipment and dry rations to those directly impacted by the pandemic.

### CAPITAL TRADE-OFFS



While value additions to our stakeholders may impact financial capital over the short-term, stronger and deeper relationships with our customers, enable us to enjoy a greater share of wallet which positively impacts financial performance over the long-term.



Greater employee involvement in CSR activities and client relationship building engender more engaged and motivated employees.



Stronger relationships with our customers, business partners and community improves our brand value.



Our investments particularly in preserving our environment have a direct impact on our natural capital.



Project	Total Investment (LKR Mn)
<b>School ICT lab Project</b>	0.54
As an ongoing project, we continue to improve digital literacy in Sri Lanka through our efforts to upgrade selected ICT labs in schools across the country. Prior to the onset of the pandemic, bank handed over the ICT lab to Handessa Maha Vidyalaya, in Pilimathalawa. However, with Covid 19 pandemic, leading to closures, the infrastructure upgrades to the schools were disrupted. Work in two other labs in Colombo 02 and Vavuniya are nearing completion and will be handed over in Q1 of 2021, whilst computer donation to 5 rural schools in Monaragala was also postponed to the same period.	
<b>Soft Skills Development Project</b>	0.21
Nations Trust Bank, in partnership with the University of Colombo Alumni Association and international corporate training firm 'Bridge Partnership' has been conducting workshops on socio-emotional skills for undergraduates since 2017. Two workshops on personality development were carried out during the year prior to the pandemic and we are now looking to continue this project through digital channels.	
<b>"Lets Get Growing" campaign</b>	0.32
Plants were provided to staff in October 2020, prior to the onset of the second wave of COVID-19, in order to promote home gardening and sustainable living. Employees were encouraged to share their "planting story" on Facebook.	
<b>Conservation of Hiyare Sanctuary</b>	2.88
The Bank continued its partnership with the Wildlife Conservation Society of Galle to fund environmental education programmes and animal rescue and rehabilitation programmes at Hiyare Sanctuary in Galle.	
<b>COVID-19 Response</b>	4.09
In collaboration with the Sri Lanka Navy, produced and distributed 4,500 scrub suits for frontline healthcare staff. Donation of PPE to the Lady Ridgeway Hospital. Donation of dry ration packs to 80 families in areas surrounding Nawam Mawatha.	
<b>Awareness on Biodiversity Conservation</b>	4.8
We continue to partner with environmental interest groups such as the Wildlife Conservation Society of Galle (WCS-G), Wildlife and Nature Protection Society (WNPS), Biodiversity Sri Lanka platform, Environmental Foundation Limited and Young Zoologists' Association in conservation efforts and to create awareness on biodiversity conservation.	



Donation of dry ration packs



We remain committed to strategically managing the environmental impacts of our own operation while proactively promoting a Greener Economy by empowering our customers to make sustainable lifestyle and investment decisions.

**INPUTS**

2.8 Mn kWh  
Energy Consumption

49 MT  
Paper Consumption

**VALUE ADDITION THROUGH STRATEGY**

- Automation and Digitisation to promote responsible consumption of resources
- Greater business focus on promoting sustainable finance

**STAKEHOLDER OUTCOMES**

17% reduction in Carbon Footprint

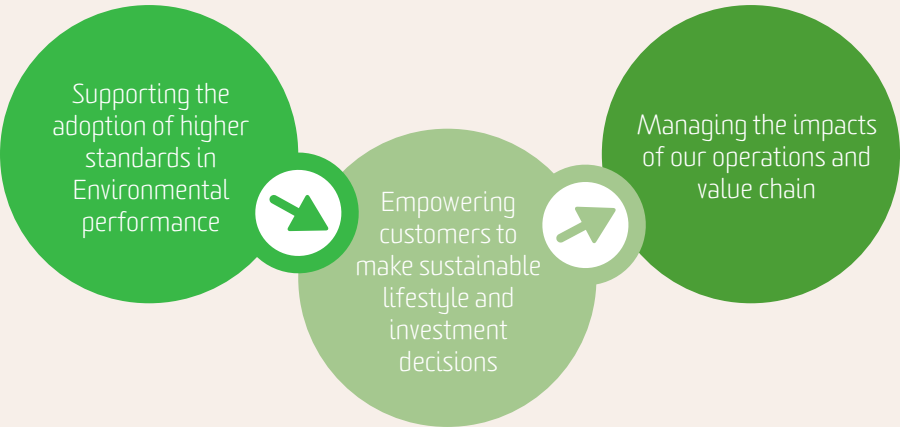
43% reduction in paper consumption

LKR 969 million in cost savings

14% reduction in electricity consumption

OUR ENVIRONMENTAL AGENDA

Supported by a comprehensive policy framework and robust systems and processes, our environmental agenda revolves around the three policy commitments depicted alongside.



Managing the impacts of operations and value chain and building resilience



Empowering customers to make sustainable lifestyle and investment decisions



Supporting the adoption of higher standards in Environmental, Social and Governance performance



Collaborating nationally and globally to make transformations needed to achieve SDGs

## MANAGING THE IMPACTS OF OUR OPERATIONS AND VALUE CHAIN

### Energy Efficiency

We continue to focus on increasing energy efficiency within our premises through greater staff awareness and by investing in more energy efficient technology particularly relating to air conditioning and lighting. In February 2020, air conditioning service providers were made aware on improving energy efficiency of A/C systems that account for a significant share of electricity consumption in buildings. Bank also commenced the implementation of a rationalization of printers, scanners and photocopiers, in bringing down the number of devices from 417 to 210 equipments.

#### IMPACT

##### Energy and climate

14%

reduction in electricity consumption

Carbon Footprint

2,536 tCO<sub>2</sub>e  
-17%\* (YoY)

##### Paper Consumption

YoY Reduction in paper consumption

43%

##### Waste Management

Paper Recycling

6.1 MT  
+3.21% (YoY)

\* Emission audit was carried out only for main 3 buildings during 2020

### Paper Consumption

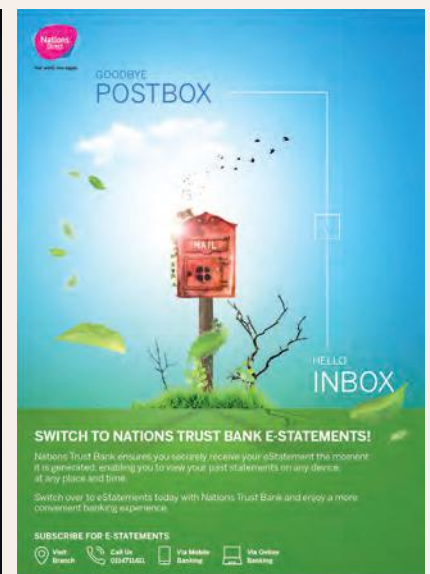
The bank's paperless drive continued during the year with all marketing and customer care printed material being replaced with e-leaflets that could be accessed by scanning a QR code. The e-leaflet initiative launched in August 2020, gained steady traction, with 1,159 unique users opting to use the QR code displayed in branches to obtain product information. Meanwhile the e-box initiative also led to a considerable reduction in paper consumption, through allowing customers to conveniently access their transaction information in a convenient manner. Meanwhile ongoing digitisation and paper recycling efforts continue to reduce paper consumption. In January 2020, bank had developed an internal information system called "Nations Alpha", that digitalises the customer onboarding process. Bank has discontinued the printing of mandates (4 pages each) from September 2020, further to a successful pilot implementation of Nations Alpha. During the year, the Bank's paper consumption reduced by 43% to 49 MT.

### Waste Management

We strive to ensure minimal waste by encouraging the 3R culture of reducing, re-using and recycling waste by creating awareness and having in place systems and processes to support this culture. Food waste is measured at main offices and employees are made aware of wastage via notices. E-waste is segregated and disposed of responsibly through approved third parties while paper recycling is carried out in our main office locations. During 2020, however, the disposal activity was disrupted due to closures of premises of service providers and logistical difficulties faced in adherence of safety measures. The e-Waste collected in 2020 will be handed over to a licenced e-waste management company in Q1 of 2021. We are also engaged with the CEA and had led an engagement through Sri Lanka Banks' Association's Sustainable Banking Initiative to collaborate and manage our waste more efficiently as an industry.



Launch of 'eBOX' statement platform



E-statement promotion campaign

## capital management

### Natural Capital

We strive to ensure minimal waste by encouraging the 3R culture of reducing, re-using and recycling waste by creating awareness and having in place systems and processes to support this culture.

#### GHG emissions data for Nations Trust Bank's Union Place, Nawam & Kotahena offices for the period 1st January to 31st December 2020

##### Carbon dioxide equivalent emissions (tonnes of CO<sub>2</sub>e) - 3 Main Offices

	2020	2019	2018	2017	2016
Scope 1	226.9	129.3	183.0	141.7	313.5
Scope 2	1,409.9	1,935.3	1,780.6	1,856.3	1,930.8
Scope 3	899.4	999.1	1,127.4	1,361.0	1,472.9
Total	2,536.15	3,063.66	3,090.96	3,358.99	3,717.25
% change previous year	-17.22%	-0.88%	-7.98%	-9.64%	13.21%
% change base year	-31.77%	-17.58%	-16.85%	-9.64%	
Number of NTB Employees	1,536	1,475	1,442	1,398	1,351
% change previous year	4.14%	2.29%	3.15%	3.48%	3.68%
% change base year	13.69%	9.18%	6.74%	3.48%	
Tonnes of CO <sub>2</sub> e per employee	1.65	2.08	2.14	2.40	2.75
% change previous year	-20.51%	-3.10%	-10.79%	-12.68%	9.19%
% change base year	-39.99%	-24.51%	-22.10%	-12.68%	



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#### EMPOWERING CUSTOMERS AND EMPLOYEES TO MAKE SUSTAINABLE LIFESTYLE AND INVESTMENT DECISIONS

##### Environmentally Friendly Banking Solutions

Ongoing digitization efforts as well as innovative offerings such as mobile banking app and FriMi, enable customers to reduce their own carbon footprint by avoiding redundant use of transport and paper. Our leasing product team also introduced a new proposition in way of "Nations On Site" leasing, where customers can avoid multiple trips to the bank, by having one of our leasing agents visit the location of sale of vehicle and processing the leasing application through digital on-boarding app.

**Leasing now comes to you with Nations On Site Leasing**

Have the documents ready for any vehicle of your choice and enjoy On Site Leasing!

- Flexible lease payment schemes
- No requirement for guarantors
- Minimum documentation

Call us today on 011 4 210 210 or 0772 642 121 directly from the car sale and we'll come to you! Your dream vehicle is just a call away!

**Nations Leasing**

Nations 'ONSITE LEASING'

#### 'Let's Get Growing' Employee Campaign

The "Let's Get Growing" --grow a plant at home-- campaign was initiated during the year as part of our efforts to encourage home gardening among our employee during the pandemic. Through this initiative the bank provided each of our employees a native plant to be grown at home. This is just one of the programmes conducted to promote a more sustainable lifestyle among our employees.





'Let's Get Growing' employee campaign

### Promoting a Green Economy

Loan schemes such as the Rooftop Solar Power Generation Loan scheme encourage the use of renewable energy for residential and commercial buildings. Meanwhile we continue to build awareness on value propositions such as clean energy and climate smart agriculture through partnerships with leading universities and research bodies and by facilitating ongoing dialogue between the Banking, Agriculture and Insurance sectors. During the year we entered into a Memorandum of Understanding with the University of Colombo to conduct research and build capacity in sustainable finance and sustainable agriculture, whilst leading the organizing of multiple stakeholder consultations (workshops/webinars) on financing of sustainable agriculture through the Sri Lanka Banks' Association's Sustainable Banking Initiative.



### SUPPORTING THE ADOPTION OF HIGHER STANDARDS IN ENVIRONMENTAL PERFORMANCE

#### Responsible Lending

All corporate and SME facilities above LKR 25 million go through a rigorous environmental and social risk assessment ensuring that all environmental and social impacts are assessed. Due to constraints stemming from COVID-19, field assessment of client operations were also affected. However, the relationship officers played a key role in working with clients in supporting the SMEs and MSMEs through the Nations Diriya and other concessional loan programs. Nations Trust Bank also played a key role in assisting the Sri Lanka Banks' Association's Sustainable Banking Initiative and Central Bank of Sri Lanka in presenting input on policies relating to sustainable finance, especially the ongoing workstream to develop a sustainable finance taxonomy for Sri Lanka.

### Sustainable Procurement

We strive to ensure that our suppliers also adhere to the same high standards we do. Procurement criteria incorporate environmental and social consideration while incentives are offered to service providers with higher E and S standards.

### Sustainable Banking Initiative

As a signatory to the Sustainable Banking Initiative put forward by the Sri Lanka Banks' Association, we are committed to working closely with industry stakeholders to promote sustainable economic growth through the wider adoption of sustainable finance standards. During the year, we continued to play an active role in facilitating industry dialogue on various aspects of sustainable finance including Green Mortgages.

### CAPITAL TRADE-OFFS



The initial investments associated with natural capital will require increased financial resources. However, over the medium to long-term, efficient resource consumption will result in cost savings and higher margins which will impact financial capital positively



Upgrading physical and digital infrastructure with more energy efficient technology will enhance the value of our manufactured capital in the long run



Our efforts to empower our customers, business partners and communities to make sustainable lifestyle and investment decisions further strengthen our relationships which have a positive impact on our social and relationship capital

Substantiated complaints regarding breaches of customer privacy and losses of customer data	Nil
Incidents of non-compliance with laws and regulations in the social and economic area	Nil



Conservation of Hiyare Sanctuary



# corporate governance & risk management



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## corporate governance

The Bank's value creation is underpinned by robust corporate governance practices which drive accountability and balance of power while driving greater transparency and effective leadership.

The concise report below sets out the key elements of our governance framework and demonstrates how we achieved our governance outcomes during the year. Please refer to the Compliance tables from page 211 to 220 of this Report for detailed governance and compliance related information.

### GOVERNANCE FRAMEWORK

Nations Trust Bank's governance framework comprises robust policy frameworks, judicious governance structures and an agile organisational culture. These elements enable the Board to effectively oversee key aspects of the Group's value creation including the strategic direction, resource allocation, non-financial performance and to hold the management team accountable for the implementation of strategy. The framework has been designed to comply with mandatory requirements applicable to the Bank, as well as several voluntary standards and industry best practices as illustrated below:

### HIGHLIGHTS

Appointment of 2 new Directors;

- The Chief Executive Officer as an Executive Director
- An IT professional as a Non-Executive Director

Board focused on effectively responding to the opportunities and challenges of COVID-19 pandemic

Implemented a process for evaluating performance of Sub-Committees

#### Mandatory external instruments

- Companies Act, No 7 of 2007
- Banking Act No. 30 of 1988 (as amended)
- All directions for licensed commercial banks issued by the Central Bank of Sri Lanka
- Continuing listing requirements of the Colombo Stock Exchange (CSE)
- Related Party Transactions - Section 9 of the Listing Rules of the CSE

#### Internal Instruments

- Articles of Association
- Board and Sub-Committees Terms of Reference
- Code of Ethics
- Code of Conduct
- Board approved policy framework

#### Voluntary Standards

- Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017)
- Integrated Reporting Framework published by the IIRC
- Global Reporting Standards of the Global Reporting Initiative

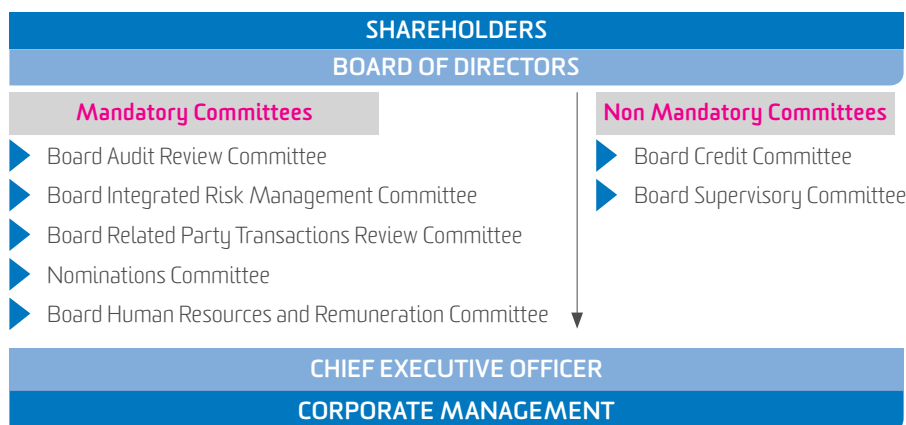
#### Internal Mechanisms

- Strategic planning
- Stakeholder engagement
- Budgeting and Finance
- Risk Management
- People Management
- IT Governance



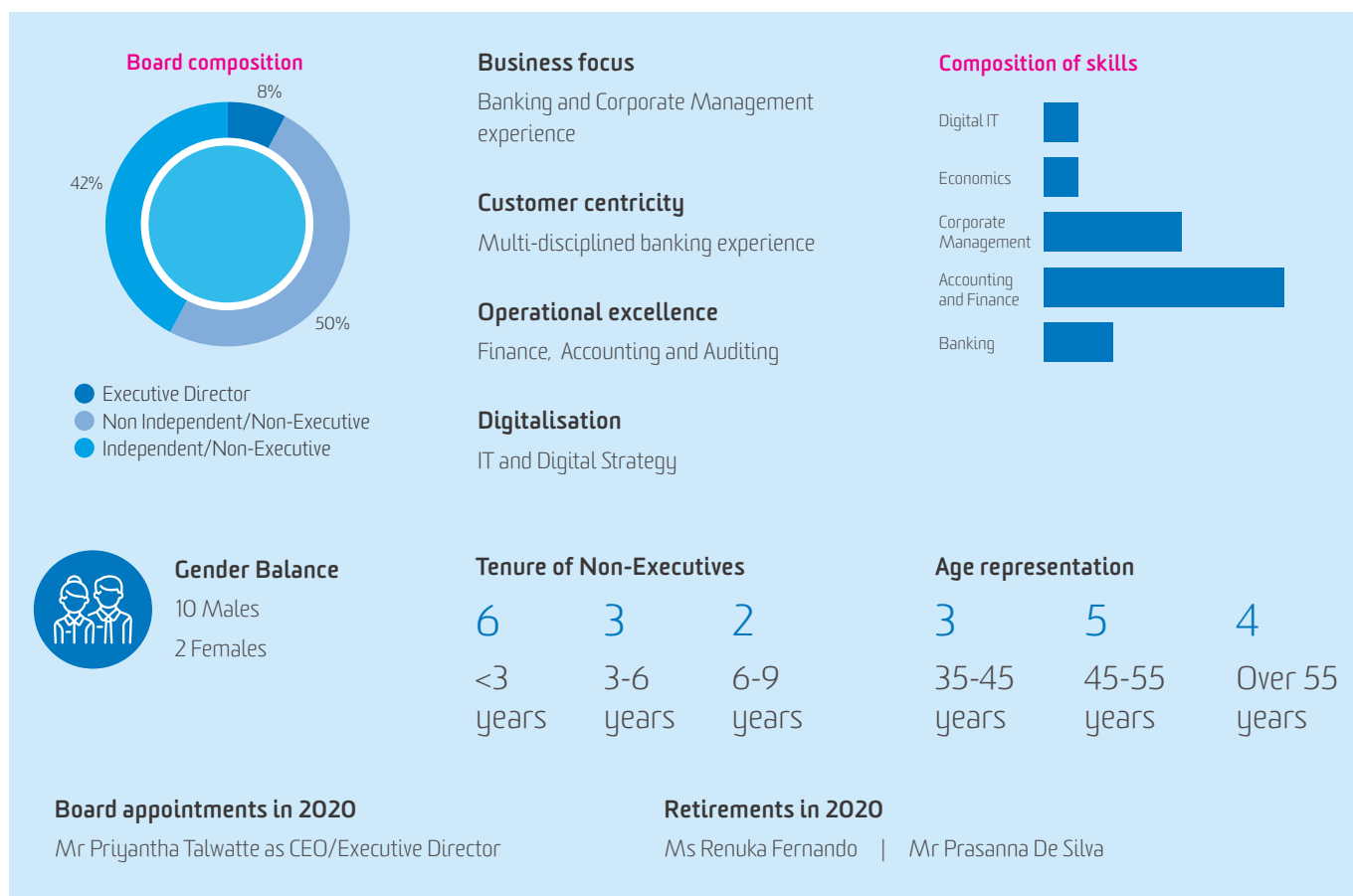
## GOVERNANCE STRUCTURE

The Board of Directors is the apex governing body and are appointed by the shareholders. The Board has appointed seven sub-committees to facilitate oversight of specific areas to assist in the discharge of its responsibilities. The roles and responsibilities of the Board and Sub-committees are clearly defined in the Terms of Reference (TOR) in the Committee reports on pages 71 to 82 provide insights into their activities during the year. The sub-committee TORs were reviewed and revised during the year. Meanwhile, Executive committees appointed for specific roles ensure that the management sets the tone for good governance facilitating empowerment and joint decision-making.



## EFFECTIVE LEADERSHIP

The Board comprises 12 Directors who combine diverse experience and industry insights thereby enriching decisions and enhancing overall effectiveness of decision making. Eleven out of twelve directors are engaged in a non-executive capacity, of whom 5 are independent. In recent years, the Bank has sought to align its Board skill profile with its strategic aspirations and during the year, a decision was taken to add a highly skilled IT professional to the Board in view of our increased thrust towards digitisation.



# corporate governance

**Director induction:** Newly appointed Directors receive a comprehensive induction pack (comprising Articles of Association, Policies and Board procedure manuals among others) while an overview of all compliance requirements and policies are provided by the Board Secretary. The induction is complemented by a presentation by the CEO and branch visits if required.

**Director training and access to information:** Directors undertake training in their personal capacity and attend forums organised by the Central Bank of Sri Lanka and other institutions when required. Auditors and other experts make presentations from time to time on relevant topics. Directors also have access to relevant information and professional advice that is required to discharge their duties effectively.

## DRIVING GOOD PERFORMANCE

The Board consistently reviews the Group's performance against strategic objectives, ensuring long-term success and sustainability. With the outbreak of the pandemic, the Group shifted its Board meetings to digital platforms, which in turn allowed Board activities to continue uninterrupted. During the year, the Board met 12 times which included 10 digital meetings. Key areas of focus during the year included,

- Implementing measures to ensure the health and safety of employees including facilitating work from home arrangements, rotating teams and raising employee awareness while ensuring business continuity

- Refining strategy to address the challenges posed by the pandemic and repositioning the Bank to achieve growth in post-COVID 19 realities
- Focus on leveraging digital capabilities to drive improved customer experience and accessibility during the lockdown period
- Proactive monitoring of credit risk and emerging stresses
- Succession planning

## Meeting attendance by Board members during the year

Director	Board	Audit Review Committee	Board Supervisory Committee	HR and Remuneration Committee	Credit Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transactions Review Committee
Mr. Gihan Cooray (Chairman)	12/12			02/02	12/12		02/02	
Mr. Suran Wijesinghe	12/12	09/10	10/10	00/00		08/08		
Mr. Conrad D'Souza	12/12						02/02	
Ms. Rachini Rajapaksa	12/12	10/10		02/02		08/08		
Mr. Russell De Mel	12/12			02/02	12/12			04/04
Mr. Sumit Maheshwari	11/12							
Mr. Savanth Sebastian	12/12	10/10	10/10					
Ms. Sherin Cader	12/12	10/10	10/10			08/08		
Mr. Chanaka Wickramasuriya	12/12				12/12		02/02	04/04
Mr. Arjun Fernando	12/12	10/10	10/10			08/08		
Mr. Priyantha Talwatte <sup>1</sup>	07/07							02/02
Ms. Renuka Fernando <sup>2</sup>	03/03							01/01
Mr. Parsanna De Silva <sup>3</sup>	11/12		10/10	02/02	12/12		02/02	

<sup>1</sup> Appointed with effect from 19th June, 2020

<sup>2</sup> Retired with effect from 02nd April, 2020

<sup>3</sup> Retired with effect from 01st January, 2021

**Corporate management team:** Management of the day-to-day business of the Group has been delegated to the CEO and Corporate Management team. The CEO is accountable to the Board for implementing strategy and ensuring performance is in line with the set strategic agenda.

**Director assessment:** The Board evaluates its performance on an annual basis, in line with best practice in governance. The evaluation is carried out through a self-assessment questionnaire which includes criteria on board effectiveness, efficiency and procedures followed. Each member of the Board carries out a self-assessment of his/her own effectiveness as an individual as well as effectiveness of the Board as a team. In 2020, the Bank further expanded this to include Sub-Committees, with all Sub-Committee members requiring to carry out a self-assessment on his/her role as a member of the Committee.

## ORGANISATIONAL CULTURE AND VALUES

The Board of Directors set the ethical tone for the Bank and collectively ensure that the conduct of the team is aligned to the organisational vision and values. The Bank's unique organisational culture which centres on innovation, agility and responsiveness enabled Nations Trust to remain resilient in challenging times as our dynamic team quickly adapted to fast-paced changes in the environment. The Code of Ethics and Conduct is signed off by all employees and clearly articulate the expectations for employee conduct and processes for dealing with perceived deviations.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board of Directors hold apex responsibility for ensuring the effectiveness of the Bank's risk management framework and internal control systems. The Board is supported by a dedicated Integrated Risk Management Committee (BIRMC) and Board Audit Committee in the discharge of its risk management responsibilities. (Please refer to the Committee Reports on page 71 and 80 for an overview of the functions performed by the Committees during the year)

**Cyber security:** The Bank's strategic thrust towards digitisation exposes it to a range of information and cyber security related risks which are managed through effective governance structures, clearly articulated procedures and security frameworks. Cyber security risk exposures are consistently monitored and communicated to the BIRMC as part of the regular risk update. Meanwhile, the Bank has deployed an independent consultant reporting to the Chief Risk Officer, who is responsible for identifying and reporting all IT related risks. A dedicated Information Security Officer also functions within the IT department ensuring that all cyber security related risk exposures are monitored on an ongoing basis.

# annual report of the board of directors on the affairs of the bank

The Directors of Nations Trust Bank PLC ('the Bank') have pleasure in presenting their Report on the Affairs of the Bank together with the Audited Financial Statements for the year ended 31st December, 2020. The details set out herein provide the pertinent information in accordance with the statutory requirements, requirements of relevant regulatory authorities for the listed companies in the financial services industry and best accounting practices.

## GENERAL

Nations Trust Bank PLC is a public Limited liability company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988. The Bank was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 7 of 2007.

The Annual Report of the Board of Directors on the Affairs of the Bank and the Audited Financial Statements were approved by the Directors on 24th February 2021.

## STATEMENT OF COMPLIANCE ON THE CONTENTS OF THE ANNUAL REPORT

The Annual Report including the Audited Financial Statements have been prepared and presented with the disclosures in accordance with the Sri Lanka Accounting Standards and other applicable regulatory requirements.

## PRINCIPAL ACTIVITIES

Nations Trust Bank PLC is a Banking Company licensed as a commercial bank. There are three fully owned subsidiaries of Nations Trust Bank PLC which together constitute the Group.

### Bank

The principal activities of the Bank are commercial, personal and private banking, trade services, leasing, factoring, treasury and capital market services and fee based activities.

### Subsidiaries

The principal activities of the Bank's subsidiaries are as follows;

Waldock Mackenzie Ltd. - margin trading, money market operations and fund and fee based activities

Allied Properties Ltd. - Property rental

Nations Insurance Brokers Ltd. - Insurance broking

There has been no material change to the activities of the Bank or any of the subsidiaries mentioned above during the period under review.

## FINANCIAL STATEMENTS

Financial Statements of the Bank and the Group are given on pages 88 to 180 of this Annual Report.

## INDEPENDENT AUDITORS' REPORT

The Auditors of the Bank, Messrs Ernst & Young, Chartered Accountants have carried out the audit of the consolidated Financial Statements for the financial year ended 31st December 2020 and their Report on the Financial Statements is given on page 84 of this Annual Report.

## DIRECTORS' SHAREHOLDING

Directors' shareholding as at 31st December, 2020 and 2019 are given below.

Name of the Director	No. of Shares	
	2020	2019
Mr. Gihan Cooray	8,804 (V)	8,804 (V)
	1,532(NV)	1,532(NV)
Mr. Suran Wijesinghe	41,562(V)	41,562(V)
	7,242(NV)	7,242(NV)
Mr. Prasanna De Silva (Retired w.e.f 1st January 2021)	-	-
Mr. Conrad D'Souza- Senior Director	-	-
Ms. Rachini Rajapaksa	-	-
Mr. Russell De Mel	-	-
Mr. Sumit Maheshwari	-	-
Mr. Savanth Sebastian	-	-
Ms. Sherin Cader	-	-
Mr. Chanaka Wickramasuriya	-	-
Mr Arjun Fernando	-	-
Ms. Renuka Fernando (Retired w.e.f. 2nd April, 2020)	N/A	72,014(V)
Mr. Priyantha Talwatte (Appointed w.e.f.19th June 2020)	-	N/A

## SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 93 to 109.

## INTERESTS REGISTER

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which they have an interest is given on pages 56 to 57 of this Report.

An entry in respect of approving remuneration to the Executive Director by the Board on 31st March 2020 was made in the Interest Register during the year under review.

## DIRECTORS' REMUNERATION

Directors' fees and emoluments paid during the year are given in Note 44.

## SPECIAL PAYMENTS/BENEFITS MADE TO RETIRING DIRECTORS

Bank owned vehicle used by former Director/ CEO Ms. Renuka Fernando was sold to her at the book value of LKR 3,091,667.00 as per the Board approved terms of employment and as approved by the shareholders at the Annual General Meeting held on 29th June 2020.

## CORPORATE DONATIONS

No donations have been made by the Bank during the year.

## DIRECTORATE

The names of the Directors of the Bank during the year under review and their attendance at the Board meetings during the year were as follows;

Name and the designation	Eligibility	Present	Excused
<b>Non-Executive Directors</b>			
Mr. Gihan Cooray	12	12	Nil
Mr. Prasanna De Silva	12	11	01
Mr. Suran Wijesinghe	12	12	Nil
Mr. Sumit Maheshwari	12	11	01
Ms. Sherin Cader	12	12	Nil
Mr Arjun Fernando	12	12	Nil
<b>Independent Non-Executive Directors</b>			
Mr. Conrad D'Souza - Senior Director	12	12	Nil
Ms. Rachini Rajapaksa	12	12	Nil
Mr. Russell De Mel	12	12	Nil
Mr. Savanth Sebastian	12	12	Nil
Mr. Chanaka Wickramasuriya	12	12	Nil
<b>Executive Director</b>			
Ms. Renuka Fernando (Retired w.e.f. 2nd April, 2020)	03	03	Nil
Mr. Priyantha Talwatte (Appointed w.e.f. 19th June, 2020)	07	07	Nil

Executive Director, Ms Renuka Fernando retired with effect from 2nd April, 2020 upon completion of her employment contract with the Bank. Non-Executive Director, Mr Prassanna De Silva retired from the Board with effect from 1st January 2021 upon completion of nine years of service on the Board, in compliance with Section 3(2)(ii) of the Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Mr Priyantha Talwatte was appointed to the Board as an Executive Director with effect from 19th June 2020 and Dr. Ramesh Shanmuganathan was appointed to the Board as a Non Executive Director with effect from 25th January 2021 and they are recommended for election by the shareholders pursuant to Article 25 of the Articles of Association of the Bank and in terms of Direction No.3(2)(x) of Banking Act Direction No.11. of 2007 at the Annual General Meeting scheduled to be held on 31st March 2021

Non-Executive Directors Mr. Gihan Cooray (Chairman), Mr. Russell De Mel and Independent Non Executive Directors Mr. Conrad D'Souza (Senior Director) retire by rotation and being eligible for re-election are recommended by the Board for re-election as provided for in the Article No. 27 of the Articles of Association of the Bank.

Having given due consideration to the criterion set out in the Banking Act No. 30 of 1988 and Banking Act Direction No. 11 of 2007, Board is of the view that all the directors of the Bank including those who are recommended for re-election are fit and proper persons to hold office as Directors of the Bank.

## AUDITORS

Bank's Auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants. The following payments were made to them during the year as fees and reimbursable expenses.

LKR '000	Bank	Group
Audit Fees	9,072	10,046
Fees for Other Services	1,620	1,620

Other services consisted of advisory and tax related work.

As far as the Directors are aware the Auditors do not have any relationship with or interest in the Bank or any of its subsidiaries other than those disclosed above.

The retiring Auditors Messrs Ernst & Young have expressed their willingness to be re-appointed and as such, the Board recommends an adoption of a resolution to re-appoint them as Auditors and authorise the Directors to fix their remuneration.

## FINANCIAL RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Income Statement of the Bank, for the year is given on page 89. Statement of Financial Position of the Bank and the Group are given on page 88.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007, the Directors have declared a first and final Cash dividend of LKR 2.00 per share to holders of both Ordinary Voting shares and Ordinary Non Voting Convertible shares, of the Bank registered in the Books of the Bank as at 8th March 2021.

## INFORMATION ON SHARES AND DEBENTURES

Information relating to holdings of shares and debentures is given in pages 186 to 190 of this Report.

## POST- BALANCE SHEET EVENTS

No circumstances have arisen since the reporting date that would require adjustment or disclosure other than those disclosed in Note 50 to the Financial Statements contained on page 180.

## CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31 December 2020 were 14.79% for Tier I and 18.37% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka.

# annual report of the board of directors on the affairs of the bank

## TRANSACTIONS WITH RELATED PARTIES

Bank is in compliance with the rules of the Colombo Stock Exchange and Directions Issued by CBSL on Related Party Transactions. Details of significant related party transactions are given in the table below;

Category of Related Party LKR '000	Subsidiary Companies *		Directors of the Bank		Key Management Personnel (KMP) of the Bank		Close Relations of Directors and KMP		Shareholders owning a material interest in the Bank **		Concerns in which Directors, Close Relations of Directors or material shareholders have a substantial interest	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<b>Items in the Statement of Financial Position</b>												
<b>Assets</b>												
<b>Accommodation</b>												
Loans and Advances	-	-	2,448	3,073	66,117	84,119	3,007	31,737	-	-	232,805	82,956
Credit Cards	-	-	2,978	2,278	8,435	10,385	1,614	2,184	979	260	-	187
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	-	1	-
Other Assets	-	-	-	-	-	-	-	-	-	-	3,290	17,674
Letter of Credit/Guarantees	-	-	-	-	-	-	-	-	137,765	108,969	784,509	281,235
Undrawn Facilities	-	-	6,347	11,836	29,228	38,197	1,165	2,744	1,878,500	1,907,296	996,571	1,094,328
<b>Total Accommodation</b>	-	-	11,773	17,187	103,780	132,701	5,786	36,665	2,017,244	2,016,265	2,017,176	1,476,380
Less: Cash Collaterals against Total Accommodations	-	-	2,500	18,596	32,559	65,303	2,222	37,257	-	-	-	-
<b>Total Net Accommodation</b>	-	-	9,273	-	71,221	67,398	3,564	-	2,017,244	2,016,265	2,017,176	1,476,380
Total Net Accommodation % of Total Regulatory Capital	-	-	0.02%	0.00%	0.18%	0.17%	0.01%	0.00%	5.08%	5.20%	5.08%	3.81%
<b>Liabilities</b>												
Due to Customers	9,756	8,471	172,356	137,363	137,982	146,588	17,498	166,314	24,425	1,355,588	458,270	591,066
Borrowings & Others	1,170,149	846,219	-	-	9,005	-	-	-	895,328	3,438,788	374,504	1,260,414
Debt Issued	-	-	-	-	-	-	-	-	-	-	1,178,235	1,178,235
Other Liabilities	-	-	58	104	-	76	492	20	2,804	1,056	27,609	105,185
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-	-	3,593	-
<b>Equity</b>												
Dividends (Net)	-	-	136	251	72	60	-	14	450,154	370,592	-	-
<b>Commitments:</b>												
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	-	-	300,960	-
<b>Items in Statement of Profit or Loss</b>												
Interest Income Earned	-	-	342	893	4,934	7,143	694	2,221	11,733	28,018	23,186	12,127
Interest Expenses Paid	63,446	58,701	8,275	10,050	8,765	12,448	2,953	15,474	230,988	248,313	44,432	49,316
Fees and Other Income Earned	8,074	7,620	389	703	693	574	156	495	2,471	1,932	28,197	261,672
Expenses Paid	101,656	86,925	-	723	-	68	-	-	19,772	25,060	52,084	61,134
<b>Compensation paid :</b>												
Short Term Employee Benefits	-	-	74,852	72,009	265,445	266,317	-	-	-	-	-	-
Post Employment Benefits	-	-	9,347	4,026	31,247	40,414	-	-	-	-	-	-
No. of Shares of the Bank acquired												
Voting	-	-	-	2,596	-	-	-	-	-	-	-	-
Non Voting	-	-	-	203	-	-	-	-	-	-	-	-

\* Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

\*\* Since John Keells Holdings PLC together with Mackinnon & Keells Financial Services Limited, HWIC Asia Fund and Central Finance Company PLC together with CF Growth Fund Limited and CF Insurance Brokers Limited hold material interest in the Bank, transactions with these entities have been disclosed.

Key Management Personnel (KMP) consists of Bank's Corporate Management as designated by the Corporate Governance structure.

As required by rule 9.3.2 (a) of the CSE listing rules, there are no non-recurrent related party transactions which exceeds the lower of 10% of the equity or 5% of the total assets.

As required by rule 9.3.2 (b) of the CSE listing rules, there are no recurrent related party transactions which exceeds 10% of the gross revenue/income.



## REPORT ON COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS, LAWS AND INTERNAL CONTROLS

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank including the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act No. 58 of 1949, Foreign Exchange Act No. 12 of 2017, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Financial Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980 etc. and amendments to such statutes.

The Bank has established and maintained an effective system of internal controls which is improved on a continuous basis based on the recommendations of Internal Audit Department and the observations of the Central Bank of Sri Lanka and the external auditors during their inspections and audits.

## COMPLIANCE WITH TRANSFER PRICING REGULATIONS

All transactions entered into with associated persons during the period are on an arms length basis and are comparable with transactions carried out with non-associated persons.

## DIRECTORS OF SUBSIDIARY COMPANIES

Directorates of the Bank's subsidiary companies are as follows;

### Waldock Mackenzie Limited

Mr. Suran Wijesinghe - Chairman

Ms Sherin Cader  
(Appointed with effect from 1st February 2021)

Mr Priyantha Talwatte  
(Appointed with effect from 1st June 2020)

Ms Renuka Fernando  
(Resigned on 31st May 2020)

Mr Prasanna De Silva  
Resigned on 31st January 2021

### Nations Insurance Brokers Limited

Ms Rachini Rajapaksa - Chairperson

Mr Priyantha Talwatte  
(Appointed with effect from 1st June 2020)

Ms Renuka Fernando  
(Resigned on 31st May 2020)

### Allied Properties Limited

Mr. Suran Wijesinghe - Chairman

Ms Sherin Cader  
(Appointed with effect from 1st February 2021)

Mr Priyantha Talwatte  
(Appointed with effect from 1st June 2020)

Ms Renuka Fernando  
(Resigned on 31st May 2020)

Mr Prasanna De Silva  
Resigned on 31st January 2021

## GOING CONCERN

Directors after making necessary inquiries have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Therefore the going concern basis has been adopted in the preparation of the Financial Statements.

## ANNUAL GENERAL MEETING

Annual General Meeting of the Bank will be held at the 31st March, 2021 at 10.00 a.m.

For and on behalf of the Board

Gihan Cooray  
Chairman

Priyantha Talwatte  
Director/Chief Executive Officer

Theja Silva  
General Counsel/Group Company Secretary

24th February 2021  
Colombo

# directors' interest in contracts with the bank

The Bank Carried out transactions in the ordinary course of its business at commercial rates with the following Director-related entities.

Details of transactions carried out with Director-related entities during the year 2020 are set out below.

Name of the related party	Name of Director	Relationship	Details
Allied Properties Limited	Mr. Prasanna De Silva	Director	A sum of LKR 31,532,614.09 was paid as Interest Expense
	Mr. Suran Wijesinghe	Director	A sum of LKR 101,655,732.00 was paid as Rent Expenses
	Mr. Priyantha Talwatte	Director	
Asian Hotels & Properties PLC	Mr. Gihan Cooray	Director	A sum of LKR 18,929,272.00 was paid as Interest Expense
			A sum of LKR 2,800.00 was received as Other Income
			A sum of LKR 6,124,743.47 was paid as Other Expenses
Central Finance Company PLC	Mr. Prasanna De Silva	Director	A sum of LKR 11,717,661.00 was received as Interest Income
	Mr. Arjun Rishya Fernando	Director	A sum of LKR 205,250,856.87 was paid as Interest Expense
			A sum of LKR 1,923,173.08 was received as Other Income
			A sum of LKR 19,772,417.00 was paid as Other Expenses
			A sum of LKR 74,167,405.40 was paid as Dividend
Ceylon Cold Stores PLC	Mr. Gihan Cooray	Director	A sum of LKR 162,549.00 was paid as Interest Expense
			A sum of LKR 91,180.96 was received as Other Income
CF Growth Fund Limited	Mr. Prasanna De Silva	Director	A sum of LKR 32,598,661.30 was paid as Dividend
CF Insurance Brokers (Pvt) Ltd	Mr. Prasanna De Silva	Director	A sum of LKR 12,729.00 was received as Interest Income
			A sum of LKR 2,000.00 was received as Other Income
			A sum of LKR 32,821,144.90 was paid as Dividend
Hedges Court Res. (Pvt) Ltd	Mr. Prasanna De Silva	Director	A sum of LKR 313,369.00 was paid as Interest Expense
Jaykay Marketing Services (Private) Limited	Mr. Gihan Cooray	Director	A sum of LKR 10,986,160.00 was received as Interest Income
			A sum of LKR 721,709.00 was paid as Interest Expense
			A sum of LKR 47,800.00 was received as Other Income
			A sum of LKR 31,501,516.05 was paid as Other Expenses
John Keells Holdings PLC	Mr. Gihan Cooray	Director	A sum of LKR 2,250.00 was received as Interest Income
			A sum of LKR 25,737,630.00 was paid as Interest Expense
			A sum of LKR 9,492.06 was received as Other Income
			A sum of LKR 148,000,091.80 was paid as Dividend
John Keells Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 456,023.00 was received as Interest Income
			A sum of LKR 9,350.00 was received as Other Income
John Keells PLC	Mr. Gihan Cooray	Director	A sum of LKR 750.00 was received as Interest Income
			A sum of LKR 354,718.00 was paid as Interest Expense
			A sum of LKR 6,050.00 was received as Other Income

Name of the related party	Name of Director	Relationship	Details
John Keells Stock Brokers (Pvt) Ltd	Ms. Sherin Cader	Director	A sum of LKR 12,052,971.77 was received as Interest Expense A sum of LKR 119,550.00 was received as Other Income A sum of LKR 7,500.00 was paid as Other Expenses
Nations Insurance Brokers Limited	Ms. Rachini Rajapaksa	Director	A sum of LKR 25,261,627.77 was paid as Interest Expense
	Mr. Priyantha Talwatte	Director	A sum of LKR 7,544,054.88 was received as Other Income
Rajawella Holdings Limited	Mr. Gihan Cooray	Director	A sum of LKR 2,986,851.00 was received as Interest Income A sum of LKR 36,594.00 was paid as Interest Expense A sum of LKR 119,206.37 was received as Other Income
Trans Asia Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 1,557,452 was paid as Other Expenses
Waldock Mackenzie Limited	Mr. Prasanna De Silva	Director	A sum of LKR 6,652,005.09 was paid as Interest Expense
	Mr. Suran Wijesinghe	Director	A sum of LKR 529,800.48 was received as Other Income
	Mr. Priyantha Talwatte	Director	
Walkers Tours Limited	Mr. Gihan Cooray	Director	A sum of LKR 42,127.00 was paid as Interest Expense A sum of LKR 8,102.16 was received as Other Income

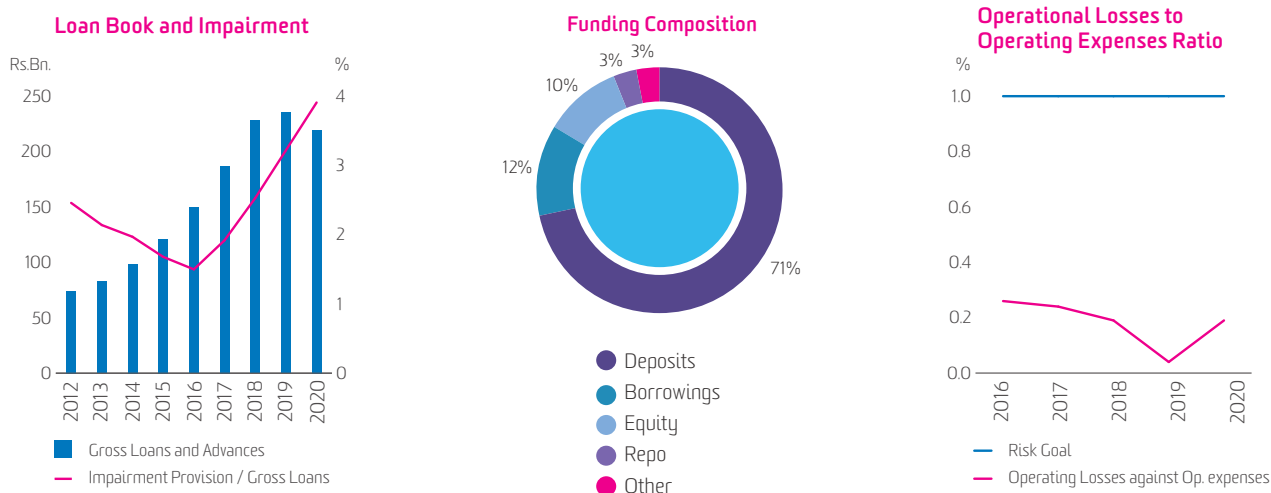
Details of accommodation granted and balances outstanding as at 31 December, 2020

Name of the related party	Name of Director	Relationship	Accommodation Granted	Limit - LKR	Outstanding as at 31 December 2020
Central Finance Company PLC	Mr. Prasanna De Silva	Director	Working Capital Financing (Bank Guarantee - Off balance sheet)	2,001,250,000	138,744,051
Rajawella Holdings Limited	Mr. Gihan Cooray	Director	Working Capital Financing	153,000,000	78,439,031
John Keells Hotels PLC	Mr. Gihan Cooray	Director	Working Capital Financing	89,270,778	78,408,059
Jaykay Marketing Services (Pvt) Ltd	Mr. Gihan Cooray	Director	Working Capital Financing	500,000,000	75,957,931

# risk management review

At Nations Trust Bank, the sustainable creation of stakeholder value is underpinned by robust risk management framework and practices which have evolved over the years to become deeply embedded in our culture.

In response to change in complexity of risk, emergence of new risks and business environment dynamics, bank has heightened the oversight and strengthened its integrated risk management framework, ensuring resiliency in challenging business environment. This report provides a concise yet comprehensive understanding of the integrated risk management framework in place within the Bank and key aspects of our risk performance during the year.



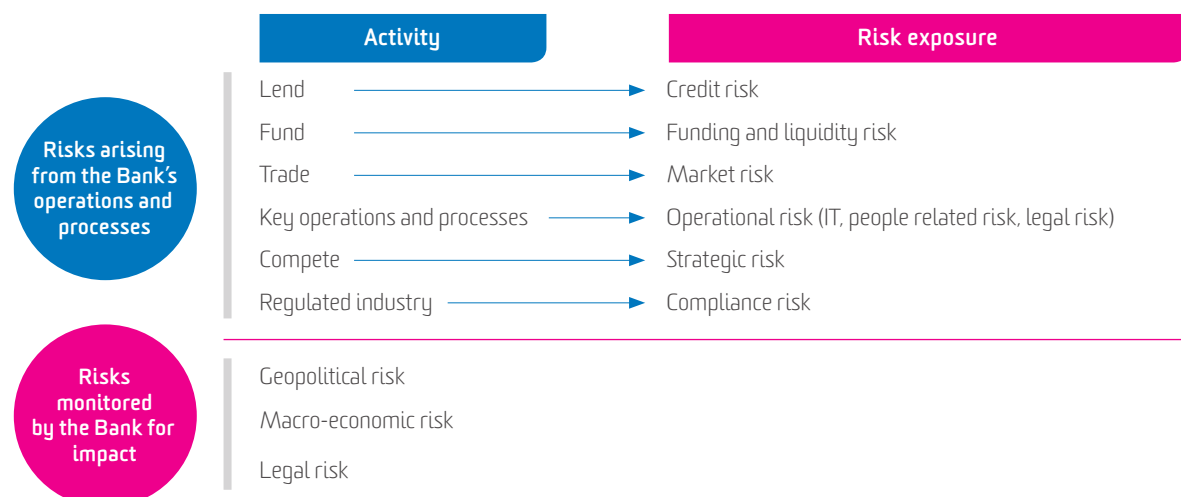
## (A) LINKING BUSINESS STRATEGY TO RISK MANAGEMENT

The link between risk management and business performance has grown stronger over the past few years. We have tightly integrated risk management process effectively into management's core business processes to extend beyond value protection and compliance activities to support the business and take advantage of opportunities for value creation. In addition to regulatory requirements, our risk management framework embraces globally accepted best practices in identifying, assessing, measuring and managing the key risks faced, including the critical interdependencies between the risks.

## Our business model and risk exposures

The Bank's risk profile is reflected in its business model which represents the business activities and processes in place to transform inputs into long-term value for stakeholders. The risk management framework is aligned to the Bank's overall business strategy, enabling it to proactively identify measure, mitigate and respond to emerging risks arising due to the Bank's strategic agenda. Key risks stemming from the Bank's business model are given below;

Assessing the components of the business model enables the Bank to evaluate the robustness of the existing business model and identifies the events that could impact sustainable value creation. The assessment also identifies opportunities for improving operational and compliance efficiency. This enables the Bank to identify the risks it is willing to take – often defined or characterized as the risk appetite.



## (B) APPROACH TO RISK MANAGEMENT

Our systematic, timely and structured approach to risk management contributes to efficiency and consistent, comparable and reliable results. It is underpinned by setting objectives, strategies, policies, risk appetite and tolerance limits for key types of risk.

### Integrated Risk Management Framework



The Bank's Integrated Risk Management (IRM) Framework underpins the foundation for managing risk and clearly defines the tools, techniques and activities in place to ensure that all material risks are identified, measured, managed and reported. Clearly defined roles and responsibilities, both at Board and Executive Committee level ensure independence of judgment and judicious empowerment. A comprehensive framework of policies ensures the consistency and clarity in identification, measurement, management and reporting of key risks.

#### The Bank's key risk management objectives are,

- Establish a framework that supports the business activities to maximize risk-adjusted returns within the Board approved Risk Appetite and other aspects such as regulatory requirements and Bank's internal controls
- Accurately identify and measure the sources of these risks
- Recommend appropriate levels of risks, consistent with the Board of Directors' appetite or tolerance for such risks
- Control the level of risks by establishing limits and routinely monitoring the risk exposures to these limits
- Ensure that there is no breach of relevant CBSL regulatory requirements and applicable laws including Exchange Control regulations, ICASL guidelines, Stock Exchange Requirements, CSE regulations, Company Law requirements etc.
- Seek to enable a balance between controlling these risks and generating optimal returns within these risk constraints
- Add value to the Bank's business units, Senior Management and Board of Directors by providing analysis and recommendations to support the achievement of the overall Bank's strategic objectives.

## Risk Appetite

An integral part of the Bank's Integrated Risk Management (IRM) is the development of key risk metrics, exposure limits, and governance and oversight processes to ensure enterprise-wide risks are within acceptable and manageable levels. A best-practice approach to addressing these requirements is to implement a clearly defined Risk Appetite Statement (RAS).

While developing the Bank's RAS, we have considered the following fundamental aspects with respect to strategy, risk management, and operations, including:

- The strategies for the overall organization and individual business units and the key assumptions underlying those strategies
- The significant risks and aggregate risk levels that the Bank is willing to accept in order to achieve its' objectives
- The governance structures and risk management policies to oversee and control risks
- Assess and quantify the key risks so that the Bank can monitor our exposures and key trends over time
- Establish the appropriate risk tolerances given our business objectives, profit and growth opportunities, and regulatory requirements
- Integrate our risk appetite into strategic and tactical decision making in order to optimize our risk profile
- Establish an IRM feedback loop and provide effective reporting to the Board and senior management

The risk appetite is defined by the Board of Directors and clearly articulates the type and quantum of risk the Bank is willing to take in the normal course of business. It is expressed in the form of tolerance levels and triggers across a range of parameters which reflect the key risks the Bank is exposed to. The Risk appetite is reviewed and updated regularly by the Board of Directors in line with the Bank's strategic and financial objectives. During the year, certain credit and market risk parameters were revised to reflect evolving risks in the industry as depicted below.



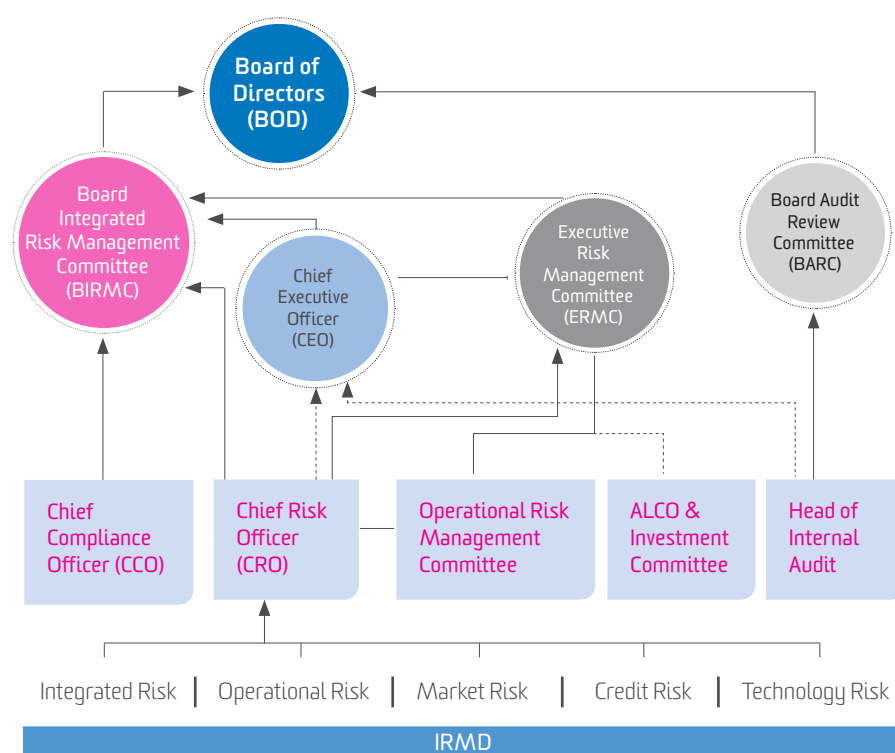
# risk management review

	Position as at End 2020	Limit/Range for 2020	Limit/Range for 2019
<b>Credit Risk</b>			
Impairment Ratio*	3.91%	2.50% - 3.50%	1.5% - 2.25%
<b>Market Risk</b>			
Sensitivity of the Trading portfolio against interest rate fluctuations	0.51%	Below 2%	Below 2%
<b>Operational Risk</b>			
Operational Losses to Operating Expenses Ratio	0.19%	<1%	<1%

\* The bank booked additional impairment provisions to cover risks stemming from the COVID-19 pandemic beyond the risk appetite level set at the beginning of the year.

## (C) RISK GOVERNANCE

Clearly defined risk governance structures enable the segregation of duties and judicious empowerment of employees. The Board of Directors holds apex responsibility for the effective management of risk within the Bank including setting the risk appetite, formulating policy and reviewing risk-related management processes. The Board of Directors is assisted by several sub-committees and executive committees in the discharge of its duties related to risk management as illustrated below.



### Board Integrated Risk Management Committee (BIRMC)

The BIRMC provides independent oversight of all risk related aspects within the Bank and group including overseeing the formulation of

risk management policies and supporting the Board of Directors in determining overall risk appetite. The composition, responsibilities of the BIRMC and its key areas of focus during the year is given on the Committee Report.

### Board Audit Review Committee (BARC)

The BARC plays a key role in assessing the adequacy and effectiveness of the Group's internal controls on financial reporting, risk management measures and governance structures in place to mitigate current and emerging risks. For further details on the composition and activities of BARC, please refer the Committee Report.

### Board Credit Committee (BCC)

The BCC assists the Board of Directors in formulating credit policies and procedures, provides direction on the Bank's lending exposures (including approving large loan exposures) and consistently monitors the quality of the Bank's credit portfolio. For further details on the composition and activities of BCC, please refer the Committee Report.

In addition to these Board Committees, the following Executive Committees are responsible for specific risk management aspects;

### Executive Risk Management Committee (ERMC)

The Executive Risk Management Committee provides recommendations to the BIRMC on the Bank's overall risk management policies, risk appetite and risk management procedures. The Committee is also responsible for reviewing the Bank's risk grid and implementing specific actions to mitigate identified risks. This Committee is chaired by the Chief Risk Officer and represented by all members of the Corporate Management team.

### Asset and Liabilities Management Committee (ALCO)

Chaired by the CEO, all heads of business units and managers from the risk, management reporting and financial risk reporting divisions, the ALCO is entrusted with the responsibility of managing the Bank's balance sheet within the performance and risk parameters defined by the Board of Directors. The ALCO implements Board-approved ALM policies, regularly reviews the liquidity, pricing of assets and liability products, cash flow and asset liability maturity mismatches within the Bank.

## IT Steering Committee (ITSC)

In addition to implementing the Bank's digital strategy, the Committee is responsible for ensuring that mechanisms are in place to effectively monitor and manage the Bank's IT projects, systems and information security. Committee membership is held by the CEO, CIO, and Business line heads, CFO and CRO among others.

## Information Security Steering Committee (ISSC)

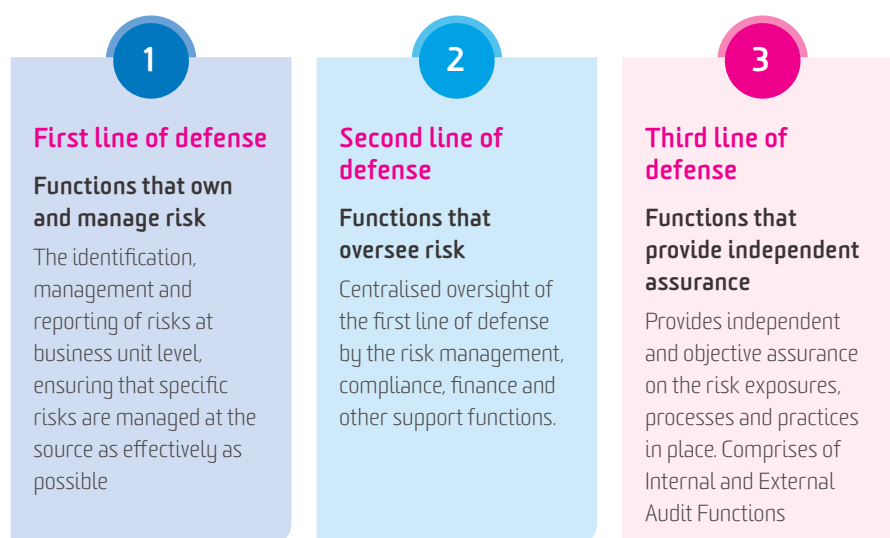
The ISSC, as the apex management level body of information security management provides strategic direction and is exclusively responsible for establishing and maintaining the Information Security Management System (ISMS) of the bank while adhering to draft CBSL technology resilience consultation directions which will be regulated in near future. The ISSC is chaired by Chief Executive Officer (CEO) and coordinated by AVP – Information Security. ISSC directly reports to Board Integrated Risk Management Committee (BIRMC) that oversees the ISSC functions, effectiveness and provide directions to maintain and strengthening ISMS requirements.

## Operational Risk Management Committee (ORMC)

The ORMC is the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is chaired by the Bank's CRO and includes the Chief Transformation Officer (CTO), VP Banking Operations, Chief Compliance officer (CCO) and several operational heads. The primary purpose of this committee is to critically assess operational processes and internal controls with a view of strengthening the operational risk management framework at a functional level. The committee will provide its recommendation to ERM and subsequently to BIRMC if required.

## Three lines of Defense Model

We adopt the globally accepted three lines of defense governance model which ensures transparency and accountability in risk management through clear segregation of duties as depicted below.



## The Integrated Risk Management Department (IRMD)

Led by the Bank's Chief Risk Officer, the IRMD independently assures that the Bank's risk parameters are maintained within the risk appetite approved by the Board of Directors. The IRMD is responsible for multiple aspects of the Bank's risk management framework as illustrated below:

Nurturing a Risk Culture	Risk Measurement	Risk Monitoring	Risk Management
Nurtures an organisation wide risk culture through development of a common risk language and Bank-wide risk training and support	Carry out impairment of loans and advances comprehensively ensuring adequate loan loss reserves	Monitor compliance with risk management policies and procedures	Development and review of risk management tools
Provides interpretation of risk-related regulations/leading practices and disseminates to business units	Carry out "Loan review Mechanism" and continuously improve and strengthen lending processes and practices	Monitor the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions	Devise and implement Credit Portfolio Management techniques and advice management/ BIRMC as appropriate
Safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments, lending or trading portfolios	Carry out stress testing for "Interest rate risk in Banking book & trading book", Liquidity and Sensitivity analysis	Monitor the Bank's Market risk and liquidity risk profile, Monitor compliance with risk management policies and procedures	Implement Market Risk Management techniques and advice management/ BIRMC as appropriate

## (D) RISK CULTURE

The success of the risk management frameworks and practices implemented within the Bank are ultimately dependent on the values, attitudes and awareness of our employees. We persistently strive to

nurture a culture of risk awareness through numerous engagement mechanisms, ongoing communication and risk-related training. Procedure manuals are in place for all critical operations, compelling employees to follow standards guidelines in day to day activities. Ongoing communication through news

# risk management review

bulletins, collaboration tools and e-mails are aimed towards strengthening the risk dialogue within the Organization. Risk also forms a vital part of the Bank's training

proposition, comprising several mandatory training modules for all employees. The Risk Reporting process which include the Risk and Control Self-Assessment (RCSA) Process and

Transaction In Difficulty (TID)/Operation Loss Events (OLE) reporting have helped to instill a culture of risk-awareness.

## (E) RISK MEASUREMENT

The Bank adopts an array of tools and techniques to measure its key risk exposures as listed below;

Risk exposure	Tools and techniques
Credit Risk	Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). Trends and Sector Concentration, NPL Ratios, Early Warnings monitoring
Market Risk	Maturity/Interest Rate Risk Gap analysis, Interest Rate Risk Ratio, PVBP, VaR, Duration Analysis, Sensitivity Analysis, and Stress Testing on IRR in Trading/Banking book (EAR and EVE).
Liquidity Risk	Maturity Mismatch, Concentration of Funding, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Liquidity Early Warning Signals, Intraday liquidity Management, Liquidity Stress Testing Contingency Funding Plan, Liquidity Transfer Pricing, Liquidity Simulations
Operational Risk	Transaction In Difficulty (TID), Risk Control Self-Assessment (RCSA), Heat map, Scenario Analysis, Stress testing, Key Risk Indicators
Reputational Risk	Customer feedback/complaints, Positive/Negative publicity through qualitative scorecard approach
Strategic Risk	Banks financial performance/Peer performance and strategic initiatives through Qualitative scorecard approach
Technology Risk	Vulnerability Assessments, Security Reviews and Key Risk Indicators

## (F) RISK REPORTING

Clearly defined risk reporting mechanisms ensure that key risk exposures are identified and escalated to the relevant personnel and ultimately the Board of Directors in a timely and relevant manner. Risk reporting encompasses all key risk exposures and is clearly communicated to all relevant employees across the organization.

Risk Exposure	Reporting line	Risk Reporting	Content
Credit Risk	Board of Directors	Credit Risk Summary	Portfolio Health/aging & trend analysis, Allowance for Impairment, Concentration Risk Analysis, NPL vintage Analysis
		Exposure vs Risk appetite	NPL ratio Net of IIS, Specific Provision Cover, Impairment Ratio, NPA stress test
		Loan Review Mechanism (LRM) Reports	LRM findings & recommendations
	Management/ Management Sub committees	Credit Risk Management Report	Top 20 Exposures, Portfolio Health/aging & trend analysis, Analysis of Impairment assessment.
		Early Warning Signals Summary	Analysis of Early warnings/exposures
		Watch lists	Management watch list customer updates

Risk Exposure	Reporting line	Risk Reporting	Content
Market Risk	Board of Directors	Exception Report	Breaches of FX Net Open Position Limits, Stop loss Limits, counterparty limits and other Market Risk limits
		FIS performance	Fixed income Government Security, Mark to Market movement and performance
		USD and other currency Investments Report	Performance on investment in foreign currency securities and corporate debt securities
		Market Risk Dash board	Interest rate Risk Ratio, IRRBB, Liquidity Gap Reports, Liquidity Stress testing, Liquidity Coverage, Statutory Liquidity Ratio, Loans/ Deposit Ratio (L/D), Average FX, NOP sensitivity
		Stress testing	Stress testing based on historical market rate movements measured through VaR , as well as forward views of market expectations
	Management/ Management Sub committees	Treasury Profitability, Performance Report	Liquidity Reserve ratio, M 2 M of FX and FIS portfolios, Daily Treasury Profitability, Treasury Exceptions
		ALCO Report	Maturity Gap, Liquidity Reserve ratio, Liquidity Coverage Ratio, Net Stable funding ratio ,Liquidity Stress Testing, Other Liquidity Stock ratios, Monitoring of Contingency Funding plan, Interest rate risk ratios, FX Risk and Sensitivity Analysis
		Management Report	Performance of Investments in Government Securities
Operational Risk	Board of Directors	Exposure vs Risk Appetite	Uninsured Operational Losses Vs Net Income, Total Operational Losses Vs Operating Expenses, Summary of Operational Losses & Loss Events
	Management/ Management Sub committees	Monthly Operational Risk Management Report	Operational Risk - Risk Appetite, Detailed analysis of Operational Losses
Technology Risk	Board of Directors	Technology Risk Dashboard	Priority 1 and 2 Information Security Incidents, Critical System Downtimes, Information Security Vulnerability Remediation Progress, etc.


## (G) STRESS TESTING

In addition to normal stress testing process, bank has developed additional severe stress testing scenarios to assess the soundness of risk profile of the bank and to evaluate the sensitivity of the current and forward risk profile relative to risk appetite and their impact on resilience of capital, funding, liquidity and earnings

As it provides a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in a hypothetical stress situation, stress testing has become an effective communication tool to senior management, risk owners and risk managers as well as supervisors and regulators. The results of the stress testing are reported to the ALCO and BIRMC on a quarterly basis for appropriate, proactive decision making.

The bank's stress testing governance framework sets out risk appetite triggers and risk tolerance limits, mitigating risks through actions such as reviewing and changing limits, limiting or reducing exposures, facilitating the development of risk mitigation or contingency plans across a range of stressed conditions supporting communication with internal and external stakeholders.

The framework covers all the material risks such as credit risk, operational risk, liquidity risk, FX risk, IRRBB using EVE perspectives. The Bank reviews different degrees of stress levels which are defined as Minor, Moderate and Severe in the Stress Testing Policy. The resultant impact on the capital through these stress tests is carefully analyzed.

Credit Risk	Deterioration in asset quality, Increase in large NPLs and Shifts in NPL categories	 <ul style="list-style-type: none"> <li>Potential impact on,</li> <li>Earnings</li> <li>Capital adequacy</li> <li>Funding capability/liquidity</li> </ul>
Interest Rate Risk	Movements in interest rate by +/- 100 bps and 200 bps and 250 bps	
Foreign Exchange Risk	Forex risk on Net Open Position	
Liquidity Risk	Funding capability of a cash outflow in a liquidity stress scenario - up to 1 month with linking to macro-economic variables	
Operational Risk	Scenarios based on historical events from internal and external loss data	

# risk management review

## (H) MITIGATING KEY RISK EXPOSURES

The Bank's key risk exposures during the year under review are illustrated below;



### Credit Risk Management

The Board Credit Committee (BCC) functions as the steering committee holding overall responsibility for implementing the Bank's credit risk management framework. At an executive level, the responsibility of managing the Bank's credit risks have been delegated to the Head Office Credit Committee (HOCC). The HOCC is headed by the CEO and comprises of the Heads of business units with the CRO also contributing as an independent observer. The credit risk management framework is composed of the following;

- **Comprehensive credit policy framework**

This is formulated by the BCC on behalf of the Board of Directors. Key aspects of the Group's credit policies include directions on pre-credit sanctioning which includes well-defined credit criteria and prudential limits

in line with the defined risk appetite, post-credit monitoring and delegated approval authority at multiple levels. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

- **Risk Scoring**

Tailor-made risk scorecards which adopt advanced statistical data analytics are utilized when underwriting consumer credit facilities. These scorecards are based on creditworthiness of individual customers, disposable incomes and broader characteristics of the customer demographic group and provide an indication on the level of credit that can be granted based on the projected repayment capacity.

- **Risk Rating System**

The Bank has implemented an internal risk rating system to rate its obligors. The system incorporates five rating models which are able to effectively gauge the risk profile of the Bank's diverse client portfolios of Large and Mid-sized Corporate, Commercial and individual customers. The system provides an indicative probability of default for the borrower. The ratings thus derived are mapped into a Bank wide single point indicator rating scale.

- **Culture of responsible lending**

The Bank has been successful in nurturing a culture of risk awareness and responsible lending through a high level of internal communications and comprehensive training programs.

### Areas of focus in 2020

- **Strengthened pre-credit sanctioning and collections:** Proactively providing independent assessments for approvals while increasing vigilance on certain high risk sectors. Focused collection efforts and restructuring to revive stressed facilities.
- **Post-credit monitoring:** Strengthened the early warning signal system, enabling business units to foresee potential deteriorations in credit quality and be more proactive in collections and monitoring. Additional monitoring responsibilities have also been added to zonal teams with a view to improve credit quality.
- **Enhanced the continuous feedback loop:** Improved coordination and communication between the pre-credit sanctioning and post credit monitoring divisions.
- **SLFRS 9 improvements:** Introduced mechanisms to strengthen the impairment assessment methodology in line with the requirements of SLFRS 9. Portfolios further stratified into homogenous sub portfolios to better reflect risk profiles.
- **Training:** Employee training on credit appraisal, risk acceptance and overall awareness on credit risk. Focused knowledge sharing on how expected credit loss models should be aligned with credit value chain.

### Credit Risk Performance in 2020

**Operating Context:** Outbreak of pandemic during Q1 of 2020 has created disruptions to the economic value chain, causing CBSL to introduce new debt moratorium along with a set of other relief measures, while extending the previously given tourism moratorium.

Standstill in economic activities of the country did not support for sizable new credit, causing a slow growth in assets. Therein the focus was shifted towards realigning the asset book to minimise the risks stemming from the downturn in the overall economy.

Travel, Tourism and Leisure sectors were heavily impacted by the pandemic. Apparel, Automobile, Real estate and Construction industries were also impacted, though the magnitude was comparatively lesser than the Travel, Tourism and Leisure sectors.

The Board defined credit appraisal and monitoring procedures include the following;

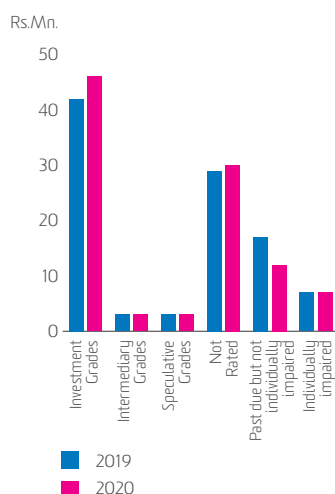
Pre-credit sanctioning	Post-credit monitoring	Portfolio management
<ul style="list-style-type: none"> <li>▪ Multiple levels of approval authority</li> <li>▪ Sophisticated risk rating and scoring System</li> <li>▪ Prudential limits for concentration risk</li> <li>▪ Structured and comprehensive credit Appraisal and defined credit criteria</li> </ul>	<ul style="list-style-type: none"> <li>▪ Portfolio evaluation with emphasis on Early warning signals</li> <li>▪ Robust credit review mechanism</li> <li>▪ Stress testing and scenario analysis</li> <li>▪ Review of selected exposures</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regular monitoring of concentration Risk and other prudential limits</li> <li>▪ Structured loan review mechanism</li> <li>▪ Creation of loan loss reserves through Impairment assessment</li> <li>▪ Periodic reporting to HOCC, BCC and BIRMC</li> </ul>



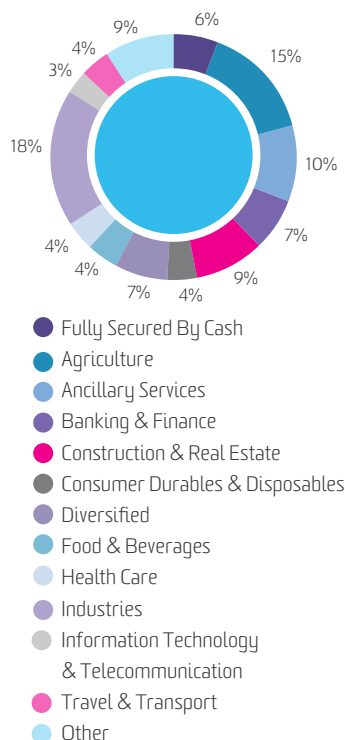
At the same time Agriculture, Healthcare, E-commerce and Food industry indicated potential to grow.

Slow credit growth along with reduced reserve requirement caused bank to pile up the liquidity with less alternative investment opportunities curtailed the growth potential.

### Risk ratings distribution



### Sectoral distribution of loans

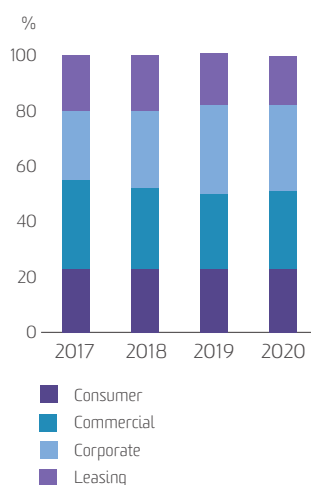


### Concentration risk

Concentration risk is measured through the Normalized (Herfindahl-Hirschman Index HHI) and is computed as part of the Bank's ICAAP process in which concentration related to different industrial sectors of the economy, different customer segments, product

types and maturity patterns are monitored. Moderate growth in the Corporate and Commercial books during the year in line with the Bank's overall strategy, has enabled the Bank to reduce dependence on the consumer sector and achieve more balance in its portfolio.

### Loan book composition

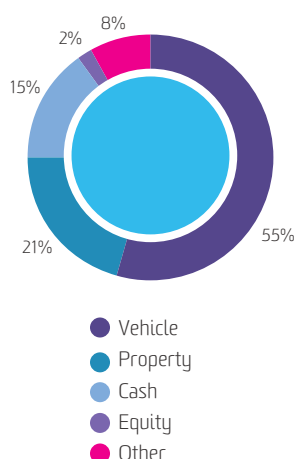


Further details on portfolio status and impairment reserves as at 31.12.2020 are available on page 191.

### Large exposures

Large exposures	% of total portfolio (Cumulative)
Top 5	6.58%
Top 10	9.98%
Top 20	14.89%
Other	85.11%

### Collateral breakdown



Further details of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity are available in notes, 13, 45 and 47 to financial statements.

## Market Risk Management

Market Risk is the potential loss arising from changes in the fair value or future cash flows of financial instruments due to fluctuations in market variables, the correlations among them and their levels of volatility. The key market risks the Bank is exposed to an Interest rate risk, Foreign Exchange risk and liquidity risk.

Market risk exposure originates mainly from:

**Trading market risk:** arises primarily through the market-making and trading activities in the various government securities and derivative markets.

**Non-trading market risk:** arises from assets and liabilities that are typically on our books for a longer period of time (deposit taking and lending)

Please refer page 192 for Composition of Trading and Non-Trading Book.

The Asset Liability Management Committee (ALCO) holds executive responsibility for overseeing the Bank's market risk exposures. On the other hand, the Investment Committee is responsible for overseeing investment and reinvestment of the Bank's funds and evaluating investment performance. The evaluation will take into account compliance with investment policies and guidelines and risk tolerance levels. In addition, the IRMD is responsible for the implementation and review of market risk management policies, tools and techniques. As treasury operations can give rise to significant market risks, the Treasury Middle Office (which operates independently from the Treasury Department) monitors treasury related market risks such as Foreign Currency Net Open Position (NOP) limits and counterparty limits on a daily basis.

### Sound and Robust market risk policies

A comprehensive framework of policies is in place to govern all aspects of market risk management. These include the Asset and Liability Management policy, Liquidity risk management policy, Market risk management policy, Policy on Recognition and Measurement of Treasury Financial Instruments, Repo and Reverse Repo Policy and policy on Stress Testing, which provide guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging Market risks.

# risk management review

## Risk limits and trigger points

The Board of Directors have defined a range of limits for investment and treasury related activities including foreign currency Net Open Position limits, counterparty limits, stop loss limits, maximum exposure limits, minimum liquidity ratios and other market risk related limits. Actual performance against these limits are monitored by the Treasury Middle Office and the IRMD and brought to the attention of the ALCO & BIRMC on a regular basis. Meanwhile thresholds that trigger specific management action is specified to ensure proactive management of market risks.

## Areas of focus in 2020

### New Policies, Revision of Policies and procedures

Policy on Repurchase and Reverse Repurchase Transactions was implemented to articulate the manner in which repurchase and reverse repurchase transactions in Scrip less Treasury Bonds and Scrip less Treasury Bills shall be carried out by the Bank and to comply with CBSL Direction No 1 of 2019

Market Risk Management Policy and Interbank Borrowing Lending Policy has been revised in line with CBSL Direction No. 06 of 2019 - Market Conduct and Practices for Treasury Operations of LCBs and reduction in Statutory Reserve Requirement (SRR)

### Foreign Exchange Risk

Foreign Exchange (FOREX) risk is the potential loss arising from fluctuations of value in a financial instrument due to changes in foreign exchange rates. The Bank is exposed to foreign exchange risk through its holding of assets denominated in foreign currency. Executive responsibility for managing the Bank's forex risks lie with the Treasury department with a clear segregation of duties between the front, middle and back offices to ensure the adequacy of internal controls. FOREX risks are managed through limits on exposure to currencies on an individual and aggregate basis, as well as dealer and counter-party limits, overnight and intraday limits and stop loss limits. These limits are independently monitored on a daily basis by the Treasury Middle Office, ensuring Market Risk exposures are within the board approved limits. These transactions are also governed by the

CBSL which has in place a stringent regulatory framework which includes an approval mechanism and exposure limits.

Despite unprecedented level of volatility, CBSL managed to control the depreciation of rupee better than market expectations. However, bank was maintaining minimum level of exposure mainly undertaken to support client requirements to withstand the volatility of the currency.

Please refer page 193 for Net Open Position of Foreign Currency denominated Assets and Liabilities of Domestic Banking Unit.

## Liquidity Risk Management

Liquidity risk is the risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

Oversight responsibility for managing the Bank's liquidity risks is with the ALCO, which ensures that a sufficient liquidity buffer is maintained to meet the Bank's financial obligations. The ALCO regularly reviews the Bank's cash flow projections, funding capabilities, pricing decisions and liquidity levels to ensure compliance to internal targets as well as regulatory liquidity requirements. The Committee also works closely with the Treasury Department in the implementation of ALCO decisions on a day to day basis.

With the onset of the pandemic, considering possible shocks in the liquidity level, the Bank developed a more updated simulation model to forecast the liquidity position for the next 3-6 months based on the maturity profile of the contractual cash flows ensuring healthy level of liquidity buffers were maintained throughout the year. A targeted liquidity ratio was established as a trigger for discussion and further action when reached. This helped business heads to take proactive actions on loans and deposit rollovers and prioritizing loan drawdowns. Maturity analysis of assets and liabilities also indicates a relatively healthy liquidity position. Refer page 144.

Listed below the tools for measuring and managing Liquidity

- I. Maturity Mismatch
- II. Concentration of Funding

- III. Liquidity Coverage Ratio (LCR)
- IV. Net Stable Funding Ratio (NSFR)
- V. Liquidity Early Warning Signals
- VI. Intraday liquidity Management
- VII. Contingency Funding Plan
- VIII. Liquidity Transfer Pricing
- IX. Liquidity Simulations: Stress Testing and Scenario Analysis
- X. Other Liquidity Stock Ratios

Please refer page 194 for Maturity Gaps in Major Currencies

## Market Risk Performance in 2020

### Interest Rate Risk

Interest Rate Risk arises from the possibility that fluctuations in interest rates will affect the future cash flows or fair values of financial instruments. Exposure to interest rate risks arise from its lending, trading securities and deposit liabilities. Sub types of interest rate risks are,

- Reprising risk arises from the inherent mismatch between the Bank's assets and liabilities which results in reprising timing differences.
- Basis risk arises from the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.
- Yield curve risk arises from shifts in the yield curve that have a negative impact on the Bank's earnings/asset values.

The Bank manages its interest rate risks primarily through asset liability reprising gap analyses, which distributes interest rate sensitive assets, liabilities and off-balance sheet positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions are monitored at least on a monthly basis to ensure compliance to the prescribed limits. In addition to the asset liability maturity mismatches,

Please refer page 195 for Interest Rate Sensitivity Gap Analysis.

The ALCO regularly monitors trends in market interest rates, as well as results of interest rate stress testing analyses.

## Interest Rate Risk in Banking Book

Interest Rate Risk in Banking Book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions.

When interest rates change, the present value and timing of future cash flows change. This, in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its Economic Value (EVE). Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

Please refer page 195 for Interest Rate Risk in Banking Book – Economic Value at Risk.

## Covid 19 Measures

- Review the adequacy of Market risk limits.
- Developed required stress testing scenarios and evaluation of bank's soundness under stressed market conditions.

- Understand the implications of the outbreak on the banking business and means to effectively manage the risks stemming from it in order to ensure resilience.

## Operational Risk Management

Oversight responsibility for operational risk management has been delegated to a dedicated Operational Risk Management Unit (ORMU). The Operational Risk Management Committee (ORMC) periodically met as the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is accountable to Executive Risk Management Committee (ERMC) on matters related to operational risk management and to foster a culture within Nations Trust Bank that emphasizes and demonstrates the benefits of a risk based approach to internal control and management of operational risks of the bank. Meanwhile, the ORMU which functions within the purview of IRMD provides independent verification on the Bank's operational risk exposures.

The operational risk management framework is underpinned by the following;

## Identification and assessment

The Bank uses Risk and Control Self Assessments (RCSA) which are administered to all key business and operational units to evaluate the exposure to defined operational risk parameters. It is a structured mechanism for a Business Line, Supporting Unit, Product Line or Process to identify and assess its own risks and introduce measures aimed at improving risk control. In addition, the ownership of key risks and measures introduced to mitigate unacceptable risk exposure is clearly defined. RCSA process ranks the risks based on its likelihood of occurrence and its impact/severity if that risk materializes. It also critically tests the current controls available to address such risks in terms of its control design and control performance of risks in designing/reviewing suitable action. Stemming from individual departmental risk grids, a bank-wide risk grid is prepared highlighting key risks impacting the bank. This overall bank risk grid is updated every other month and presented to the Board Integrated Risk Management Committee as a "Risk Assessment Report" which details the prevailing or emerging risks and its management.

The Key Risk Indicators (KRIs) being implemented will ensure that early indicators of risks are given due recognition and appropriate action is taken to reduce possible losses arising from such risks.



# risk management review

## • Limits and tolerance levels

The Board of Directors have defined specific limits and tolerance levels for operational risk indicators including the number of internal and external loss events and the total value of operational losses monitored. Regular reporting to the BIRMC and Board of Directors ensure that parameters are maintained within the defined limits and corrective action is initiated if required.

## • Risk reporting

The Bank maintains a well-structured Operational Risk Loss Data Base which is aligned to the BASEL requirements. Streamlined processes are in place to capture all operational loss events including near misses, which are then categorized as specified in a BASEL document in order to use them for future modeling activities. The loss events are linked to the RCSA & KRI Program to ensure that repeat errors are minimized.

## • Outsourced services

The Bank outsources some of its activities including cash management, labor supply, embossing of cards, document management and archiving, Collections & Recoveries, IT Services, POS activation and RMV registrations. To mitigate the operational risks, business units submit due diligence test grid along with the relevant documents to outsourcing services unit. Outsourcing services unit participates for the Business Continuity Plan rehearsals of service providers as well as carry out periodical visits along with the business unit member, Information Security team member, and respective operational units. These activities provide an assurance on the ability of service provider to maintain required levels of service.

## Areas of focus in 2020

- **Strengthened the RCSA mechanism & KRI:** Strengthened RCSA mechanism with the introduction of several new risk assessment grids for business and support units. Currently the Bank maintains 40 RCSA's, which carries a qualitative analysis of the Operational Risks of the units

KRI's were designed for several Business Units and has been rolled out with the assistance of the Risk & Compliance Coordinators along with defined thresholds to monitor.

- **Maintained performance against operational risk appetite:** Operational losses to operating expenses ratio was at 0.19% in 2020
- Supported proactively to business & support units to iron out operational issues during the pandemic, Following the Governance framework on internal process changes.
- **Increased employee engagement and awareness on "Operational Risks":** Information related to operational risk continued to be shared through operational risk updates for all employees. This has enabled the prompt sharing of knowledge, notifications of operational risk incidents and nurturing a risk culture across the Bank. Further mandatory e learning program on Operational Risk were carried out to all staff through Nations Faculty.

- **Increased vibrancy and proactiveness of ORMU:** During the year, the ORMU conducted regular meetings and identified risks were escalated to the relevant personnel for immediate action. Implemented a risk register/risk assessment review process to assist in reviewing risks and give visibility on potential exposures.
- Was a key stakeholder of the User Access Management (UAM) process and ongoing projects by advising units/businesses in managing operational risks.
- Introduced the user matrix and business owner concept as part of reviewing user access rights of the bank.

## Technology Risk Management

### Information Security (IS) and Governance Function

The Bank functions in a constantly evolving digitalized environment and considers technology risks as one of the most important risks to be managed and is committed to protect its information assets from evolving threat landscape.

The Bank possesses ISO/IEC 27001:2013 which provides a holistic approach to information security governance and leverages other technology advancements to protect from information security breaches and cyber attacks.

## Operational Risk Performance in 2020

All operational risk indicators were maintained within the defined parameters while there were no material loss events during the year. The value of the total operational loss events remained well within risk appetite as at end of 2020.

		NTB 2020	
		Value in LKR '000	%
BASEL III LOSS EVENT TYPE CATEGORY	Internal Fraud	746	3.9%
	External Fraud	8,809	46.1%
	Employment Practices and Workplace Safety	31	0.2%
	Clients Products and Business Practices	2,869	15.0%
	Damage to Physical Assets	39	0.2%
	Business Disruption and System Failure	4,072	21.3%
	Execution Delivery & Process Management	2,545	13.3%
	Total Operating Losses	19,113	100%

## Identification and Risk Assessments

The Information Security unit operates in the first line and addresses the information security needs in a structured manner by assessing risks, planning, directing and coordinating information security initiatives to ensure that all information assets are secured and in compliance with technical regulatory requirements.

Engagement of cyber security experts to carry out System Reviews, Vulnerability Assessments and Penetration Tests on critical banking systems take place in addition to periodic security assessment carried out by Information Security unit.

Further, the technology risk management function operates under CRO provides insights and feedback for technology risk resilience and continuous improvement of information security while ensuring compliance for regulatory requirements across the bank.

Similarly, the Information Security audit function also provides independent and objective assurance on the risk management process and controls in place.

## Areas of Focus in 2020

The Bank has launched its Data Governance program with the implementation of Data Governance Framework covering Data Classification and Data Leakage Prevention baselines to protect data breaches that adversely affect the business and customers.

Similarly, the Bank continued to strengthen multi-layered cyber security defenses with enhanced hygiene and control baselines with continuous monitoring to protect users from advanced cyber threats.

Further, the bank is also in the process of initiating the implementation of PCI DSS for enhancing payment account data security as integral part of its information security governance.

## Reporting

Report actual risk profiles against the risk appetite and advises on steering-actions for technology risk resilience to the Information Security Steering Committee (ISSC) as the apex management level body of information security management. Further, the effectiveness of information security and technology risk management are regularly reported and reviewed by the Board -Integrated Risk Management Committee.

## Strategic and Reputational Risk

Strategic risks are the potential losses arising from the possibility of the Bank's future business plans and strategies being inadequate. Strategic risks arise from external and/or internal factors and inability to respond to emerging risks and opportunities in the operating landscape.

Reputational risks are those that impact the Bank's current or prospective earnings capacity and organizational value arising from the loss of confidence, breakdown in relationships and negative perceptions of transactional stakeholders.

Strategic and reputational risks are measured using a scorecard based approach which takes into consideration a range of factors including the Bank's size, complexity and sophistication of operations, trends in the operating landscape as well as customer profiling. Effective management of the Bank's strategic and reputational risks is periodically reviewed.

## CAPITAL MANAGEMENT

The level of capital that the Bank is required to maintain is aligned to the Risk Appetite and risk profile to commensurate with the Bank's strategic plan. An overview of the capital planning and assessment process is explained below.

## Establishment of risk exposures and capital requirement

The capital planning process is integrated with the strategic planning process where the Bank determines the risk appetite and the risk profile based on key customer segments, products it desire to serve and its business model.

Credit risk, Market risk, Liquidity risk and Operational risk exposure limits are established which are primarily linked to the capital based on the risk appetite envisaged at this planning level.

The Bank calculates the risk exposures and risk weighted assets for capital adequacy purposes based on following Basel III guidelines issued by the Central Bank of Sri Lanka.

## Pillar 1 risk exposures

- Credit risk - Standardised Approach
- Market risk - Standardised Approach
- Operational risk - Basic Indicator Approach

## Pillar 2 risk exposures

Risks such as Residual credit risk, Credit Concentration risk, Interest Rate risk of the banking book and Strategic risk are assessed based on the Internal Capital Adequacy Assessment Process (ICAAP). This process also includes assessment of adequate capital buffers to ensure maintenance of minimum capital ratios as per regulations under unexpected, stressed economic conditions.

Appropriate capital buffers are also estimated to maintain the financial covenants set by the medium term funding agencies and to secure better entity credit rating.

The Bank also assesses the capital expenditure and investment requirement to support the growth and business strategy at strategic plan level and during annual budgeting cycle.

## Sources of capital

The primary source of capital is through the internally generated capital. The business plans and financial plans are prepared ensuring adequate profit generation by setting appropriate targets for return on assets and capital.

The capital augmentation plan identifies the level of tier 1 and tier 2 capital requirement. In addition, liquidity risk is also considered during the planning stage through liquidity stock and cash flow approaches for the next 3-4 years. The amount of dividend distributions and mode of payment through cash and scrip dividend are decided based on this future capital requirement of the bank.

## Capital allocation

Capital is allocated to business lines based on Risk Adjusted Return on Capital (RAROC) targets in order to optimize risk adjusted returns. Excess capital in subsidiary companies is also re-allocated based on this model. Capital allocation drives down further to key products and customer portfolios depending on the availability of data and management objectives.

This process ensures the efficient allocation of capital in times of divergences and unexpected events when additional capital is required.

The CRO is entrusted with identifying and assessing the risk exposures of the bank while CFO ensures the development of the capital augmentation plan to maintain the appropriate level of capital for business growth and to meet minimum regulatory standards.



# risk management review

The capital augmentation plan constructed at the strategic planning cycle, generally covers 3-4 year period which is updated during the annual budgeting cycle and approved by the Board of Directors.

Key highlights for the year

1. Total Group capital ratio under Basel III Pillar I risks is 18.37% as at 31.12.2020 (17.96% 31.12.2019). The total capital ratio including Pillar II risks is currently being assessed.

## RISK REGULATION

### BASEL III Framework

Following the introduction of BASEL III, Banks are required to enhance their capital requirements with the objective of improving the quality, quantity, consistency and transparency of the capital base. Meanwhile the Liquidity Coverage Ratio (LCR) is one of the Basel Committee's key recommendations to strengthen global liquidity regulations to nurture a more resilient banking sector.

In light of changes that took place in global economic conditions and risk landscape, CBSL has shifted the risk management in the banking industry to the next level. BASEL III continued to follow 3-pillar approach with considerable changes in minimum capital and capital buffer requirements, further improvements in supervisory review process and additional disclosure requirements under market discipline.

Market Disclosures based on BASEL III is annexed below:

Area	No	Disclosure requirement	Page No
Regulatory requirements on capital and liquidity	1	Key Regulatory Ratios - Capital and Liquidity	Table -1 197
	2	Basel III Computation of Capital Ratios	Table -2 198
	3	Basel III Computation of Leverage Ratio	Table -3 199
	4	Basel III Computation of Liquidity Coverage Ratio	Table -4 200
	5	Basel III Computation of Net Stable Funding ratio (NSFR)	Table -5 201
	6	Main Features of Regulatory Capital Instruments	Table -6 202
Risk Weighted Assets	7	Summary discussion on adequacy/meeting current and future capital requirements	Capital Management Section of this review 69-70
	8	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Table -7 204
	9	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	Table -8 206
	10	Market Risk under Standardised Measurement Method	Table -9 208
	11	Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach	Table -10 208
Linkages between Financial statements and regulatory exposures	12	Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only	Table -11 210
	13	Explanations of Differences Between Accounting and Regulatory Exposure Amounts	
Risk Management	14	Bank Risk Management Approach	Risk Mgt review is outlined in Sections (a) to (h) in this Review 58-70
	15	Risk Management related to Key Risk Exposures	

# board integrated risk management committee report

## COMPOSITION

The members of the Integrated Risk Management Committee (IRMC) are appointed by the Board of Directors and the Committee's composition during the period ended 31st December, 2020 was as follows;

Mr Suran Wijesinghe (Chairman)  
(Non-Executive Director)

Ms. Rachini Rajapaksa  
(Independent Non-Executive Director)

Ms. Sherin Cader  
(Non-Executive Director)

Mr. Arjun Fernando  
(Non-Executive Director)

The Chief Risk Officer, Mr. Chamila Sumathiratne functions as the Secretary to the IRMC. Former Chief Executive Officer, Ms. Renuka Fernando (retired on 2nd April 2020), present Chief Executive Officer, Mr. Priyantha Talwatte and the following Key Management Personnel attended meetings of the Integrated Risk Management Committee as required under Rule No. 3(6)(v)(a) on Rules of Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Mr. Hemantha Gunathilake  
- Deputy Chief Executive Officer

Mr. Ajith Akmeemana  
- Chief Financial Officer

Mr. Indrajith Boyagoda  
- Head of Treasury & Investment Banking

Mr. Theja Silva  
- Group Company Secretary/General Counsel

Ms. Kushlani Allis  
- Head of Internal Audit

Mr. Gayan Ranaweera  
- Chief Credit Officer

Mr. Lasith Nanayakkara  
- Chief Transformation Officer

Ms. Saaraa Warnakulasooriya  
- Chief Compliance Officer

In addition to the above, senior management of the Integrated Risk Management Division & other business units, when required, attended meetings of the Integrated Risk Management Committee by invitation.

## TERMS OF REFERENCE

Integrated Risk Management Committee's mandate includes the following:

- Ensuring that the Bank has a comprehensive risk management framework in place relative to the Bank's activities and risk profile,
- Assessing the effectiveness of the Bank's risk management system and monitoring the impact to the Bank from risk types such as credit, market, liquidity, operational and strategic through appropriate risk indicators and management information,
- Ensuring that a compliance function is in place to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies relating to all areas of Bank operations,
- Ensuring that the Board of Directors is kept updated of the Group's risk exposure in relation to the approved risk appetite.

## ROLE AND RESPONSIBILITIES

In order to ensure that timely risk mitigation measures are initiated based on the robust risk management structure in place, the IRMC reviewed and monitored the following during the year:

- Setting up of risk appetite limits and periodic monitoring of risk reports
- Reviewing the overall stress testing framework and monitoring the results of such tests
- Reviewing the Bank risk grid taking into consideration material changes in the Bank's risk profile or the external environment and providing necessary guidance and recommendations
- Reviewing risk management policies and terms of reference of committees dealing with risk management such as Executive Risk Management Committee, Operational Risk Management Committee and ALCO
- Monitoring the effectiveness of Management committees overseeing broad areas of risk management
- Periodically reviewing the Internal Capital Adequacy Assessment Process (ICAAP) and the resultant report

- Approving annual compliance plan and reviewing periodic compliance reports
- Setting objectives and carrying out performance appraisals of Chief Risk Officer & Chief Compliance Officer

The process through which the IRMC discharges its responsibilities is further detailed in the Risk Management section of this annual report. During the year, the IRMC continued to place special emphasis on ensuring that a risk awareness culture is maintained in the Bank through initiatives such as developing and monitoring of divisional risk grids, management meetings which discuss and assess risks, training and knowledge sharing sessions. These initiatives cascaded the risk awareness culture to the lower levels of staff and enabled the staff to understand and voice their opinions on risks and risk management practices of the Bank in an open and transparent manner. Greater emphasis was placed on information security aspects due to its increasing significance as a source of risk.

## MEETINGS

The IRMC held eight (08) meetings during the year under review and the Directors' attendance at such meetings is given on page 50 of this Annual Report. Minutes of the Meetings were forwarded to the Board. The IRMC also approved a Risk Assessment Report to be submitted to the Board within a week of every meeting. The IRMC reviewed risk policy frameworks, risk management strategies and key risk indicators at the meetings and was satisfied that the risk exposures of the Bank are being appropriately managed.



Suran Wijesinghe  
Chairman  
Integrated Risk Management Committee

24th February 2021  
Colombo

# board credit committee report

The members of the Board Credit Committee (BCC) are appointed by the Board of Directors and the Committee's composition during the period ended 31st December 2020 was as follows;

Mr Gihan Cooray (Chairman)  
(Non-Executive Director)

Mr Prasanna De Silva  
(Non-Executive Director)

Mr Russell De Mel  
(Independent Non-Executive Director)

Mr Chanaka Wickramasuriya  
(Independent Non-Executive Director)

The Committee held twelve meetings during the year under review and the Directors' attendance at such meetings is given on page 50 of this Annual Report. The Committee also approves credit proposals by circulation.

The mandate of the Board Credit Committee includes the following;

1. Approve/Decline all credit facilities above the level of authority granted to "Head Office Credit Committee" by the Board of Directors. BCC will constitute the final credit approval authority of the bank, having been vested with the full powers to approve/decline credit by the Board of Directors.
2. Approve/Decline Interest Waivers and Principal Write-offs in order to facilitate settlement of bad debts or to rehabilitate/restructure bad debts.
3. Review the quality of the credit portfolio of the bank including Top 20 Exposures, Watch-listed Customers etc.
4. Review, provide input and make recommendations on credit origination, appraisal, approval and administration processes/procedures.
5. The Committee shall carry out annually, a self-evaluation of its performance, taking into consideration the functions and responsibilities specified under this Terms of Reference and report conclusions and recommendations to the Board.
6. Any other matter referred by the Board of Directors.

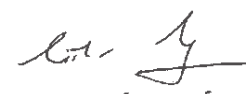
In addition to the regular duties of the Board Credit Committee, special guidance was provided on managing the portfolios and credit quality under unprecedented times in lieu of the global pandemic. A plethora of initiatives were rolled out and the salient highlights are appended hereunder;

1. Review of the Credit Strategies pertaining to Corporate Banking, Off-Shore Lending, Structured Finance and Commercial Banking (Middle Market Enterprises and SME) in light of the pandemic
2. Providing strategic direction to the Business Units on core focus industries under volatile market conditions with special focus on high risk industries in order to maintain credit quality
3. Special emphasis was conferred on exposures subject to debt moratorium, in line with regulatory directions stipulated by CBSL. Furthermore, the Committee advocated to provide tailor made debt relief solutions by the Bank in order to render assistance to clients of the Bank and to support the initiatives set-forth by the regulators.
4. Initiatives to facilitate stringent/systematic monitoring and managing of the SME portfolio of the Bank
5. Guidance and monitoring of customer segments adversely impacted under prevailing macro-economic dynamics

The Chief Credit Officer functions as the Secretary to the Board Credit Committee and the minutes of the meetings were made available to the Board of Directors on a regular basis. The Chief Executive Officer of the Bank is invited to be present at the meetings of the Committee. Other members of the Senior Management of the Bank are invited to participate at the meetings, as and when required.

The Committee which derives its scope and authority from the Board of Directors was established to provide guidance to the Management to ensure a balance between risk and growth in the Bank's expansion strategies.

The Committee carried out a self-evaluation of its performance during the year.



Gihan Cooray  
Chairman  
Board Credit Committee

24th February 2021  
Colombo

# board supervisory committee report

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors and the Committee's composition during the year 2020 was as follows;

Mr Suran Wijesinghe – Chairman  
(Non Executive Director)

Mr Prasanna De Silva<sup>1</sup>  
(Non Executive Director)

Mr Savanth Sebastian  
(Independent Non Executive Director)

Ms Sherin Cader  
(Non Executive Director)

Mr Arjun Fernando  
(Non Executive Director)

<sup>1</sup>Retired from the Board of the Bank with effect from 1st January 2021

The Company Secretary functions as the Secretary to the Committee.

The Committee meets in advance of the Board meeting and the minutes are submitted to the Board of Directors for review. The Corporate Management Team along with the Director/ CEO attends all meetings by invitation. The BSC is not a committee mandated under the Corporate Governance Directions issued by the Central Bank of Sri Lanka.

The Committee held ten meetings during the year under review and the Directors' attendance at such meetings is given on page 50 of this Annual Report.

## TERMS OF REFERENCE

The mandate of the BSC includes the following;

- Review the performance of the Bank and its business units to ensure that the Management and staff are focused towards achievement of plans approved and objectives set by the Board. The review also covers the support functions of the Bank and ensure that cost efficiencies and productivity is achieved across the Bank.
- Approving expenditure within limits delegated by the Board of Directors.
- Providing input and guidance to CEO and Corporate Management on various initiatives including IT systems, products, distribution channels etc. prior to being presented to the Board of Directors for approval.
- Review, provide input and make recommendations on policy papers, business plans and other such proposals impacting the operations of the Bank prior to such papers, plans and proposals being presented to the Board of Directors for approval.
- Ensure that adequate policies, procedures and processes are in place to carry out the operations of the Bank and that these are reviewed periodically.

The Committee carried out a self-evaluation of its performance during the year.



Suran Wijesinghe  
Chairman  
Board Supervisory Committee

24th February 2021  
Colombo

# board nomination committee report

The members of the Nomination Committee are appointed by the Board of Directors and the Committee's composition during the year 2020 was as follows;

Mr Conrad D'Souza – Chairman  
(Independent Director)

Mr Gihan Cooray  
(Non-Executive Director)

Mr Prasanna De Silva<sup>1</sup>  
(Non-Executive Director)

Mr Chanaka Wickramasuriya  
(Independent Director)

Mr Arjun Fernando<sup>2</sup>  
(Non-Executive Director)

<sup>1</sup>Retired from the Board of the Bank with effect from 1st January 2021

<sup>2</sup>Appointed as a member of the Committee with effect from 1st January 2021.

The Company Secretary functions as the Secretary to the Committee.

The Committee held two meetings during the year under review and the Directors' attendance at such meetings are given on page 50 of this Annual Report.

The Committee works closely with the Board in evaluating and reviewing the skills required for the Bank and the Board. When recommending the appointment of new Directors, the Committee considers for each appointment, the particular skills, knowledge and experience that would benefit the Board most significantly.

The Committee also works closely with the Board in ensuring that the Key Management Personnel (KMP) comprise of persons of required skill and expertise and that their responsibilities and areas of authority are aligned with the Board approved strategy. Committee also considers and determines that the Directors and the KMP are fit and proper persons to hold their respective offices.

During the year under review the Committee considered the appointments of two Directors, five KMP and extension of contracts of three existing KMP and determined that they are fit and proper persons to hold such offices. The Succession Plan for KMP was reviewed and recommended to the Board. Affidavits by the continuing directors were considered by the Committee and recommend them as fit and proper persons to hold directorships of the Bank.

The proceedings of the meetings were reported to the Board.

The Committee's main responsibilities include the following:

- Selecting and appointing new Directors, considering and recommending from time to time the requirements of additional/new expertise on the Board and recommending after due consideration the re-election of current Directors.
- Implementing a procedure to select and appoint the Chief Executive Officer and Key Management Personnel of the Bank and setting up criteria for their appointment or promotion.
- Ensuring that the Directors and the Key Management Personnel are fit and proper persons to hold office conforming to the criteria prescribed by the Central Bank of Sri Lanka.
- Ensuring compliance with the provisions of the Articles of Association, written law, the Rules of the Colombo Stock Exchange and Directions of the Monetary Board of the Central Bank of Sri Lanka as may be applicable to the appointment of Directors, the Chief Executive Officer and Key Management Personnel.

The Committee carried out a self-evaluation of its performance during the year.



Conrad D'Souza  
Chairman  
Board Nomination Committee

24th February 2021



# human resources and remuneration committee report

The Human Resources and Remuneration Committee (HRRC) comprised of the following Directors.

Mr Gihan Cooray – Chairman  
(Non Executive Director)

Mr Prasanna De Silva  
(Non Executive Director)

Ms Rachini Rajapaksa  
(Independent Director)

Mr Russell De Mel  
(Independent Director)

During the year under review two HRRC meetings were held. The Chief Executive Officer was present at the meetings as an invitee except when matters relating to the Chief Executive Officer were being discussed.

The workings of the Committee are governed by the Remuneration Committee Terms of Reference (TOR), the objectives of which are:

1. To assist the Board of Directors in the establishment of remuneration policies and practices.
2. To review, and recommend to the Board, remuneration policies and packages for the Chief Executive officer (CEO) and other Key Management Personnel of the Bank.
3. To set goals and targets for the CEO and other Key Management Personnel.
4. To evaluate the performance of the CEO and other Key Management Personnel against the set goals and targets.

In performing this role, the Committee ensures that:

1. Shareholder and employee interests are aligned.
2. The Bank is able to attract, motivate and retain employees, particularly at management level.
3. The integrity of the Bank's compensation and reward programme is maintained.

In keeping with the objectives of the TOR, the Committee during 2020, placed emphasis in ensuring that the Compensation & Benefits policies of the Bank are appropriate in attracting and retaining the skills required as well as ensuring succession plans are in place for top management roles in pursuing the short term and long term strategic objectives of the Bank.

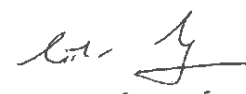
In March 2020 at the HRRC meeting, a review of the Bank's Compensation and Benefits structure was presented to the Committee along with a comparison to the industry and the recommended changes were approved by the Committee.

In creating a performance driven culture, the Bank administers a variable bonus scheme linked to the Bank's performance for the year vis-à-vis the annual budget and the performance of a peer group of banks. Individuals are rewarded based on their individual performance and responsibility levels.

The Bank, in the past, participated in an annual C&B market survey conducted by an external party to understand our position vis-à-vis the industry. In 2020, no such comprehensive survey was commissioned by industry players. However, HSBC commissioned a Non-executive/Clerical Staff Survey, which NTB participated in. The findings of the survey were used as a basis for formulating the remuneration levels for the year 2021. The bank also identified critical skills & critical roles to meet the future strategic objectives powered through technology, digitalization and data analytics.

During 2020, the Committee also evaluated the 2019 performance of the CEO and other Key Management Personnel of the Bank against their pre-agreed objectives and targets and approved the goals and objectives of CEO & KMP for the year 2020.

The Committee held 02 meetings during the year under review and the Directors' attendance at such meetings is given on page 50 of this Annual Report.



Gihan Cooray  
Chairman  
Human Resources and Remuneration  
Committee

24th February 2021  
Colombo

# related party transactions review committee report

The members of the Related Party Transactions Review Committee (RPTRC) are appointed by the Board of Directors and the Committee's composition during the year 2020 was as follows;

Mr Russell De Mel – Chairman  
(Independent Non Executive Director)

Mr Chanaka Wickramasuriya  
(Independent Non Executive Director)

Mr Priyantha Talwatte<sup>1</sup>  
(Executive Director)

Ms. Renuka Fernando<sup>2</sup>  
(Executive Director)

<sup>1</sup> Appointed with effect from 1st July 2020

<sup>2</sup> Resigned from the Board of the Bank with effect from 2nd April, 2020.

Company Secretary functions as the Secretary to the Committee.

The Committee meets quarterly and minutes are submitted to the Board of Directors for review. Relevant Corporate Management members attend meetings by invitation.

The Committee held four meetings during the year under review and the Directors' attendance at such meetings is given on page 50 of this Annual Report. The Committee reviewed related party transactions during the year under review and communicated the comments/observations to the Board.

The Committee's main responsibilities include the following:

- Review of related party transactions either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction in accordance with the Listing Rules of the Colombo Stock Exchange and other applicable rules in Sri Lanka.
- Ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules.
- Establish guidelines for the senior management to follow in its ongoing dealings with related parties. Thereafter, the Committee, on an annual basis, shall review and assess ongoing relationships with related parties to determine whether they are in compliance with the Committee's guidelines and that the related party transactions remain appropriate.

The Committee regularly reviewed the mechanism/process for recording, monitoring and reporting related party transactions and provided necessary guidance and advice to ensure the effectiveness of the process.

The Committee carried out a self-evaluation of its performance during the year.



**Russell De Mel**  
Chairman  
Related Party Transactions Review Committee

24th February 2021  
Colombo

# directors' statement on internal control over financial reporting

## RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, section 3 (B) (ii) (b), the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control over financial reporting mechanism in place at Nations Trust 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 over financial reporting 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 over financial reporting can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or frauds.

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

- Board and management sub committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- Policies/Charters are developed covering all functional areas of the Bank and these are approved by the Board or Board approved sub committees. Such policies and charters are reviewed and approved periodically.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Review Committee. Findings of the Internal Audit Department are submitted to the Board Audit Review Committee for review at their periodic meetings.
- The Board Audit Review Committee of the Bank reviews internal control over financial reporting issues identified by the Internal Audit Department, external audit, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems.

They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Review Committee meetings are forwarded to the Board 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 Audit Committee Report on page 80.

- 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 operating effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely review of disclosures with regard to financial risk management, and management information are being done.
  - The Bank adopted SLFRS 9 – Financial Instruments w.e.f 01 January 2018. SLFRS 9 poses a significant impact on impairment assessment as it necessitates the accounting for impairment of financial assets on the basis of expected credit loss from an incurred credit loss model in previously adopted LKAS 39. The Bank is progressively improving the required policies, procedures, financial models and underlying data used in its impairment assessments and related calculations. During the year too the Bank continued to refine the models used in the computations and the data extraction procedures pertaining to the calculations performed in respect of SLFRS 9.
- The Board will continuously take steps to strengthen the processes and controls around management information systems and reports required for validating and complying with SLFRS 9.
- In relation to the effect of COVID 19 pandemic, the Bank has taken all

# directors' statement on internal control over financial reporting

recommended measures to ensure the safety and wellbeing of its employees, customers and all other stakeholders during these challenging times and continues to adhere to the guidelines issued by the Government and health authorities. During the curfew imposed period, the Bank has been able to operate all of its branches alternating between locations within its island wide network. All operations are carried out strictly in accordance with the guidelines issued by the Government. Business continuity arrangements were initiated in order to facilitate essential business transactions and provide continued services to customers through our various channels during this period. Many staff members have been able to work from home with secure access to operating systems. The Bank continued to encourage customers to use digital platforms to perform transactions as an alternative to visiting branches/service points. Arrangements were made to closely monitor the evolving conditions within the organization as well as externally. The Board ensures that the alternative arrangements does not compromise the internal control procedures of the Bank and also ensures that the security of data due to these alternative arrangements such as working from home or working from different locations. Remote working arrangements were facilitated as per the Bank's IT security policies and additional controls/monitoring procedures were introduced as relevant. The management also ensured that all critical reconciliations were performed without interruption during the lockdown periods.

Internal Audit department undertook specific activities with respect to remote working operating model, addressing elevated risks arising from users, data and devices. To this end, work performed addressed gaps and risk control measures in place. Additionally, early warning signals and fraud risk assessment dashboards were developed to scan the operations across the enterprise during the pandemic to ensure no internal controls were compromised.

Furthermore, in light of the existing unprecedented crisis situation in the country, Government of Sri Lanka through the Central Bank of Sri Lanka has provided various government stimulus and debt moratorium arrangements to support the economy. The Bank implemented those circulars in order to support its customers who are in need of debt reliefs. The Bank followed the guidelines issued by CA Sri Lanka in accounting for such debt moratorium schemes.

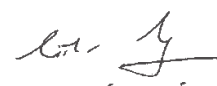
## CONFIRMATION

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 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 2020 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. External Auditors' report on statement of internal controls over financial reporting is given on page 79 to this Annual Report.

By order of the Board



**Gihan Cooray**  
Chairman



**Rachini Rajapaksa**  
Chairperson Board Audit Review Committee



**Priyantha Talwatte**  
Director/Chief Executive Officer

24th February 2021  
Colombo

# auditor's statement on internal control over financial reporting



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## INDEPENDENT ASSURANCE REPORT

### TO THE BOARD OF DIRECTORS OF NATIONS TRUST BANK PLC

### REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of Nations Trust 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 2020.

## 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 Over Financial Reporting.

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.

24 February 2021  
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA T P M Ruben FCA FCMA  
A member firm of Ernst & Young Global Limited



# board audit review committee report

## COMPOSITION OF THE BARC

The members of the Board Audit Review Committee (the "BARC") are appointed by the Board of Directors and the Committee's composition during the period ended 31st December 2020 was as follows;

Ms. Rachini Rajapaksa – Chairperson  
(Independent Non-Executive Director)

Mr. Suran Wijesinghe  
(Non Executive Director)

Mr. Savanth Sebastian  
(Independent Non-Executive Director)

Ms. Sherin Cader  
(Non Executive Director)

Mr. Arjun Fernando<sup>1</sup>  
(Non Executive Director)

<sup>1</sup> Ceased to be a member with effect from 1st January 2021

Brief profiles of the BARC members are given on pages 12 to 15 of the Annual Report.

Head of Internal Audit reports directly to the Chairperson of the BARC as a best practice that strengthens the independence of the position and acts as the secretary to the BARC

## MEETINGS

The BARC met on 10 occasions during the year under review and the Directors' attendance at such meetings are given on page 50 of this Annual Report. Due to the pandemic situation and intermittent lock downs which prevailed during the year, virtual BARC meetings were held commencing 2Q2020.

The minutes of BARC meetings are regularly tabled at Board meetings to enable all Board members to have access to meeting proceedings.

Chief Executive Officer and Corporate/Senior Management members including the Chief Financial Officer and External Auditors attended these meetings on invitation. Four of these meetings were held to consider and recommend to the Board of Directors the Bank's Quarterly and Annual Financial Statements for approval.

## TERMS OF REFERENCE

The Charter of the BARC clearly defines the Terms of Reference of the committee. The BARC Charter was last reviewed and approved on 03rd September 2020 by the Board of Directors.

The roles and functions of the BARC are regulated by the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments, "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 and the Securities and Exchange Commission of Sri Lanka. The BARC is responsible to the Board of Directors and reports on its activities regularly. The functions of the Audit Committee are geared to assist the Board of Directors in fulfilling its general oversight responsibilities on financial reporting process, internal controls and functions relating to internal and external audit.

## ROLE AND RESPONSIBILITIES

The Committee is mainly responsible for;

- i. Reviewing financial information of the Bank in order to monitor the integrity of the Bank's financial statements prepared for disclosure and significant financial reporting judgements contained therein, prior to submission to the Board of Directors.
- ii. Making recommendations on the appointment, resignation and dismissal of the External Auditor including review of the external audit function, its cost and effectiveness, monitoring of the External Auditor's independence, service period of the engagement/re-engagement of the audit partner and review of non-audit services provided by the external auditors.
- iii. Discussing and agreeing with the external auditors the nature and scope of the audit including the preparation of financial statements in accordance with relevant accounting principles and their compliance with the applicable statutes, regulations and accounting standards.

- iv. Reviewing the effectiveness of the Bank's system of internal controls
- v. Ensuring the independence of the Internal Audit function and that it is performed with impartiality, proficiency and due professional care.
- vi. Reviewing internal audit and investigation reports and liaising with Corporate Management of the Bank in taking precautionary measures to minimise control weaknesses, procedure violations, frauds and errors
- vii. Ensuring that proper arrangements are in place for the fair and independent investigation of matters raised through whistleblowing and for appropriate follow-up action
- viii. Reviewing Audit Completion Letter (External Audit Management Letter), and CBSL onsite examination reports and follow up on proper remedial action taken to address their findings and recommendations

## ACTIVITIES DURING THE YEAR

Following are some of the activities performed by the BARC during 2020:

### Financial Reporting

The BARC, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, reviewed and discussed with the management, the annual audited and quarterly non-audited financial statements prior to their release. In reviewing the bank's annual and quarterly financial statements, the BARC focused particularly on;

- a) the underlying assumptions for estimates and judgments
- b) any changes made in accounting policies and practices
- c) significant adjustments arising from the annual audit
- d) disclosures made under financial reporting
- e) compliance with Sri Lanka accounting standards (SLFRS/LKAS) and other regulatory provisions

- f) material variances in income and expenditure and assets and liabilities, between the current and previous financial periods in order to better understand the reasons for such variances and their validity

To facilitate the review and in making an overall assessment on the integrity of the financial reporting system, the BARC considered reports from Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Internal Audit Department and Audit Completion Letter issued by the External Auditor.

The Committee regularly reviewed the key aspects pertaining to the moratoriums granted and SLFRS 9 impairment model refinements. Committee was apprised frequently on the impact arising from debt moratoriums and the additional impairment buffers maintained as a prudent measure.

### Internal Audit

The risk and significance based audit plan covering all significant operational areas and mandatory regulatory audits which included branches, departments and special reviews for 2020 was approved at the beginning of the year by the BARC. Due to the pandemic situation the Annual Plan was revised and presented to BARC under best and worst case scenarios in early April considering the new emerging risks, infrastructure limitations and information accessibility. The committee periodically reviewed the progress of the Internal Audit plans under the given scenarios.

The BARC provides a forum for review of Internal Audit Reports including the evaluation of the Bank's Internal Control Systems, audit observations, recommendations and corrective action to be taken to mitigate recurrence of identified issues. The issues identified during the year were discussed and deliberated with the Management with a broad view of managing significant business risks and strengthening the control gaps. Higher emphasis was given to address regulations, guidelines and directions pertaining to moratoriums, elevated risks emanating from vulnerable portfolio exposures, remote working arrangements and business continuity plans. The Department/Unit Heads attended the meetings when their respective audit reports were discussed. A follow up process is implemented by Internal Audit and monitored by the BARC periodically to ensure pending significant issues are rectified by the management.

The BARC reviewed the significant findings of internal investigations carried out during the year and ensured appropriate action were taken and mitigating controls were implemented.

During the year, as a measure of providing independent assurance over the impairment process the Internal Audit Department evaluated the effectiveness of the credit risk assessment, measurement systems and processes to ensure the acceptability of credit judgements performed by the management. Credit risk assessment models, inputs and assumptions were also validated to obtain further comfort on the adequacy of the impairment provisions made in the financial statements.

The evaluation of the effectiveness of the internal controls in the Finnacle Core Banking system carried out by BARC appointed outsourced service provider was completed in 1Q 2020. The Committee reviewed the findings, recommendations and management action plans established for issue resolution.

The BARC also reviewed the independence, objectivity and performance of the Internal Audit function and the adequacy of its resources. The performance of the Head of Internal Audit was reviewed by the BARC and the performance appraisals of the senior officers of the Internal Audit, reviewed by Head of Internal Audit was presented to the BARC for their concurrence.

### Risks and Internal Controls

Internal Audit Department uses an Audit Risk Assessment Framework approved by the BARC to determine the risk levels of auditable units based on the audits conducted as per the approved Audit Plan.

All key controls of the Bank have been documented by the relevant process owners and the Internal audit has introduced required audit procedures to relevant audit programmes to test the adequacy and effectiveness of internal controls. The BARC sought and obtained the required assurance from the Heads of the units on the remedial action taken in order to maintain the effectiveness of internal controls. Any significant non-compliance was followed-up by the BARC and where necessary instructions were given to the management to enhance and strengthen the internal controls.

With respect to the elevated risks arising from the pandemic situation and the new normal operating environment, BARC reviewed work carried out by Internal Audit department on the early warning and fraud risk assessment dashboards.

### Regulatory Compliance

The Internal Audit Department performed verifications to ensure compliance to applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to enable adherence to such requirements.

### EXTERNAL AUDIT

The BARC assists the Board of Directors to implement a transparent process;

- (1) in the engagement and determining the remuneration of the External Auditor for audit services with the approval of the shareholders
- (2) in reviewing the non-audit services to ensure that provision of such services do not lead to impairment of the independence of the External Auditor
- (3) in assisting the External Auditor to complete the audit programme within the agreed time frame in compliance with relevant guidelines issued by the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka and Colombo Stock Exchange

In order to discharge its responsibilities, the BARC met with the External Auditor on 10 occasions including two occasions without the presence of the management. During these meetings with the External Auditor, the BARC;

- (1) discussed their audit approach and procedures including matters relating to the scope of the audit and External Auditor's independence.
- (2) reviewed the audited financial statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.
- (3) reviewed the Audit Completion Letter issued by the External Auditor together with management responses thereto.
- (4) discussed further strengthening of internal controls where applicable and adequacy of impairment provisions.

# board audit review committee report

- (5) discussed the Key Audit Matters to understand why the matter was considered by the External Auditor to be one of most significant risk areas in the audit and how the matter was addressed during the audit.
- (6) discussed new developments in regulatory requirements, changes in Accounting standards relating to the Banking industry.

## WHISTLE BLOWING POLICY

The Whistle Blowing Policy was reviewed by the BARC and was approved by the Board of Directors on 27th February 2019 with a view to further strengthen the process by which employees could raise their concerns in confidence on suspected fraud, possible inconsistencies/shortcomings in financial reporting, internal controls or other matters. Concerns raised are investigated professionally and the identity of the person raising the concern is kept strictly confidential. A process has been established to track such whistle blowing incidents and take necessary action as required.

## RE-APPOINTMENT OF EXTERNAL AUDITORS

The BARC has recommended to the Board of Directors that Messrs. Ernst & Young to be reappointed as External Auditors of the Bank for the financial year ending 31st December 2021 subject to the approval of the shareholders at the next Annual General Meeting.

## EVALUATION OF THE BOARD AUDIT COMMITTEE

The Committee carried out a self-evaluation of its performance during the year.



**Rachini Rajapaksa**  
Chairperson  
Board Audit Review Committee

24th February 2021  
Colombo

# financial information

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## directors' responsibility for financial reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 84 of the Report.

The Companies Act No. 07 of 2007, requires that the Directors prepare financial statements for each financial year and place before a General Meeting. Financial Statements comprise of the Statement of Financial Position as at 31 December 2020, the 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 thereto.

Accordingly, the Board of Directors confirm that the financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2020; and the profit or loss of the Bank and the Group for the financial year then ended.

The Directors are of the view that, in preparing these Financial Statements:

- i. the appropriate Accounting Policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- ii. all applicable Accounting Standards have been followed (SLFRS/LKAS);
- iii. judgments and estimates have been made which are reasonable and prudent.

The Directors are also of the view that the Bank and its subsidiaries have adequate resources to continue in operation and have applied the going-concern basis in preparing these Financial Statements.

The Directors are responsible for ensuring that the Bank and its subsidiaries maintain sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the Bank and its subsidiaries meet with the requirements of the Companies Act, the Banking Act and the Listing Rules of the Colombo Stock Exchange.

Further, as required by Section 56 (2) of the Companies Act No 7 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No 7 of 2007, and has obtained a certificate from the auditors, prior to declaring a first and final cash dividend of LKR 2.00 per share.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and, in this regard, to give proper consideration to the establishment of appropriate internal control systems, with a view to preventing and for the detection of fraud and other irregularities.

The Directors are required to prepare Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate, for the purpose of enabling them to give their audit report.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board



Theja Silva  
Company Secretary

24th February, 2021

# independent auditors' report



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OPINION

We have audited the financial statements of Nations Trust 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 2020, statement of profit or loss and 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

2020, 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
<p>Provision for credit impairment on loans and advances carried at amortised cost</p> <p>As described in Note(s) 3.5 &amp; 13, provision for credit impairment on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9).</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"><li>materiality of the reported provision for credit impairment which involved complex manual calculations; and</li><li>the degree of assumptions, judgements and estimation uncertainty associated with the calculations.</li></ul>	<p>We assessed the alignment of the Bank's expected credit loss computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID 19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"><li>We evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management</li><li>We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents, accounting records of the Bank and checked the underlying manual calculations too</li><li>In addition to the above, the following procedures were performed:</li></ul>



Key audit matter	How our audit addressed the key audit matter
<p>Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following;</p> <ul style="list-style-type: none"> <li>- the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Bank);</li> <li>- the determination on whether or not customer contracts have been substantially modified due to such COVID – 19 – related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances and</li> <li>- forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.</li> </ul>	<ul style="list-style-type: none"> <li>• For a sample of loans and advances assessed on an individual basis for impairment: <ul style="list-style-type: none"> <li>- Assessing the reasonableness and timeliness of internal assessments based on the borrower's particular circumstances determined by management; and</li> <li>- Evaluating the associated reasonability of the provisions made with particular focus on the impact of COVID-19 on high risk industries, strategic responsive actions taken, collateral values, and the value and timing of recoveries</li> </ul> </li> <li>• For loans and advances assessed on a collective basis for impairment: <ul style="list-style-type: none"> <li>- Assessing the reasonability of assumptions and estimates used by Management including the reasonableness of forward-looking information and multiple scenarios</li> <li>- Assessing the reasonability of the basis for and data used by Management to determine overlays in consideration of the probable effects of the COVID -19 pandemic</li> </ul> </li> <li>• For loans and advances affected by government stimulus and debt moratorium relief measures granted <ul style="list-style-type: none"> <li>- Assessing the reasonableness of judgements, calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and</li> <li>- Evaluating and test checking the reasonability of the interest income recognized on such affected loans and advances</li> </ul> </li> </ul>
	<p>We assessed the adequacy of the related financial statement disclosures set out in notes 2.9 (iii), 3.5, 13, 36 &amp; 47.1 to 47.4</p>
<p><b>IT systems and controls over financial reporting</b></p> <p>The Bank uses multiple IT systems in its operations. The COVID -19 pandemic necessitated the Bank to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks.</p> <p>IT systems and controls relevant to financial reporting was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• A changed working environment of increased remote access</li> <li>• The Bank's financial reporting process being heavily dependent on information derived from its IT systems and</li> <li>• Key financial statement disclosures involving the use of multiple system – generated reports, collation and spreadsheet – based calculations</li> </ul>	<p>Our audit procedures included the following.</p> <ul style="list-style-type: none"> <li>• Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access</li> <li>• Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information in calculating the significant information for financial statements disclosures</li> <li>• Checking the source data of the reports used to generate significant disclosures for accuracy and completeness</li> <li>• Assessing the responsibilities of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.</li> </ul>

# Independent auditors' report

## OTHER INFORMATION INCLUDED IN THE GROUP'S 2020 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 2471.



24 February 2021  
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manalunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# statement of financial position

As at 31 December	Notes	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
<b>Assets</b>					
Cash and Cash Equivalents	6	9,144,540	8,755,848	9,144,621	8,755,930
Balances with Central Bank of Sri Lanka	7	2,195,247	8,377,478	2,195,247	8,377,478
Reverse Repurchase Agreements	8.1	5,091,335	13,827,423	5,091,335	13,827,423
Derivative Financial Instruments	9.1	239,535	192,714	239,535	192,714
Financial Assets - Recognised through Profit or Loss	10	2,416,792	634,075	2,416,792	634,075
Financial Assets at Fair Value through Other Comprehensive Income	11	73,257,835	38,315,147	73,257,835	38,315,147
Financial Assets at Amortised Cost - Debt Instruments	12	26,648,083	19,062,606	26,648,083	19,062,606
Financial Assets at Amortised Cost – Loans and Advances	13	210,185,486	226,791,569	210,185,927	226,794,190
Other Assets	14	2,384,062	2,134,422	2,409,328	2,180,238
Investments in Subsidiaries	15	678,710	678,710	-	-
Property, Plant and Equipment	16	2,672,882	3,023,776	3,681,952	4,072,538
Right of Use (ROU) Assets	17	1,498,382	1,870,729	1,498,382	1,780,957
Intangible Assets	18	1,221,419	1,375,581	1,222,279	1,376,159
<b>Total Assets</b>		<b>337,634,308</b>	<b>325,040,078</b>	<b>337,991,316</b>	<b>325,369,455</b>
<b>Liabilities</b>					
Due to Banks	19	4,941,573	6,484,157	4,941,573	6,484,157
Derivative Financial Instruments	9.2	250,700	311,971	250,700	311,971
Financial Liabilities at Amortised Cost					
Due to Depositors	20	240,584,022	226,880,034	240,574,266	226,871,563
Repurchase Agreements	20	7,562,588	11,033,047	6,392,440	10,186,828
Due to Other Borrowers	20	28,040,126	27,380,678	28,040,126	27,284,828
Debt Securities Issued	21	13,261,973	13,263,434	13,261,973	13,263,434
Retirement Benefit Obligations	22.2	774,073	652,473	785,249	659,454
Current Tax Liabilities	23	1,293,147	1,337,499	1,319,575	1,362,108
Other Liabilities	24	6,244,834	6,358,395	6,272,709	6,389,960
Deferred Tax Liabilities	25	863,082	995,073	1,027,777	1,159,506
<b>Total Liabilities</b>		<b>303,816,118</b>	<b>294,696,761</b>	<b>302,866,388</b>	<b>293,973,809</b>
<b>Equity Attributable to Equity Holders of the Parent</b>					
Stated Capital	26	9,408,135	9,408,135	9,408,135	9,408,135
Statutory Reserve Fund	27	1,561,787	1,371,853	1,561,787	1,371,853
Retained Earnings	28	21,393,697	18,465,483	22,265,430	19,082,807
OCI Reserve	29.1	658,701	301,976	658,701	301,976
Revaluation Reserve	29.2	795,870	795,870	1,230,875	1,230,875
<b>Total Equity</b>		<b>33,818,190</b>	<b>30,343,317</b>	<b>35,124,928</b>	<b>31,395,646</b>
<b>Total Liabilities and Equity</b>		<b>337,634,308</b>	<b>325,040,078</b>	<b>337,991,316</b>	<b>325,369,455</b>
<b>Contingent Liabilities and Commitments</b>	47	<b>197,230,088</b>	<b>199,355,131</b>	<b>197,230,866</b>	<b>199,359,256</b>
<b>Net Assets Value per Ordinary Share (LKR.)</b>	49.2	<b>119.14</b>	<b>106.90</b>	<b>123.74</b>	<b>110.61</b>
<b>Memorandum Information</b>					
Number of Employees		2,804	3,122	2,832	3,151
Number of Branches		96	96	96	96
Number of Offsite ATMs & CRMs		43	47	43	47

Note: Amounts stated are net of impairment and depreciation.

## Certification

I certify that these Financial Statements comply with the requirements of the Companies Act No. 07 of 2007.

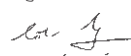


**Ajith Akmeemana**  
Chief Financial Officer

The Notes to the Financial Statements from pages 93 to 180 form an integral part of, and should be read in conjunction with, these Financial Statements.

The Board of Directors is responsible for these Financial Statements.

Signed for and on behalf of the Board of Directors by :



**Gihan Cooray**  
Chairman



**Rachini Rajapaksa**  
Director



**Priyantha Talwatte**  
Director / CEO

Colombo  
24th February 2021

# statement of profit or loss

For the Year Ended 31 December		BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
	Notes				
Gross Income		40,398,618	46,026,494	40,666,236	46,314,300
Interest Income	30	32,943,529	39,570,860	32,943,745	39,571,531
Interest Expense	31	(19,339,856)	(23,510,084)	(19,271,631)	(23,437,059)
<b>Net Interest Income</b>		<b>13,603,673</b>	<b>16,060,776</b>	<b>13,672,114</b>	<b>16,134,472</b>
Fee and Commission Income	32.1	5,247,681	6,194,715	5,515,025	6,481,836
Fee and Commission Expense	32.2	(153,909)	(325,106)	(153,910)	(325,106)
<b>Net Fee and Commission Income</b>		<b>5,093,772</b>	<b>5,869,609</b>	<b>5,361,115</b>	<b>6,156,730</b>
Net Gain/(Loss) from Trading	33	2,553,078	(1,315,658)	2,553,078	(1,315,658)
Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss	34	(11,591)	11,030	(11,591)	11,030
Other Operating Income/(Loss)-Net	35	(334,079)	1,565,547	(334,021)	1,565,561
<b>Total Operating Income</b>		<b>20,904,853</b>	<b>22,191,304</b>	<b>21,240,695</b>	<b>22,552,135</b>
Impairment Charges	36	(3,846,621)	(3,294,033)	(3,846,621)	(3,300,554)
<b>Net Operating Income</b>		<b>17,058,232</b>	<b>18,897,271</b>	<b>17,394,074</b>	<b>19,251,581</b>
Personnel Expenses	37	(4,599,031)	(4,508,124)	(4,632,828)	(4,539,979)
Depreciation of Property, Plant and Equipment	16	(448,893)	(441,150)	(490,988)	(472,323)
Depreciation of Right of Use (ROU) Assets	17	(502,757)	(476,541)	(412,985)	(386,769)
Amortisation of Intangible Assets	18	(379,713)	(347,461)	(379,899)	(348,575)
Other Operating Expenses	38	(3,898,154)	(5,012,625)	(3,922,317)	(5,060,114)
<b>Total Operating Expenses</b>		<b>(9,828,548)</b>	<b>(10,785,901)</b>	<b>(9,839,017)</b>	<b>(10,807,760)</b>
<b>Operating Profit before Taxes and Levies on Financial Services</b>		<b>7,229,684</b>	<b>8,111,370</b>	<b>7,555,057</b>	<b>8,443,821</b>
Taxes and Levies on Financial Services	39	(1,495,525)	(2,659,543)	(1,496,239)	(2,660,742)
<b>Profit before Income Tax</b>		<b>5,734,159</b>	<b>5,451,827</b>	<b>6,058,818</b>	<b>5,783,079</b>
Income Tax Expense	40	(1,935,475)	(1,997,362)	(2,003,859)	(2,069,540)
<b>Profit for the Year</b>		<b>3,798,684</b>	<b>3,454,465</b>	<b>4,054,959</b>	<b>3,713,539</b>
Attributable to:					
<b>Equity Holders of the Parent</b>		<b>3,798,684</b>	<b>3,454,465</b>	<b>4,054,959</b>	<b>3,713,539</b>
<b>Earnings Per Share</b>					
Basic / Diluted Earnings Per Share - LKR	41	13.38	12.17	14.29	13.08
Dividend Per Share - LKR	42	2.00	2.30	2.00	2.30

The Notes to the Financial Statements from pages 93 to 180 form an integral part of, and should be read in conjunction with, these Financial Statements.



# statement of comprehensive income

For the Year Ended 31 December	Notes	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Profit for the Year		3,798,684	3,454,465	4,054,959	3,713,539
<b>Other Comprehensive Income / (Expense) that will be reclassified to profit or loss in subsequent periods:</b>					
<b>Debt Instruments at Fair Value through Other Comprehensive Income</b>					
Net Change in Fair Value during the year	29.1	476,606	555,636	476,606	555,636
Changes in Allowance for Expected Credit Losses	29.1	18,845	-	18,845	-
Income Tax related to the above	29.1 & 25	(138,726)	(155,578)	(138,726)	(155,578)
Net gains/(losses) on financial instruments at Fair Value through Other Comprehensive Income		356,725	400,058	356,725	400,058
Total items that will be reclassified to the Statement of Profit or Loss		356,725	400,058	356,725	400,058
<b>Other Comprehensive Income / (Expense) that will not be reclassified to profit or loss in subsequent periods:</b>					
Actuarial gain / (loss) on defined benefit plan	22.2	(38,441)	(74,847)	(41,032)	(75,254)
Income Tax related to the above	25	10,764	20,957	11,489	21,066
Net gains / (losses) on actuarial valuation of defined benefit plan		(27,677)	(53,890)	(29,543)	(54,188)
Gain on Revaluation of Land & Building	29.2	-	168,387	-	441,922
Income Tax related to the above	29.2 & 25	-	(47,148)	-	(123,738)
		-	121,239	-	318,184
Total items that will not be reclassified to the Statement of Profit or Loss		(27,677)	67,349	(29,543)	263,996
<b>Other Comprehensive Income for the year, net of Tax</b>		<b>329,048</b>	<b>467,407</b>	<b>327,182</b>	<b>664,054</b>
<b>Total Comprehensive Income for the Year, Net of Tax</b>		<b>4,127,732</b>	<b>3,921,872</b>	<b>4,382,141</b>	<b>4,377,593</b>
Attributable to:					
Equity Holders of the Parent		4,127,732	3,921,872	4,382,141	4,377,593

The Notes to the Financial Statements from pages 93 to 180 form an integral part of, and should be read in conjunction with, these Financial Statements.

# statement of changes in equity

For the Year Ended 31 December

BANK	Notes	Stated Capital		Statutory Reserve Fund	Retained Earnings	OCI Reserve	Revaluation Reserve	Total
		Voting LKR '000	Non-Voting LKR '000					
<b>As at 01 January 2019</b>		5,739,916	3,125,607	1,199,130	15,820,900	(98,082)	674,631	26,462,102
Profit for the year		-	-	-	3,454,465	-	-	3,454,465
Other Comprehensive Income		-	-	-	(53,890)	400,058	121,239	467,407
Total Comprehensive Income		-	-	-	3,400,575	400,058	121,239	3,921,872
Scrip Dividend for 2018	26 & 28	466,410	76,202	-	(542,612)	-	-	-
Fractions of shares paid in cash for 2018	28	-	-	-	(40,657)	-	-	(40,657)
Conversion of Non Voting Shares to Voting Shares	26	82,981	(82,981)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	172,723	(172,723)	-	-	-
<b>As at 31 December 2019</b>		6,289,307	3,118,828	1,371,853	18,465,483	301,976	795,870	30,343,317
Profit for the year		-	-	-	3,798,684	-	-	3,798,684
Other Comprehensive Income		-	-	-	(27,677)	356,725	-	329,048
Total Comprehensive Income		-	-	-	3,771,007	356,725	-	4,127,732
Dividends for 2019	26 & 28	-	-	-	(652,859)	-	-	(652,859)
Conversion of Non Voting Shares to Voting Shares	26	20,485	(20,485)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	189,934	(189,934)	-	-	-
<b>As at 31 December 2020</b>		6,309,792	3,098,343	1,561,787	21,393,697	658,701	795,870	33,818,190

For the Year Ended 31 December

GROUP	Notes	Stated Capital		Statutory Reserve Fund	Retained Earnings	OCI Reserve	Revaluation Reserve	Total
		Voting LKR '000	Non-Voting LKR '000					
<b>As at 01 January 2019</b>		5,739,916	3,125,607	1,199,130	16,179,448	(98,082)	912,691	27,058,710
Profit for the year		-	-	-	3,713,539	-	-	3,713,539
Other Comprehensive Income		-	-	-	(54,188)	400,058	318,184	664,054
Total Comprehensive Income		-	-	-	3,659,351	400,058	318,184	4,377,593
Scrip Dividend for 2018	26 & 28	466,410	76,202	-	(542,612)	-	-	-
Fractions of shares paid in cash for 2018	28	-	-	-	(40,657)	-	-	(40,657)
Conversion of Non Voting Shares to Voting Shares	26	82,981	(82,981)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	172,723	(172,723)	-	-	-
<b>As at 31 December 2019</b>		6,289,307	3,118,828	1,371,853	19,082,807	301,976	1,230,875	31,395,646
Profit for the year		-	-	-	4,054,959	-	-	4,054,959
Other Comprehensive Income		-	-	-	(29,543)	356,725	-	327,182
Total Comprehensive Income		-	-	-	4,025,416	356,725	-	4,382,141
Dividends for 2019	26 & 28	-	-	-	(652,859)	-	-	(652,859)
Conversion of Non Voting Shares to Voting Shares	26	20,485	(20,485)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	189,934	(189,934)	-	-	-
<b>As at 31 December 2020</b>		6,309,792	3,098,343	1,561,787	22,265,430	658,701	1,230,875	35,124,928

The Notes to the Financial Statements from pages 93 to 180 form an integral part of, and should be read in conjunction with, these Financial Statements.

# statement of cash flows

For the Year Ended 31 December	Notes	BANK		GROUP	
		2020	2019	2020	2019
		LKR '000	LKR '000	LKR '000	LKR '000
<b>Cash Flows from Operating Activities</b>					
Receipts of Interest Income		31,450,153	38,725,874	31,450,369	38,726,545
Receipts of Fees and Commission Income		5,104,970	6,196,954	5,372,313	6,474,451
Payments of Interest Expense		(18,625,900)	(22,233,385)	(18,554,229)	(22,183,407)
Payments of Fees and Commission Expense		(144,902)	(322,980)	(144,903)	(322,980)
Net Trading Income		2,433,397	723,012	2,433,397	723,012
Receipts from Other Operating Income		(335,355)	1,565,549	(335,355)	1,565,549
Gratuity Payments Made		(65,102)	(72,291)	(65,102)	(73,587)
Payments for Operating Expenses		(8,076,324)	(9,329,637)	(8,132,680)	(9,415,353)
Payments for VAT & NBT on Financial Services		(1,609,803)	(1,742,097)	(1,610,660)	(1,743,321)
Payments for Debt Repayment Levy (DRL)		(87,122)	(838,801)	(87,122)	(838,801)
<b>Net Cash Flow from Operating Activities before Income Tax (A)</b>		10,044,012	12,672,198	10,326,028	12,912,108
Income Tax paid		(2,239,778)	(2,343,052)	(2,294,133)	(2,406,062)
Tax Paid on Dividends		-	(40,429)	-	(40,429)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>		7,804,234	10,288,717	8,031,895	10,465,617
<b>(Increase)/Decrease in Operating Assets</b>	43.1	(20,898,470)	(4,390,685)	(20,886,935)	(4,384,194)
<b>Increase/(Decrease) in Operating Liabilities</b>	43.2	14,636,349	(11,786,077)	14,298,299	(12,056,413)
<b>Net Cash Flows from Operating Activities</b>		1,542,113	(5,888,045)	1,443,259	(5,974,990)
<b>Cash Flows from Investing Activities</b>					
Purchase of Property, Plant and Equipment	16	(100,571)	(384,758)	(103,114)	(397,239)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		3,814	1,019	4,417	1,033
Purchase of Intangible Assets	18	(225,516)	(425,691)	(226,385)	(425,691)
		(322,273)	(809,430)	(325,082)	(821,897)
<b>Cash Flows from Financing Activities</b>					
Net change in Debt Issued and Other Borrowed Funds		(4,344,427)	1,195,726	(4,344,427)	1,195,726
Proceeds from the issue of Subordinated Debt	43.4	-	4,500,000	-	4,500,000
Operating Lease Rentals Paid	17.4	(555,301)	(547,361)	(453,645)	(447,921)
Interest paid on Subordinated Debt		(1,661,349)	(1,077,028)	(1,661,349)	(1,077,028)
Dividends paid to Equity Holders of the Parent		(650,204)	(228)	(650,204)	(228)
		(7,211,281)	4,071,109	(7,109,625)	4,170,549
Net Increase/(Decrease) in Cash and Cash Equivalents		(5,991,446)	(2,626,366)	(5,991,448)	(2,626,338)
Cash and Cash Equivalents at the beginning of the period		16,486,991	19,113,358	16,487,073	19,113,412
Cash and Cash Equivalents at the end of the period		10,495,545	16,486,992	10,495,625	16,487,074
<b>Reconciliation of Cash and Cash Equivalents</b>					
Cash in Hand	6	8,422,390	5,867,701	8,422,413	5,867,724
Balances with Central Bank of Sri Lanka*	7	2,195,247	8,377,478	2,195,247	8,377,478
Balances with Banks	6	722,346	787,329	722,403	787,388
Money at Call and Short Notice	6	-	2,101,864	-	2,101,864
Deposits from Other Banks	19	(844,438)	(647,380)	(844,438)	(647,380)
		10,495,545	16,486,992	10,495,625	16,487,074
<b>A. Reconciliation of Operating Profit</b>					
<b>Profit before Income Tax</b>		5,734,159	5,451,827	6,058,818	5,783,079
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets		(1,276)	2	(1,334)	(12)
Impairment charge / (Reversal) for Loans and Receivables	36	3,846,621	3,294,033	3,846,621	3,300,554
Provision for Gratuity	37	158,269	136,997	159,874	138,296
(Increase) / Decrease in Interest Receivable		(3,357,679)	(2,552,173)	(3,357,679)	(2,552,173)
Increase/ (Decrease) in Interest Payable		(1,173,243)	211,977	(1,163,989)	204,674
Increase / (Decrease) in Financial Guarantee Liabilities & Deferred Income		(152,076)	(25,766)	(152,076)	(27,173)
(Increase) / Decrease in Fees & Commission Receivable		13,798	24,437	13,798	16,062
Increase / (Decrease) in Fees & Commission and Operating Expenses Payable		(489,534)	(408,907)	(388,023)	(317,003)
Other Non-cash items	43.3	3,313,425	4,987,673	3,260,126	4,914,442
Operating Lease Rentals Paid	17.4	555,301	547,361	453,645	447,921
Interest Paid on Subordinated Debt		1,661,349	1,077,028	1,661,349	1,077,028
Gratuity Payments Made		(65,102)	(72,291)	(65,102)	(73,587)
		10,044,012	12,672,198	10,326,028	12,912,108

\* As at 31 December 2020, LKR 2,074.61 Mn (2019 - LKR 8,388.17 Mn) was not available for use by the Bank due to mandatory deposit at Central Bank of Sri Lanka.

# notes to the financial statements

## 1. REPORTING ENTITY

### 1.1 Corporate Information

Nations Trust Bank PLC (the 'Bank') is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Bank is located at No. 242, Union Place, Colombo 2.

### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2020 comprises the Bank and its subsidiaries: Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited (together referred to as the 'Group'). Nations Trust Bank PLC does not have an identifiable parent of its own.

### 1.3 Principal Activities And Nature of Operations

#### Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, corporate and retail banking, private banking, project financing, trade finance, leasing, factoring, pawning, treasury, dealing in government securities and investment services, resident and non-resident foreign currency operations, money remittance facilities, travel related services, issuing/ acquiring of credit cards and debit cards, electronic banking services such as telephone banking, internet banking, mobile banking etc.

#### Subsidiaries

The principal activities of the subsidiary companies are as follows:

Company	Principal activity
Waldock Mackenzie Limited	Carrying out the business of an investment manager including fixed income securities and fund & fee based activities
Allied Properties Limited	Renting out premises
Nations Insurance Brokers Limited	Insurance broking

During the year 2017, the management decided to cease margin trading business under Waldock Mackenzie Limited (WML) as a part of the group's decision to focus on its core products and services. However, WML's sole shareholder, Nations Trust Bank PLC will continue to support its operations and funding arrangement, whenever business revival and expansion is required in future.

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, which comprise the Statement of Financial Position, Statement of Profit or Loss,

Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Consolidated Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of these Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988.

### 2.2 Directors' Responsibility Statement

The Board of Directors of the Bank is responsible for these Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Statement of Directors' Responsibility" on page 83.

### 2.3 Approval of Financial Statements by Directors

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2020 were authorized for issue in accordance with the resolution of the Board of Directors on 24th February 2021.

### 2.4 Basis of Measurement

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position which have been measured at fair value:

- Financial assets at fair value through profit or loss
- Debt and equity instrument at fair value through other comprehensive income
- Derivative financial instruments
- Land and buildings are measured at cost at the time of acquisition and subsequently measured at fair value on the date of revaluation
- Liability for defined benefit obligations is recognised at the present value of defined benefit obligation

### 2.5 Functional and Presentation Currency

The Financial Statements of the Group are presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which the Group operates (Group's functional currency). Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand ('000) unless indicated otherwise.

# notes to the financial statements

There was no change in the Group's presentation and functional currency during the year under review.

## 2.6 Presentation of Financial Statements

The Bank/Group presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 45.

## 2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 - Presentation of Financial Statements, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or an interpretation, and as specifically disclosed in the accounting policies of the Group.

## 2.8 Changes in Accounting Policies

### 2.8.1 New and Amended Standards and Interpretations

The Group has not early adopted any standards, interpretations or amendments that have been issued but are 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 accounting policies adopted by the Bank/Group are consistent with those of the previous financial year.

## 2.9 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about

future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgment and/or estimates are collated below with respect to judgments/estimates involved.

### (i) Going concern

The Bank's management has 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. In this assessment, the management has considered the potential impacts that the COVID-19 pandemic could bring to business operations of the Bank. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

### (ii) Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgments and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

The valuation of financial instruments is described in more detail in Note 46.

### (iii) Impairment losses on financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, 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 allowances.

The Bank'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 Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life Time Expected Credit Loss (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.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

#### (iv) Fair value of land and buildings

Freehold land and buildings of the Group are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses.

The Group measures freehold land and buildings at fair value with changes in fair value being recognized in other comprehensive income. The Group engages independent valuation specialists to determine fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard SLFRS 13 - Fair Value Measurement. Lands were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property, while buildings were valued based on depreciated replacement cost.

Fair value related disclosures for land and buildings measured at fair value are summarized in the Note 46 to the financial statements.

#### (v) Useful life-time of the property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods hence they are subject to uncertainty. (Note 16).

#### (vi) Employee benefit liability – Gratuity

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. Description of employee benefits is given in Note 22.

#### (vii) Share-based payments

The Group measures the cost of cash settled transactions with employees by reference to the fair value of the equity instruments on the date on which those are granted. Estimating fair value for share based payment transactions require determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share appreciation rights scheme, volatility and dividend yield and making assumptions about those. (Note 24.2).

#### (viii) Taxation

The Group is subject to Income Taxes and other taxes including VAT on Financial Services. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and deferred tax amounts in the period in which the determination is made. (Note 25 and 40).

#### (ix) Deferred tax assets

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Details on deferred tax assets are disclosed in Note 25 to the financial statements.

#### (x) Provisions for liabilities and contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31 December 2020 in terms of the Sri Lanka Accounting Standards, SLFRS 10 - Consolidated Financial Statements. The Bank's Financial

# notes to the financial statements

Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit and the Off-shore Banking Unit.

Bank consolidates a subsidiary when it controls it. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. However, in individual circumstances, the Bank may still exercise control with a less than 50% shareholding, or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Bank.

All intra- group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value, at the date of loss of control.

## 3.2 Foreign Currency Transactions and Balances

Transactions in foreign currencies are initially recorded at the spot middle rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot middle rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Profit or Loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

## 3.3 Financial Instruments

### 3.3.1 Financial Instruments – Initial Recognition

#### (i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

#### (ii) 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 3.3.2. (i) (a) and 3.3.2. (i) (b). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

#### (iii) 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 Bank recognises the difference between the transaction price and fair value in net trading income. In those 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 profit or loss when the inputs become observable, or when the instrument is derecognised.

#### (iv) Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 3.3.2(i)
- Fair value through other comprehensive income (FVOCI), as explained in Notes 3.3.2 (iv) and 3.3.2 (v)
- Fair value through profit or loss (FVPL) as explained in Notes 3.3.2 (vii). The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 3.3.2 (ii) and 3.3.2 (iii). The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 3.3.2 (vii).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are derivative instruments or the fair value designation is applied, as explained in Note 3.3.2 (vii).

#### (v) Recognition of the Loans and Receivable under COVID – 19 Moratorium Scheme

Modifications to the cash flows of the loans and receivables due to the COVID 19 outbreak considers as 'non-substantial', thus does not result in derecognition of the financial assets in accordance with SLFRS 9 - "Financial Instruments". Accordingly, modifications gain/loss shall be charged to profit or loss immediately. In the determination process the management applied professional judgement by comparing the modification loss as against carrying value of the asset and the decision were taken based on the materiality of the gain/loss.

### 3.3.2 Financial Assets and Liabilities

#### (i) Due from banks, Loans and advances to customers, Financial investments at amortised cost

The Bank measures due from banks, loans and advances to customers and other financial investments at amortised cost only if both of the following conditions are met:

- 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 payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

##### a. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations,

the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### b. Solely Payment of Principal and Interest (SPPI) test

As a second step of its classification process, the Bank assesses the contractual terms of financial instrument to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or Amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### (ii) Derivatives recorded at fair value through profit or loss

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 (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include cross-currency swaps and forward foreign exchange contracts. 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 fair values of derivative financial instruments recorded as assets or liabilities, together with their notional (contract) amounts are disclosed separately in Note 9. Changes in the fair value of derivatives are included in net trading income.

# notes to the financial statements

Settlement of these contracts against customer is on delivery against payment basis which eliminates credit risks. Settlements against the Bank is on a gross basis subject to approved credit limits.

The notional amounts that indicate the volume of transactions outstanding at the year-end are indicative of neither the market risk nor the credit risk. This transaction type is exposed to market risks due to fluctuation of market rates.

The Bank may take positions with the expectation of gaining from favorable movements in rates. Derivatives entered for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

## (iii) Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss.'

Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

## (iv) Debt instruments at FVOCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

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 on debt instruments at FVOCI is recognised in Profit or Loss. The ECL calculation for debt instruments at FVOCI is explained in Note 3.5. 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 Profit or Loss.

## (v) Equity instruments at 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 LKAS 32

Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

## (vi) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

## (vii) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
- or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

#### (viii) Financial guarantees, letter of credit and undrawn loan commitments

In the ordinary course of business, the Bank issues financial guarantees, consisting of letter of credit, guarantees, bonds and acceptances.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each financial guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL provision as set out in Note 24.3.

The premium received is recognised in the Statement of Profit or Loss in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letter of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statement of Financial Position. The nominal values of these instruments are disclosed in Note 47.

### 3.3.3 Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

### 3.3.4 Derecognition of Financial Assets and Liabilities

#### (i) Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired (POCI).

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Change in counterparty
- Introduction of an equity feature
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

#### (ii) Derecognition other than for substantial modification

##### a. Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset or;
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients



# notes to the financial statements

- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset or;
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

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

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

## b. Financial liabilities

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

### 3.3.5 The Effective Interest Rate Method

Under SLFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the statement of financial position with a corresponding increase or decrease in interest income/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

### 3.3.6 Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when SLFRS netting criteria are met.

### 3.4 Reverse Repurchase and Repurchase Agreements

During its normal course of business, the Bank sells securities under agreements to repurchase (repos) and purchase securities under agreements to resell (reverse repos). The accounting treatment of these transactions is explained below;

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements,' reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the EIR.

Minimum haircuts are maintained as prescribed in CBSL Direction No. 1 of 2019 on Repurchase and Reverse Repurchase Transactions of Dealer Direct Participants Scripless Treasury Bonds and Scripless Treasury Bills.

### 3.5 Impairment of Financial Assets

#### (i) Overview of the Expected Credit Loss (ECL) principles

The Bank records an allowance for ECL for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'Financial Instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or 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 (12mECL) as outlined in Note 3.5 (ii). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 47.

Furthermore, the procedure followed in the impairment calculations due to the COVID-19 outbreak have been more fully described in Note 47 to the financial statements.

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

Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 47.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instruments' 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 47.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or Originated Credit Impaired (POCI), as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired (as outlined in Note 47). The bank records an allowance for the LTECL.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

#### (ii) The calculation of ECL

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the 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 mechanics of the ECL calculations are outlined below and the key elements are as follows:

- **Probability of Default (PD):** The 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 47.
- **Exposure at Default (EAD):** The 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, and accrued interest from missed payments. The EAD is further explained in Note 47.

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- **Loss Given Default (LGD):** The 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 47.

When estimating the ECLs, the Bank considers three scenarios (a base case, a best case, a worst case). When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in 3.5 (v) below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECL for undrawn loan commitments are assessed as set out in Note 24.3. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards are explained in Note 3.5 (V).

The mechanics of the ECL method are summarised below:

Stage 1:	The 12mECL is calculated as the portion of LTECLs that represents the ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3	For loans considered credit-impaired (as defined in Note 47) the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, discounted by the credit adjusted EIR.
Loan commitments and letter of credit:	When estimating LTECLs for undrawn loan commitments, the Bank 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 on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, the portion of ECLs related to the drawn amount are calculated and presented together with the loan. For undrawn loan commitments and letter 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 income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs by using Credit Conversion Factors (CCF) specified by the Central Bank of Sri Lanka for the purpose of calculating Capital Adequacy Ratio of the Bank. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECL related to financial guarantee contracts are recognized within Other Liabilities.

### (iii) Debt instruments measured at fair value through OCI

The ECL 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

profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

**(iv) Purchased or originated credit impaired financial assets (POCI)**

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

**(v) Credit cards and other revolving facilities**

The Bank's product offering includes a variety of corporate and retail overdraft and credit card facilities, in which the Bank has the right to cancel and/or reduce the facilities with a notice. Revolving facilities are subject to regular post disbursement reviews and every such facility goes through one or more formal reviews annually. Therefore, all revolving facilities are assessed for 12mECL.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is mainly based on shifts in the delinquency level of the customer with a consideration given to qualitative factors such as changes in usage also.

The interest rate used to discount the ECL 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.

The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 47, on an individual basis for corporate and on a collective basis for retail products.

The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

**(vi) Forward looking information**

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Inflation
- Interest rates
- Exchange rates
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis is provided in Note 36.

**(vii) 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, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under SLFRS 9 is the same as it was under LKAS 39.

Collateral is not recorded in the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed subsequently as and when required. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Bank's various credit enhancements are disclosed in Note 47.

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 mortgage brokers etc.

**(viii) Collateral repossessed**

The Group's policy is to sell the repossessed assets at the earliest possible opportunity. Such collateral repossessed are held on a memorandum basis without derecognizing the underlying receivable.

**(ix) 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 allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to Other Operating Income in the Profit or Loss.

**(x) Rescheduled Loans**

The Bank 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 Bank classifies a loan as a "Rescheduled Loan" when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Management Department. A rescheduling of a loan may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's

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policy to monitor rescheduled loans to help ensure that future payments continue to be likely to occur. All rescheduled loans are classified as Stage 3 until the fulfillment of regulatory watch period or written off.

## 3.6 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### 3.6.1 Group as a Lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented in Note 17 and are subject to impairment in line with the Group's policy as described in Note 3.9 - Impairment of non-financial assets.

#### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

### 3.6.2 Bank as a Lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on EIR over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

## 3.7 Property, Plant and Equipment

### Cost Model

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour
- any other costs directly attributable to bringing the assets to a working condition for their intended use
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

### Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued by independent professional valuers. Valuations are performed with sufficient frequency to ensure that the carrying amounts do not differ materially from the fair values as at the reporting date. The Group has revalued its freehold land & building during the year 2019 and details of the revaluation are given in Note 16.3.

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other Comprehensive Income' and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognized as income to the extent of the previous write down. Any decrease in the carrying amount is recognized as an expense in the Statement of Profit or Loss or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

### Subsequent expenditure and replacement

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the

part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

### Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Lands are not depreciated.

The estimated useful lives are as follows:

Buildings	40 years
Motor Vehicles	04 years
Other Equipment	04 - 08 years
Computer Hardware	02 - 04 years
Furniture and Fittings	08 years
Leasehold Improvements	Over the lease period

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if requires. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

### De-recognition

The carrying amount of an item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in the Statement of Profit or Loss when the item is de-recognised.

### Capital work-in-progress

Capital work-in-progress is stated at cost. These are the expenses of a capital nature directly incurred in the construction of buildings, machinery and system development, awaiting capitalization. Capital work-in-progress would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

## 3.8 Intangible Assets

The Group's intangible assets include the cost of computer software and licenses. 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.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the Profit or Loss.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 5-10 years, for computer software and license fees.

## 3.9 Impairment of non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, and other available fair value indicators.

## 3.10 Retirement Benefit Obligations

### (i) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank and its subsidiaries except Nations Insurance Brokers Limited, contribute 12% of gross emoluments of employees to an approved private provident fund managed by Nations Trust Bank PLC and 3% gross emoluments of employees to the Employees' Trust Fund respectively. Nations Insurance Brokers Limited contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

### (ii) Defined Benefit Plan – Gratuity

The Group measures the present value of the retirement benefits of gratuity which is a defined benefit plan using the projected unit credit method as recommended by LKAS 19 - Employee benefits and resulting actuarial gain/loss is recognized in full in the Other Comprehensive Income (OCI).



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The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Gratuity is paid in compliance with the Gratuity Act No.12 of 1983.

The gratuity liability is not externally funded.

## 3.11 Share Based Payments Employee

Share Appreciation Rights (ESAR) Accounting Policy Employees (senior executives) of the Bank/Group receive benefit in the form of share - based payments, whereby employees rendered services are granted share appreciation rights which are settled in cash (Cash-settled transaction). A liability is recognized for the fair value of cash settled transactions. The fair value is measured initially and at each reporting date up to and including the exercise date or expiry date of ESAR, with changes in fair value recognized in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model.

## 3.12 Taxes

### (i) Current Tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

#### Nations Trust Bank PLC

Income tax on profit from the Domestic Banking Unit and on-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 28%.

#### Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 28%.

#### Subsidiary - Allied Properties Limited

In terms of a BOI Agreement, the company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years commencing from 01 April 2007. Income tax on profit from other sources of income is calculated at 28%.

#### Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 28%.

### (ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax

liabilities are recognized for all taxable temporary differences, except:

- Where 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, 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 recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises 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, deferred tax assets are recognized 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 utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets (DTA) and liabilities (DTL) are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

DTA and DTL are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 3.13 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable

estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the Profit or Loss net of any reimbursement.

### 3.14 Fiduciary Assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the Financial Statements, as they are not the assets of the Group.

### 3.15 Equity reserves

The reserves recorded in equity (OCI) on the Group's statement of financial position include fair value reserves which comprises:

- the cumulative net change in the fair value of debt instruments classified at FVOCI, less the allowance for ECL
- the cumulative net change in fair value of equity instruments at FVOCI

### 3.16 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date. (Note 50).

Basic/diluted Earnings per Share is calculated by dividing the net profit for the year attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares in issue during the year.

### 3.17 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with LKAS 7 on Statement of Cash Flows, whereby cash receipts and cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents as referred to in the statement of cash flows comprises of cash in hand, balances with the Central Bank of Sri Lanka, amounts due from banks on demand or with original maturity of three months or less net of amount due to banks.

### 3.18 Fair Value of Assets and Liabilities

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- **Level 1 financial instruments**

Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.

- **Level 2 financial instruments**

Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.

- **Level 3 financial instruments**

Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk. Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for those financial instruments.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

### 3.19 Recognition of Income and Expenses

Revenue is recognized 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 must for recognition of income is explained below.

# notes to the financial statements

## (i) Interest Income

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. The Bank ceases the recognition of interest income on assets when it is probable that the economic benefits associated will not continue to flow to the Bank. Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is also recognised using the contractual interest rate in interest income.

## (ii) Net Fee and Commission Income

### Fee Income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

Fee income can be divided in to the following three categories:

- a) Fee income earned from services that are provided over a certain period of time  
Fees earned for the provision of services are recognised as revenue as the services are provided. These fees include commission income and asset management fees, custody and other management and advisory fees.
- b) Fee income from providing financial services are earned on the execution of a significant act  
Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the lending transactions or other securities are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.
- c) Fee income forming an integral part of the corresponding financial instrument  
Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry.

### Fee Expense

Fee expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate.

## (iii) Net Gain/ (Loss) From Trading

Net gains/(losses) from trading comprised of all realised and unrealised foreign exchange transactions and realized fair value changes on fixed income securities.

## (iv) Net Fair Value Gains/ (Losses) from Financial Instruments at Fair Value Through Profit or Loss

Includes the results arising from unrealized net gains/losses due to change in fair value of financial instruments at fair value through profit or loss.

## (v) Net Other Operating Income/(Loss)

### a. Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend.

### b. Rental Income

Rental income is recognized on an accrual basis.

### c. Other Income

Other income is recognized on an accrual basis.

## (vi) Expenses

All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Group's profit for the year.

Those expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate.

## 3.20 Segment Information

The Group's segmental reporting is based on the following operating segments: Corporate Banking, Consumer and SME Banking, Leasing, Treasury functions, Investment Banking, Insurance Broking and Property Management.

For management purposes, the Group is organised into operating segments based on customer segments and products, as follows:

- Corporate Banking: Primary focus of business is providing loans and other credit facilities and mobilizing deposit and current accounts from top to mid tier corporate and institutional customers.
- Consumer and Commercial Banking: Primary focus of business is deposit mobilization from high net worth, mass affluent customer segments and providing personal financing including personal, home loans and credit card facilities and business financing for small and medium enterprises (SMEs and mid market enterprises (MMEs)
- Leasing : Primary focus of business is providing finance leases.

- Treasury Function: Primary focus of business operations includes foreign exchange trading, fixed income security trading, assets & liabilities management.
- Investment Banking: Primary focus on margin trading, money market operations and fund and fee based activities.
- Insurance Broking: Primary focus on insurance broking.
- Property Management: Primary focus on renting out premises.

Management monitors the operating results of its business units separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which are measured differently from operating profits or losses in the consolidated financial statements. A fund transfer pricing mechanism is adopted for sourcing and utilizing of funds.

(Note 4 presents income and expenses and certain asset and liability information regarding the Group's operating segments.)

### 3.21 Standards Issued but not yet Effective

The new and amended standards that are issued, but not yet effective to the date of issuance of these financial statements are disclosed below.

- SLFRS 17 - Insurance Contracts
- Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)
- Amendments to SLFRS 16 - COVID – 19 Related Rent Concessions

None of the new or amended pronouncements are expected to have a material impact on the consolidated financial statements of the Group/Bank.

# notes to the financial statements

## 4 SEGMENT INFORMATION

For the Year Ended 31 December 2020

LKR'000

	Corporate Banking	Consumer & Commercial Banking	Leasing	Treasury Functions	Investment Banking	Insurance Brokering	Property Management	Unallocated/ Eliminations	Total Group
<b>Operating Income</b>	2,606,214	11,032,550	1,497,436	6,014,880	9,068	235,839	185,017	(340,309)	21,240,695
Impairment Charges	(644,640)	(2,096,896)	(765,253)	(339,832)	-	-	-	-	(3,846,621)
<b>Net Operating Income</b>	1,961,574	8,935,654	732,183	5,675,048	9,068	235,839	185,017	(340,309)	17,394,074
<b>Extracts of Results</b>									
Interest Income	5,806,079	13,613,427	5,668,286	7,844,091	6,869	25,262	31,533	(51,802)	32,943,745
Inter Segment	(3,259,791)	6,604,423	(4,859,103)	1,514,471	-	-	-	-	-
Interest Expense	(628,885)	(14,146,955)	-	(4,500,615)	-	(360)	(1,028)	6,212	(19,271,631)
<b>Net Interest Income</b>	1,917,403	6,070,895	809,183	4,857,947	6,869	24,902	30,505	(45,590)	13,672,114
Fees and Commission Income	519,534	4,312,621	508,263	122,692	2,730	218,481	154,454	(323,750)	5,515,025
Fees and Commission Expense	(19,914)	(106,835)	-	(24,452)	(531)	(7,544)	-	5,366	(153,910)
<b>Net Fees and Commission Income</b>	499,620	4,205,786	508,263	98,240	2,199	210,937	154,454	(318,384)	5,361,115
Net Gain/(Loss) from Trading	189,191	379,855	-	1,984,032	-	-	-	-	2,553,078
Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss	-	-	-	(11,591)	-	-	-	-	(11,591)
Other Operating Income/(Loss)-Net	-	376,014	179,990	(913,748)	-	-	58	23,665	(334,021)
Depreciation of Property, Plant and Equipment	(29,750)	(349,553)	(43,030)	(23,207)	-	(816)	(19,017)	(25,615)	(490,988)
Depreciation of Right of Use (ROU) Assets	-	(395,152)	-	-	-	(5,295)	(89,772)	77,234	(412,985)
Amortisation of Intangible Assets	(34,745)	(289,386)	(29,978)	(23,197)	-	(186)	-	(2,407)	(379,899)
<b>Profit before Income Tax</b>	1,253,113	1,082,603	(175,839)	5,215,213	8,058	167,036	112,325	(1,603,691)	6,058,818
Income Tax Expense	-	-	-	-	(2,456)	(53,994)	(11,934)	(1,935,475)	(2,003,859)
<b>Profit for the Year</b>	1,253,113	1,082,603	(175,839)	5,215,213	5,602	113,042	100,391	(3,539,166)	4,054,959
<b>Capital Expenditures</b>									
Property, Plant and Equipment	1,110	28,055	3,922	-	-	117	2,435	76,377	112,016
Intangible Assets	-	282,156	4,800	2,264	-	867	-	57,596	347,683
<b>Total Assets (as at)</b>	68,930,071	108,157,755	38,892,773	118,871,227	127,542	487,807	1,041,888	1,482,253	337,991,316
<b>Total Liabilities (as at)</b>	16,265,651	224,053,412	624,704	55,301,952	4,278	35,697	22,445	6,558,249	302,866,388

	Corporate Banking	Consumer & Commercial Banking	Leasing	Treasury Functions	Investment Banking	Insurance Brokering	Property Management	Unallocated/ Eliminations	Total Group
<b>Operating Income</b>	3,376,728	13,716,288	2,348,882	3,209,307	11,084	257,099	176,126	(543,379)	22,552,135
Impairment Charges	(273,170)	(2,386,019)	(623,150)	(71,300)	-	(6,521)	-	59,606	(3,300,554)
<b>Net Operating Income</b>	3,103,558	11,330,269	1,725,732	3,138,007	11,084	250,578	176,126	(483,773)	19,251,581
<b>Extracts of Results</b>									
Interest Income	8,163,778	16,828,271	7,152,392	7,416,831	9,080	20,851	29,441	(49,113)	39,571,531
Inter Segment	(4,750,429)	7,595,343	(5,381,395)	2,536,481	-	-	-	-	-
Interest Expense	(804,185)	(16,692,460)	-	(5,827,199)	-	(935)	(1,421)	(110,859)	(23,437,059)
<b>Net Interest Income</b>	2,609,164	7,731,154	1,770,997	4,126,113	9,080	19,916	28,020	(159,972)	16,134,472
Fees and Commission Income	584,526	5,383,911	419,102	97,814	2,639	244,168	148,106	(398,430)	6,481,836
Fees and Commission Expense	(23,117)	(274,399)	-	(27,591)	(635)	(6,985)	-	7,621	(325,106)
<b>Net Fees and Commission Income</b>	561,409	5,109,512	419,102	70,223	2,004	237,183	148,106	(390,809)	6,156,730
Net Gain/(Loss) from Trading	206,155	382,258	-	(1,904,071)	-	-	-	-	(1,315,658)
Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value									
Through Profit or Loss	-	-	-	11,030	-	-	-	-	11,030
Other Operating Income/(Loss)-Net	-	493,364	158,783	906,012	-	-	-	7,402	1,565,561
Depreciation of Property, Plant and Equipment	(25,007)	(463,451)	(21,191)	(20,500)	-	(13,587)	(6,585)	77,998	(472,323)
Depreciation of Right of Use (ROU) Assets	-	(370,812)	-	-	-	(5,295)	-	(10,662)	(386,769)
Amortisation of Intangible Assets	(31,235)	(257,175)	(26,526)	(31,162)	-	(1,898)	(579)	-	(348,575)
<b>Profit before Income Tax</b>	2,408,202	2,113,183	785,483	2,689,258	9,129	193,790	138,896	(2,554,862)	5,783,079
Income Tax Expense	-	-	-	-	(2,892)	(58,076)	(11,210)	(1,997,362)	(2,069,540)
<b>Profit for the Year</b>	2,408,202	2,113,183	785,483	2,689,258	6,237	135,714	127,686	(4,552,224)	3,713,539
<b>Capital Expenditures</b>									
Property, Plant and Equipment	29,066	228,018	14,440	755	-	-	5,723	154,982	432,984
Intangible Assets	169,711	38,656	4,911	4,472	-	-	-	107,437	325,187
<b>Total Assets (as at)</b>	75,626,503	114,121,828	44,292,078	89,048,577	121,193	357,372	906,142	895,762	325,369,455
<b>Total Liabilities (as at)</b>	17,636,108	208,731,713	663,792	60,183,662	3,531	42,240	19,850	6,692,913	293,973,809

\* Consumer and Commercial banking operations are reviewed on consolidated basis.



# notes to the financial statements

## 5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

### 5.1 Bank

As at 31 December	2020				2019			
	AC LKR '000	FVPL LKR '000	FVOCI LKR '000	Total LKR '000	AC LKR '000	FVPL LKR '000	FVOCI LKR '000	Total LKR '000
<b>Assets</b>								
Cash and Cash Equivalents	9,144,540	-	-	9,144,540	8,755,848	-	-	8,755,848
Balances with Central Bank of Sri Lanka	2,195,247	-	-	2,195,247	8,377,478	-	-	8,377,478
Reverse Repurchase Agreements	5,091,335	-	-	5,091,335	13,827,423	-	-	13,827,423
Derivative Financial Instruments	-	239,535	-	239,535	-	192,714	-	192,714
Financial Assets at Amortised Cost- Loans and Advances	210,185,486	-	-	210,185,486	226,791,569	-	-	226,791,569
Government Securities	26,133,923	2,416,792	73,241,685	101,792,400	17,774,485	634,075	38,301,267	56,709,827
Other Debt Instruments	514,160	-	-	514,160	1,288,120	-	-	1,288,120
Equity Instruments	-	-	16,150	16,150	-	-	13,880	13,880
<b>Total Financial Assets</b>	<b>253,264,691</b>	<b>2,656,327</b>	<b>73,257,835</b>	<b>329,178,853</b>	<b>276,814,923</b>	<b>826,789</b>	<b>38,315,147</b>	<b>315,956,859</b>
<b>Liabilities</b>								
Due to Banks	4,941,573	-	-	4,941,573	6,484,157	-	-	6,484,157
Derivative Financial Instruments	-	250,700	-	250,700	-	311,971	-	311,971
Due to Depositors	240,584,022	-	-	240,584,022	226,880,034	-	-	226,880,034
Repurchase Agreements	7,562,588	-	-	7,562,588	11,033,047	-	-	11,033,047
Due to Other Borrowers	28,040,126	-	-	28,040,126	27,380,678	-	-	27,380,678
Debt Securities Issued	13,261,973	-	-	13,261,973	13,263,434	-	-	13,263,434
<b>Total Financial Liabilities</b>	<b>294,390,282</b>	<b>250,700</b>	<b>-</b>	<b>294,640,982</b>	<b>285,041,350</b>	<b>311,971</b>	<b>-</b>	<b>285,353,321</b>

### 5.2 Group

As at 31 December	2020				2019			
	AC LKR '000	FVPL LKR '000	FVOCI LKR '000	Total LKR '000	AC LKR '000	FVPL LKR '000	FVOCI LKR '000	Total LKR '000
<b>Assets</b>								
Cash and Cash Equivalents	9,144,621	-	-	9,144,621	8,755,930	-	-	8,755,930
Balances with Central Bank of Sri Lanka	2,195,247	-	-	2,195,247	8,377,478	-	-	8,377,478
Reverse Repurchase Agreements	5,091,335	-	-	5,091,335	13,827,423	-	-	13,827,423
Derivative Financial Instruments	-	239,535	-	239,535	-	192,714	-	192,714
Financial Assets at Amortised Cost- Loans and Advances	210,185,927	-	-	210,185,927	226,794,190	-	-	226,794,190
Government Securities	26,133,923	2,416,792	73,241,685	101,792,400	17,774,485	634,075	38,301,267	56,709,827
Other Debt Instruments	514,160	-	-	514,160	1,288,120	-	-	1,288,120
Equity Instruments	-	-	16,150	16,150	-	-	13,880	13,880
<b>Total Financial Assets</b>	<b>253,265,213</b>	<b>2,656,327</b>	<b>73,257,835</b>	<b>329,179,375</b>	<b>276,817,626</b>	<b>826,789</b>	<b>38,315,147</b>	<b>315,959,562</b>
<b>Liabilities</b>								
Due to Banks	4,941,573	-	-	4,941,573	6,484,157	-	-	6,484,157
Derivative Financial Instruments	-	250,700	-	250,700	-	311,971	-	311,971
Due to Depositors	240,574,266	-	-	240,574,266	226,871,563	-	-	226,871,563
Repurchase Agreements	6,392,440	-	-	6,392,440	10,186,828	-	-	10,186,828
Due to Other Borrowers	28,040,126	-	-	28,040,126	27,284,828	-	-	27,284,828
Debt Securities Issued	13,261,973	-	-	13,261,973	13,263,434	-	-	13,263,434
<b>Total Financial Liabilities</b>	<b>293,210,378</b>	<b>250,700</b>	<b>-</b>	<b>293,461,078</b>	<b>284,090,810</b>	<b>311,971</b>	<b>-</b>	<b>284,402,781</b>

AC – Financial assets/liabilities measured at amortised cost

FVPL – Financial assets/liabilities measured at fair value through profit or loss

FVOCI – Financial assets measured at fair value through other comprehensive income

## 6 CASH AND CASH EQUIVALENTS

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash in Hand	8,422,390	5,867,701	8,422,414	5,867,724
Balances with Banks	722,346	787,329	722,403	787,388
Money at Call and Short Notice	-	2,101,864	-	2,101,864
Less: Impairment for Balances with Banks (Note 6.1)	(196)	(1,046)	(196)	(1,046)
	9,144,540	8,755,848	9,144,621	8,755,930

### 6.1 Movement in Impairment During the Year

	BANK / GROUP	
	2020 LKR '000	2019 LKR '000
Balance as at 01 January	1,046	271
Charge / (Write back) to the Income Statement (Note 36)	(850)	775
Balance as at 31 December	196	1,046

## 7 BALANCES WITH CENTRAL BANK OF SRI LANKA

As at 31 December	BANK / GROUP	
	2020 LKR '000	2019 LKR '000
Statutory Balance with Central Bank of Sri Lanka	2,195,247	8,220,448
Non Statutory Balance with Central Bank of Sri Lanka	-	157,030
	2,195,247	8,377,478

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31 December 2020, the minimum cash reserve requirement was 2.0% (2019: 5.0%) of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

## 8 TRANSFERRED FINANCIAL ASSETS

### 8.1 Reverse Repurchase Agreements

As at 31 December	BANK / GROUP	
	2020 LKR '000	2019 LKR '000
<b>Due from;</b>		
- Banks	1,002,324	11,404,692
- Other Financial Institutions	4,089,011	2,402,319
- Other Counterparties	-	20,412
	5,091,335	13,827,423

The Group holds collateral against reverse repurchase agreements and is permitted to sell or repledge the collateral in case of a default by the owner of the collateral. The fair value of collateral held under reverse repurchase agreements by the Bank/Group amounts to LKR 5,639.43 Mn (2019 – LKR 15,264.31 Mn).

# notes to the financial statements

## 8 TRANSFERRED FINANCIAL ASSETS (CONTD.)

### 8.2 Repurchase Agreements

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
<b>On Securities of Government of Sri Lanka</b>				
<b>Due to;</b>				
- Banks (Note 19)	3,250,406	-	3,250,406	-
- Other Financial Institutions	1,115,989	4,158,372	1,115,989	4,158,372
- Other Counterparties	5,966,841	5,648,501	4,796,692	5,535,912
	10,333,236	9,806,873	9,163,087	9,694,284
<b>On Other Securities</b>				
<b>Due to;</b>				
- Other Counterparties	479,758	1,226,174	479,758	492,544
	479,758	1,226,174	479,758	492,544
<b>Total Repurchase Agreements</b>	<b>10,812,994</b>	<b>11,033,047</b>	<b>9,642,845</b>	<b>10,186,828</b>
<b>Repurchase Agreements other than with banks (Note 20)</b>	<b>7,562,588</b>	<b>11,033,047</b>	<b>6,392,440</b>	<b>10,186,828</b>

## 9 DERIVATIVE FINANCIAL INSTRUMENTS

### 9.1 Derivative Assets- Held for Trading

At a Gain Position

As at 31 December	BANK/GROUP		BANK/GROUP	
	Fair Value of Assets 2020 LKR '000	Contract amount 2020 LKR '000	Fair Value of Assets 2019 LKR '000	Contract amount 2019 LKR '000
<b>Foreign Currency Derivatives</b>				
- Currency Swaps	224,524	9,957,455	178,201	12,299,561
- Forward Foreign Exchange Contracts	12,121	2,107,500	13,822	2,612,557
- Spot Contracts	2,890	362,092	691	343,896
	239,535	12,427,047	192,714	15,256,014

### 9.2 Derivative Liabilities - Held for Trading

At a Loss Position

As at 31 December	BANK/GROUP		BANK/GROUP	
	Fair Value of Liabilities 2020 LKR '000	Contract amount 2020 LKR '000	Fair Value of Liabilities 2019 LKR '000	Contract amount 2019 LKR '000
<b>Foreign Currency Derivatives</b>				
- Currency Swaps	230,251	12,165,983	237,796	19,500,226
- Forward Foreign Exchange Contracts	20,086	2,939,115	74,132	3,874,695
- Spot Contracts	363	98,775	43	100,836
	250,700	15,203,873	311,971	23,475,757

## 10 FINANCIAL ASSETS - RECOGNISED THROUGH PROFIT OR LOSS

As at 31 December	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
Measured at Fair Value		
Government of Sri Lanka Treasury Bills	987,733	12,731
Government of Sri Lanka Treasury Bonds	1,429,059	621,344
	2,416,792	634,075

### 10.1 Analysis

As at 31 December	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
By collateralisation		
Pledged as collateral	-	-
Unencumbered	2,416,792	634,075
	2,416,792	634,075
By currency		
Sri Lankan Rupee	2,416,792	634,075
United States Dollar	-	-
	2,416,792	634,075

## 11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
Debt Instruments		
- Government of Sri Lanka Treasury Bills	50,462,433	17,547,404
- Government of Sri Lanka Treasury Bonds	22,302,053	20,753,863
- Sri Lanka Sovereign Bonds	477,199	-
Equity Instruments (Note 11.1)	16,150	13,880
	73,257,835	38,315,147

# notes to the financial statements

## 11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTD.)

### 11.1 Equity Instruments at fair value through other Comprehensive Income

As at 31 December	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
Lanka Clear (Private) Limited	1,500	1,500
150,000 Ordinary Shares of LKR 10/- each		
Credit Information Bureau (CRIB)	90	90
9,000 Ordinary Shares of LKR 10/- each		
Lanka Financial Services Bureau	3,000	1,125
300,000 (2019-112,500) Ordinary Shares of LKR 10/- each		
Society of Worldwide Interbank Financial Telecommunication (SWIFT)	11,560	11,165
12 Ordinary Shares		
	16,150	13,880

### 11.2 Analysis

As at 31 December	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
By collateralisation		
Pledged as collateral	11,801,298	2,455,842
Unencumbered	61,456,537	35,859,305
	73,257,835	38,315,147
By currency		
Sri Lankan Rupee	72,769,076	38,303,982
United States Dollar	488,759	11,165
	73,257,835	38,315,147

## 12 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS

As at 31 December	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
Government of Sri Lanka Treasury Bonds	13,526,578	13,559,215
Sri Lanka Development Bonds	9,540,886	4,247,098
Sri Lanka Sovereign Bonds	3,420,341	-
Quoted Debentures (Note 12.1)	514,240	1,288,418
Less: Impairment (Note 12.3)	(353,962)	(32,125)
	26,648,083	19,062,606

### 12.1 Quoted Debentures

Company	Type	No of Debentures		LKR '000	
		2020	2019	2020	2019
Commercial Leasing & Finance PLC	Unsecured, Redeemable Debentures	500,000	-	514,240	-
DFCC Vardhana Bank	Unsecured, Redeemable Debentures	-	1,988,600	-	209,024
Housing and Development Finance Corporation	Unsecured, Redeemable Debentures	-	2,500,000	-	253,012
Access Engineering PLC	Unsecured, Redeemable Debentures	-	3,500,000	-	354,226
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	-	1,000,000	-	105,192
Senkadagala Finance PLC	Unsecured, Redeemable Debentures	-	611,500	-	62,345
People's Leasing & Finance PLC	Unsecured, Redeemable Debentures	-	3,000,000	-	304,619
				514,240	1,288,418

### 12.2 Analysis

As at 31 December	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
By collateralisation		
Pledged as collateral	447,728	9,060,317
Unencumbered	26,200,355	10,002,289
	26,648,083	19,062,606
By currency		
Sri Lankan Rupee	14,040,738	14,847,335
United States Dollar	12,607,345	4,215,271
	26,648,083	19,062,606



# notes to the financial statements

## 12 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS (CONTD.)

### 12.3 Movement in Impairment During the Year

	BANK /GROUP	
	2020 LKR '000	2019 LKR '000
<b>Stage 1</b>		
Balance as at 01 January	32,125	28,146
Charge/(Write back) to Income Statement (Note 36)	321,837	3,979
Write-off during the year	-	-
<b>Balance as at 31 December</b>	<b>353,962</b>	<b>32,125</b>
<b>Stage 2</b>		
Balance as at 01 January	-	-
Charge/(Write back) to Income Statement (Note 36)	-	-
Write-off during the year	-	-
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>
<b>Stage 3</b>		
Balance as at 01 January	-	42,373
Charge/(Write back) to Income Statement (Note 36)	-	-
Write-off during the year	-	-
Transfer to loans and advances to customers (Note 13.4)	-	(42,373)
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>
<b>Total impairment provision</b>	<b>353,962</b>	<b>32,125</b>

## 13 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES

	BANK		GROUP	
As at 31 December	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Gross loans and advances				
- Stage 1	188,702,042	193,991,499	188,702,353	193,993,990
- Stage 2	5,484,987	14,919,176	5,484,987	14,919,176
- Stage 3	24,575,616	25,464,313	24,575,616	25,464,313
	<b>218,762,645</b>	<b>234,374,988</b>	<b>218,762,956</b>	<b>234,377,479</b>
(Less): Accumulated impairment under:				
- Stage 1 (Note 13.4)	(1,083,662)	(1,009,992)	(1,083,532)	(1,009,862)
- Stage 2 (Note 13.4)	(621,865)	(343,589)	(621,865)	(343,589)
- Stage 3 (Note 13.4)	(6,871,632)	(6,229,838)	(6,871,632)	(6,229,838)
	<b>(8,577,159)</b>	<b>(7,583,419)</b>	<b>(8,577,029)</b>	<b>(7,583,289)</b>
<b>Net loans and advances</b>	<b>210,185,486</b>	<b>226,791,569</b>	<b>210,185,927</b>	<b>226,794,190</b>

Gross Loans Included under stage 1 reflects the balance net of allowance for day 1 difference of staff loans of LKR 704.759 Mn (2019 - LKR 775.931 Mn) (Note 14) which add on to LKR 219,467.405 Mn (2019 - LKR 235,150.920 Mn).

Gross amount of loans & advances individually determined to be impaired, before deducting individually assessed impairment allowance amounts to LKR 14,620 Mn (2019 - LKR 16,371 Mn).

### 13.1 Gross loans and Advances By Product

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Bills of Exchange	3,638	14,670	3,638	14,670
Trade Finance	40,475,066	42,991,213	40,475,066	42,991,213
Overdrafts	30,832,995	42,085,672	30,832,995	42,085,672
Term Loans	76,108,212	73,403,787	76,108,212	73,403,787
Staff Loans	3,960,179	3,652,422	3,960,179	3,652,422
Leases (Note 13.5)	39,303,114	44,142,733	39,303,114	44,142,733
Credit Cards	28,261,321	28,188,516	28,261,321	28,188,516
Pawning	259,929	420,931	259,929	420,931
Other Advances	262,951	250,976	263,263	253,466
	219,467,405	235,150,920	219,467,717	235,153,410

### 13.2 Gross Loans and Advances by Currency

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Sri Lanka Rupee	193,944,227	208,443,170	193,944,539	208,445,660
United States Dollar	25,307,484	26,414,048	25,307,484	26,414,048
Great Britain Pound	40,923	62,947	40,923	62,947
Others	174,771	230,755	174,771	230,755
	219,467,405	235,150,920	219,467,717	235,153,410

### 13.3 Gross Loans and Advances by Industry

The industry wise exposure of gross Loans and advances is disclosed in Note 47.2

### 13.4 Movement in Impairment During the Year

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
<b>Stage 1</b>				
Balance as at 01 January	1,009,992	1,047,569	1,009,862	1,047,439
Charge/(Write back) to income statement (Note 36)	75,297	(37,577)	75,297	(37,577)
Write-off during the year	(1,627)	-	(1,627)	-
<b>Balance as at 31 December</b>	<b>1,083,662</b>	<b>1,009,992</b>	<b>1,083,532</b>	<b>1,009,862</b>
<b>Stage 2</b>				
Balance as at 01 January	343,589	296,431	343,589	296,431
Charge/(Write back) to income statement (Note 36)	278,276	47,158	278,276	47,158
Write-off during the year	-	-	-	-
<b>Balance as at 31 December</b>	<b>621,865</b>	<b>343,589</b>	<b>621,865</b>	<b>343,589</b>
<b>Stage 3</b>				
Balance as at 01 January	6,229,838	4,414,056	6,229,838	4,414,056
Charge/(Write back) to income statement (Note 36)	3,064,831	3,294,029	3,064,831	3,294,029
Transferred from financial assets at amortised cost - debt instruments (Note 12.3)	-	42,373	-	42,373
Write-off during the year	(2,423,037)	(1,520,620)	(2,423,037)	(1,520,620)
<b>Balance as at 31 December</b>	<b>6,871,632</b>	<b>6,229,838</b>	<b>6,871,632</b>	<b>6,229,838</b>

The impact of the movement of loans & advances during the current year to stage 3 from stage 1 and stage 2 is reflected within the current year's charge to the income statement.

# notes to the financial statements

## 13 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

### 13.5 Rental Receivable on Leases

As at 31 December

	2020				2019			
	BANK/GROUP				BANK/GROUP			
	Within 1 year LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Total LKR '000	Within 1 year LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Gross Rentals Receivables	21,112,039	26,179,448	11,414	47,302,901	20,683,827	31,811,108	2,807,606	55,302,541
Less : Unearned Income	(3,958,031)	(4,041,471)	(285)	(7,999,787)	(4,786,345)	(5,673,740)	(699,723)	(11,159,808)
Net Rentals Receivables	17,154,008	22,137,977	11,129	39,303,114	15,897,482	26,137,368	2,107,883	44,142,733
Less : Allowance for Impairment Losses	-	-	-	(348,034)	-	-	-	(792,788)
Total Net Rentals Receivables	17,154,008	22,137,977	11,129	38,955,080	15,897,482	26,137,368	2,107,883	43,349,945

## 14 OTHER ASSETS

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Deposits and Prepayments	369,154	337,612	377,854	347,291
Unamortised Staff Cost (Note 13)	704,760	775,931	704,760	775,931
Debenture Proceeds Receivable	105,178	-	105,178	-
Senior Citizen interest reimbursement	645,721	487,692	645,721	487,692
Other Receivables	589,356	555,711	613,770	599,697
Less: Impairment for Leasing Charges and Other Receivables (Note 14.1)	(30,107)	(22,524)	(37,955)	(30,373)
	2,384,062	2,134,422	2,409,328	2,180,238

### 14.1 Movement in Impairment During the Year

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance as at 01 January	22,524	19,666	30,373	20,994
Charge / (write back) to income statement (Note 36)	29,704	28,098	29,704	34,619
Write -off during the Year	(22,121)	(25,240)	(22,121)	(25,240)
Balance as at 31 December	30,107	22,524	37,956	30,373

## 15 INVESTMENTS IN SUBSIDIARIES

Unquoted

As at 31 December	Country of Incorporation	BANK			
		2020 Holding %	2019 Holding %	2020 Cost LKR '000	2019 Cost LKR '000
Waldock Mackenzie Limited	Sri Lanka	99.99	99.99	-	-
Allied Properties Limited	Sri Lanka	99.99	99.99	652,907	652,907
Nations Insurance Brokers Limited	Sri Lanka	99.99	99.99	25,803	25,803
Net Carrying Amount				678,710	678,710

## 16 PROPERTY, PLANT AND EQUIPMENT

### 16.1 Bank

Gross Carrying Amounts - at Cost

	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office and Electrical Equipments	Computer hardware	Furniture, Fixtures and Fittings	Leasehold improvements	Capital Work in Progress (WIP)	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
As at 01 January 2019	1,401,500	-	174,178	25,999	728,229	2,175,885	802,986	391,653	18,283	5,718,714
Additions	-	-	-	-	60,899	241,911	83,923	40,530	-	427,263
Disposals	-	-	-	-	(5,523)	(2,735)	(6,662)	-	-	(14,920)
Reclassifications *	-	-	-	-	-	19,919	-	-	-	19,919
Revaluation Surplus	177,400	-	(9,013)	-	-	-	-	-	-	168,387
Accumulated depreciation adjustment on revaluation	-	-	(10,435)	-	-	-	-	-	-	(10,435)
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	9,094	9,094
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(18,283)	(18,283)
As at 31 December 2019	1,578,900	-	154,730	25,999	783,605	2,434,980	880,247	437,183	9,094	6,299,739
Additions	-	-	4470	-	16,244	75,457	10,465	2,829	-	109,465
Disposals	-	-	-	(21,200)	(7)	(51,571)	(103)	(189)	-	(73,070)
Reclassifications *	-	-	-	-	(2,759)	2,824	(65)	-	-	-
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	201	201
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(9,094)	(9,094)
As at 31 December 2020	1,578,900	-	159,200	4,799	797,083	2,461,690	890,544	434,824	201	6,327,241
Depreciation / Amortisation										
As at 01 January 2019	-	-	5,211	15,983	493,540	1,461,358	578,987	295,811	-	2,850,890
Charge for the year	-	-	5,224	5,300	70,895	260,488	63,772	35,471	-	441,150
Disposals	-	-	-	-	(5,415)	(2,735)	(5,749)	-	-	(13,900)
Reclassifications *	-	-	-	-	-	8,258	-	-	-	8,258
Accumulated depreciation adjustment on revaluation	-	-	(10,435)	-	-	-	-	-	-	(10,435)
As at 31 December 2019	-	-	4,973	21,283	559,020	1,727,368	637,010	331,282	-	3,275,963
Charge for the year	-	-	-	2,208	66,289	278,636	60,388	36,399	-	448,893
Disposals	-	-	-	(18,992)	(5)	(51,246)	(100)	(189)	-	(70,532)
Reclassifications *	-	-	-	-	(2,759)	2,859	(65)	-	-	35
As at 31 December 2020	-	-	4,973	4,500	622,545	1,957,617	697,232	367,492	-	3,654,359
At 31 January 2019	1,401,500	-	168,967	10,016	234,689	714,527	223,999	95,842	18,283	2,867,825
At 31 December 2019	1,578,900	-	154,730	4,716	224,585	707,612	243,237	100,902	9,094	3,023,776
At 31 December 2020	1,578,900	-	154,227	299	174,538	504,073	193,312	67,332	201	2,672,882

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 109 Mn (2019 - LKR 427 Mn). Cash payments amounting to LKR 100.6 Mn (2019 - LKR 384.8 Mn) were made during the year for purchase of property, plant and equipment. Property, plant and equipment includes fully depreciated assets having a gross carrying amount of LKR 2,454 Mn (2019 - LKR 2,230 Mn).

\* Reclassification represents transfer of operating software from computer software to computer hardware and other transfers between computer hardware and office equipment.

**16.1.1** The carrying amount of Bank's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31 December	2020			2019		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Freehold Land	559,440	-	559,440	559,440	-	559,440
Freehold Building	124,272	48,845	75,427	119,802	46,078	73,725
Total	683,712	48,845	634,867	679,242	46,078	633,165

# notes to the financial statements

## 16 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

### 16.2 Group

Gross Carrying Amounts - at Cost	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office and Electrical Equipments	Computer hardware	Furniture, Fixtures and Fittings	Leasehold improvements	Capital Work in Progress (WIP)	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
As at 01 January 2019	1,401,500	148,000	838,988	26,169	766,504	2,180,518	806,757	391,652	18,283	6,578,371
Additions	-	-	-	-	64,903	242,862	84,690	40,530	-	432,985
Disposals	-	-	-	-	(5,523)	(2,734)	(6,662)	-	-	(14,919)
Reclassifications *	-	-	-	-	-	19,919	-	-	-	19,919
Revaluation Surplus	177,400	-	264,522	-	-	-	-	-	-	441,922
Accumulated depreciation adjustment on revaluation	-	-	(57,732)	-	-	-	-	-	-	(57,732)
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	9,094	9,094
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(18,283)	(18,283)
As at 31 December 2019	1,578,900	148,000	1,045,778	26,169	825,884	2,440,565	884,785	432,182	9,094	7,391,357
Additions	-	-	4470	-	18,435	75,574	10,709	2,829	-	120,16
Disposals	-	-	-	(21,200)	(7)	(51,571)	(326)	(189)	-	(73,292)
Reclassifications *	-	-	-	-	(2,759)	2,824	(65)	-	-	-
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	201	201
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(9,094)	(9,094)
As at 31 December 2020	1,578,900	148,000	1,050,248	4,969	841,553	2,467,392	895,103	434,823	201	7,421,187
Depreciation / Amortisation										
As at 01 January 2019	-	24,454	28,798	16,150	498,579	1,464,951	581,128	295,809	-	2,909,869
Charge for the year	-	1,893	28,934	5,300	75,493	261,029	64,203	35,471	-	472,323
Disposals	-	-	-	-	(5,415)	(2,735)	(5,749)	-	-	(13,898)
Reclassifications *	-	-	-	-	-	8,258	-	-	-	8,258
Accumulated depreciation adjustment on revaluation	-	-	(57,732)	-	-	-	-	-	-	(57,732)
As at 31 December 2019	-	26,347	-	21,450	568,657	1,731,503	639,582	331,280	-	3,318,820
Charge for the year	-	1,893	39,170	2,208	71,254	279,257	60,807	36,399	-	490,988
Disposals	-	-	-	(18,992)	(5)	(51,246)	(174)	(189)	-	(70,607)
Reclassifications *	-	-	-	-	(2,759)	2,859	(65)	-	-	35
As at 31 December 2020	-	28,241	39,170	4,667	637,147	1,962,373	700,150	367,490	-	3,739,235
Net Book Value										
At 01 January 2019	1,401,500	123,546	810,190	10,019	267,925	715,567	225,629	95,843	18,283	3,668,502
At 31 December 2019	1,578,900	121,653	1,045,778	4,719	257,227	709,062	245,203	100,902	9,094	4,072,538
At 31 December 2020	1,578,900	119,759	1,011,078	302	204,406	505,019	194,953	67,333	201	3,681,952

During the financial year, the Group acquired property, plant and equipment to the aggregate value of LKR 112 Mn (2019 - LKR 432 Mn). Cash payments amounting to LKR 103.1 Mn (2019 - LKR 397.2 Mn) were made during the year for purchase of property, plant and equipment. Property, plant and equipment includes fully depreciated assets having a gross carrying amount of LKR 2,460 Mn (2019 - LKR 2,240 Mn).

\* Reclassification represents transfer of operating software from computer software to computer hardware and other transfers between computer hardware and office equipment.

16.2.1 The carrying amount of Groups freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows:

As at 31 December	2020			2019		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Freehold Land	559,440	-	559,440	559,440	-	559,440
Freehold Building	591,042	217,128	373,914	586,572	202,424	384,148
Total	1,150,482	217,128	933,354	1,146,012	202,424	943,588

## 16.3 Details of Land and Building Stated at Valuation

Valuer - Mr. P B Kalugalagedara

Location	Date of Valuation	Net Book Value Before Revaluation		Revaluation amount		Revaluation gain recognised in OCI		
		Land LKR' Mn	Building LKR' Mn	Land LKR' Mn	Building LKR' Mn	Land LKR' Mn	Building LKR' Mn	Total LKR' Mn
No.242, Union Place, Colombo 02	31-12-2019	1,224.00	136.65	1,377.00	135.63	153.00	(1.02)	151.98
No.76, York Street, Colombo 01	31-12-2019	177.50	27.09	201.90	19.10	24.40	(7.99)	16.41
<b>Total - Bank</b>		1,401.50	163.74	1,578.90	154.73	177.40	(9.01)	168.39
No.46/58, Navam Mawatha, Colombo 02	31-12-2019	-	617.51	-	891.05	-	273.53	273.53
<b>Total - Group *</b>		1,401.50	781.25	1,578.90	1,045.78	177.40	264.52	441.92

\* Land and Buildings of the Group consist of properties of Nations Trust Bank PLC (The Bank) and Allied Properties Limited. Method of Valuation is disclosed in Note 46.1.1

## 17 RIGHT OF USE ASSETS (ROU)

17.1 The key assumptions used for the computation of operating lease liabilities include the following:

	2020	2019
Incremental Borrowing Rate	11%	11%

## 17.2

	BANK				GROUP			
	Land & Buildings LKR '000	Computer related Equipment LKR '000	Motor Vehicles LKR '000	Total LKR '000	Land & Buildings LKR '000	Computer related Equipment LKR '000	Motor Vehicles LKR '000	Total LKR '000
<b>Gross Carrying Amount</b>								
Impact of first time adoption of SLFRS 16 as at 01 January 2019	1,878,064	172,482	39,982	2,090,528	1,698,520	172,482	39,982	1,910,984
Additions	239,266	-	17,476	256,742	239,266	-	17,476	256,742
Disposals/Derecognition	-	-	-	-	-	-	-	-
As at 31 December 2019	2,117,330	172,482	57,458	2,347,270	1,937,786	172,482	57,458	2,167,726
Additions	147,146	39,688	9,013	195,846	147,146	39,688	9,013	195,846
Disposals/Derecognition	(324,717)	-	(17,505)	(342,222)	(145,173)	-	(17,505)	(162,678)
As at 31 December 2020	1,939,759	212,170	48,966	2,200,894	1,939,758	212,170	48,966	2,200,894
<b>Depreciation</b>								
Depreciation charge for the year	431,837	28,747	15,957	476,541	342,065	28,747	15,957	386,769
Disposals/Derecognition	-	-	-	-	-	-	-	-
As at 31 December 2019	431,837	28,747	15,957	476,541	342,065	28,747	15,957	386,769
Depreciation charge for the year	454,818	30,105	17,834	502,757	365,046	30,105	17,834	412,985
Disposals/Derecognition	(259,281)	-	(17,505)	(276,786)	(79,738)	-	(17,505)	(97,242)
As at 31 December 2020	627,374	58,852	16,286	702,512	627,373	58,852	16,286	702,512
<b>Net Book Value</b>								
As at 31 December 2019	1,685,493	143,735	41,501	1,870,729	1,595,721	143,735	41,501	1,780,957
As at 31 December 2020	1,312,385	153,318	32,680	1,498,382	1,312,385	153,318	32,680	1,498,382



## notes to the financial statements

### 17 RIGHT OF USE ASSETS (ROU) (CONTD.)

**17.3** In order to illustrate the significance of the incremental borrowing rate assumed in this valuation, a sensitivity analysis for all right of use (ROU) assets is as follows.

Incremental Borrowing Rate	BANK		GROUP	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
12%	1,493,726	1,825,278	1,493,726	1,736,405
10%	1,576,563	1,918,282	1,576,563	1,827,598

**17.4** Set out below are the carrying amounts of lease liabilities (included under due to other borrowers in Note 20.2) and the movement during the year

	BANK LKR '000	GROUP LKR '000
Impact of first time adoption of SLFRS 16 as at 01 January 2019	1,839,590	1,660,046
Additions	227,456	227,456
Accretion of interest	196,823	181,077
Payments	(547,361)	(447,921)
As at 31 December 2019	1,716,508	1,620,658
Additions	175,036	175,036
Accretion of interest	180,245	174,439
Disposal	(48,540)	(48,540)
Payments	(555,301)	(453,645)
As at 31 December 2020	1,467,948	1,467,948

The Bank & Group had total cash outflows for leases of LKR 555.3 Mn and LKR 453.6 Mn respectively. (2019 - LKR 547.4 Mn & 447.9 Mn). The initial application of SLFRS 16 resulted in non- cash addition to right -of-use assets and lease liability of LKR 1,839.6 Mn and LKR 1,660.0 Mn of the Bank & Group respectively at 1 January 2019.

## 18 INTANGIBLE ASSETS

	BANK			GROUP		
	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000
<b>Cost</b>						
<b>As at 01 January 2019</b>	2,631,379	331,288	2,962,667	2,654,035	331,288	2,985,323
Additions	325,187	-	325,187	325,187	-	325,187
Disposals	-	-	-	-	-	-
Reclassification*	(19,919)	-	(19,919)	(19,919)	-	(19,919)
Capital WIP - Additions during the year	183,216	-	183,216	183,216	-	183,216
Capital WIP - Capitalized during the year	(74,947)	-	(74,947)	(74,947)	-	(74,947)
<b>As at 31 December 2019</b>	3,044,916	331,288	3,376,204	3,067,572	331,288	3,398,860
Additions	346,816	-	346,816	347,683	-	347,683
Disposals	-	-	-	(22,655)	-	(22,655)
Capital WIP - Additions during the year	61,915	-	61,915	61,915	-	61,915
Capital WIP - Capitalized during the year	(183,216)	-	(183,216)	(183,216)	-	(183,216)
<b>As at 31 December 2020</b>	3,270,431	331,288	3,601,719	3,271,299	331,288	3,602,587
<b>Amortisation</b>						
<b>As at 01 January 2019</b>	1,385,346	276,073	1,661,419	1,406,311	276,073	1,682,384
Charge for the year	314,332	33,129	347,461	315,446	33,129	348,575
Disposals	-	-	-	-	-	-
Reclassification*	(8,257)	-	(8,257)	(8,257)	-	(8,257)
<b>As at 31 December 2019</b>	1,691,421	309,202	2,000,623	1,713,499	309,202	2,022,701
Charge for the year	357,627	22,086	379,713	357,813	22,086	379,899
Disposals	-	-	-	(22,258)	-	(22,258)
Reclassification*	(35)	-	(35)	(35)	-	(35)
<b>As at 31 December 2020</b>	2,049,012	331,288	2,380,300	2,049,020	331,288	2,380,308
<b>Net Book Value</b>						
<b>As at 01 January 2019</b>	1,246,033	55,215	1,301,248	1,247,724	55,216	1,302,940
<b>As at 31 December 2019</b>	1,353,495	22,086	1,375,581	1,354,073	22,086	1,376,159
<b>As at 31 December 2020</b>	1,221,419	-	1,221,419	1,222,279	-	1,222,279

During the financial year, the Bank acquired intangible assets to the aggregate value of LKR 347 Mn(2019- LKR 325 Mn). Cash payments amounting to LKR 225.5 Mn (2019- LKR 425.7 Mn) were made during the year for purchase of intangible assets.

During the financial year, the Group acquired intangible assets to the aggregate value of LKR. 348 Mn(2019- LKR 325 Mn). Cash payments amounting to LKR 226.4 Mn (2019- LKR 425.7 Mn) were made during the year for purchase of intangible assets.

\* Reclassifications represents transfer of operating software from computer software to computer hardware.

## 19 DUE TO BANKS

	BANK/ GROUP	
As at 31 December	2020 LKR '000	2019 LKR '000
Money Market Borrowing	846,728	5,836,777
Securities Sold under Repurchase Agreements (Repo) (Note 8.2)	3,250,406	-
Deposits from Other Banks	844,438	647,380
	4,941,572	6,484,157

# notes to the financial statements

## 20 FINANCIAL LIABILITIES AT AMORTISED COST

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Due to Depositors (Note 20.1)	240,584,022	226,880,034	240,574,266	226,871,563
Securities sold under repurchase (repo) agreements (Note 8.2)	7,562,588	11,033,047	6,392,440	10,186,828
Due to Other Borrowers (Note 20.2)	28,040,126	27,380,678	28,040,126	27,284,828
	276,186,736	265,293,759	275,006,832	264,343,219

### 20.1 Analysis of Amount Due to Depositors

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
<b>20.1.1 By Product</b>				
Demand Deposits	21,964,545	17,800,609	21,954,789	17,792,138
Savings Deposits	55,619,756	43,810,397	55,619,756	43,810,397
Call Deposits	55,373	43,941	55,373	43,941
Fixed Deposits	162,896,433	165,176,638	162,896,433	165,176,638
Certificate of Deposits	47,915	48,449	47,915	48,449
	240,584,022	226,880,034	240,574,266	226,871,563
<b>20.1.2 By Currency</b>				
Sri Lanka Rupee	205,740,131	195,418,578	205,730,375	195,410,107
United States Dollar	28,504,220	24,946,156	28,504,220	24,946,156
Sterling Pound	2,111,573	2,094,621	2,111,573	2,094,621
Others	4,228,098	4,420,679	4,228,098	4,420,679
	240,584,022	226,880,034	240,574,266	226,871,563

### 20.2 Due to Other Borrowers

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Development Finance Institutions (DFI) (Note 20.2.1)	15,374,122	16,982,877	15,374,122	16,982,877
Refinance Borrowings	4,962,647	1,962,222	4,962,647	1,962,222
Financial Institutions	6,235,409	6,719,071	6,235,409	6,719,071
Operating Lease Liability	1,467,948	1,716,508	1,467,948	1,620,658
	28,040,126	27,380,678	28,040,126	27,284,828

**20.2.1** These borrowings are from Foreign Development Finance Institutions with an original maturity of 5 years. Interest is payable on a variable base with a fixed spread.

## 21 DEBT SECURITIES ISSUED

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
<b>Subordinated Debt Securities Issued by the Bank</b>		
Rated, Unsecured, Redeemable Debentures (Note 21.1)	13,261,973	13,263,434
	13,261,973	13,263,434
Due within 1 Year	5,088,428	-
Due after 1 Year	8,173,545	13,263,434
	13,261,973	13,263,434

## 21.1 Details of Subordinated Debentures Issued by the Bank / Group

Type	Face Value		Interest Rates		Interest Terms	Issued Date	Maturity Date	Amortized Cost - Bank / Group		Interest rate of Comparable Government Security	
	2020	2019	Coupon Rate (%)	Effective Annual Yield (%)				2020	2019	2020	As at Issue Date %
	LKR'000	LKR'000						LKR'000	LKR'000	%	%
NTB-BD-08/11/21-C2363	2,410	2,410	6.19**	6.29**	Semi -Annually	8-Nov-16	8-Nov-21	2,429	2,437	4.98**	8.65** 11.71**
NTB-BD-08/11/21-C2365-12.65	3,885,800	3,885,800	12.65	13.05	Semi -Annually	8-Nov-16	8-Nov-21	3,954,348	3,950,016	4.98	8.65 11.71
NTB-BD-08/11/21-C2364-12.8	1,111,790	1,111,790	12.80	12.80	Annually	8-Nov-16	8-Nov-21	1,131,649	1,130,409	4.98	8.65 11.71
NTB-BD-20/04/23-C2402-12.65	2,213,000	2,213,000	12.65	13.05	Semi -Annually	20-Apr-18	20-Apr-23	2,265,465	2,264,996	5.88	9.33 9.99
NTB-BD-20/04/23-C2401-13	1,287,000	1,287,000	13.00	13.00	Annually	20-Apr-18	20-Apr-23	1,402,297	1,401,793	5.88	9.33 9.99
NTB-BD-23/12/24 - C2441 - 12.8	2,700,000	2,700,000	12.80	12.80	Annually	23-Dec-19	23-Dec-24	2,700,058	2,708,073	6.45	9.74 9.89
NTB-BD-23/12/26 - C2442 - 12.9	1,800,000	1,800,000	12.90	12.90	Annually	23-Dec-19	23-Dec-26	1,805,725	1,805,710	6.80	9.87 10.11
	13,000,000	13,000,000						13,261,971	13,263,434		

### Ratios of Debt

	2020	2019
Debt* / Equity Ratio (%)	84.58	110.18
Interest Cover (Times)	3.05	3.24
Quick Asset Ratio (%)	155	125

\* Borrowings of which original maturity with five years or more are considered for debt.

\*\* Floating rate debenture repricing at 6 months T-Bill rate + 1.5%

**21.2** All the securities were issued by Nations Trust Bank PLC. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2020.

# notes to the financial statements

## 22 RETIREMENT BENEFIT OBLIGATIONS

The employee benefit liability is based on the actuarial valuation as of 31 December 2020, carried out by M/s Actuarial and Management Consultants (Private) Limited, a firm of professional actuaries.

The key assumptions used by the actuary include the following:

	2020	2019
Rate of Discount	7.75%	9.9%
Rate of Salary Increase	7.0%	8.0%
Retirement Age	55-60 years	55-60 years

### 22.1 Net Benefit Expense Categorized Under Personnel Expenses:

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Interest Cost	64,595	59,089	65,286	59,857
Current Service Cost	93,674	77,908	94,588	78,439
	158,269	136,997	159,874	138,296

### 22.2 Changes in the present value of the Retirement Benefit Plan are as follows:

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	652,473	505,031	659,454	511,602
Interest Cost (Note 22.1)	64,595	59,089	65,286	59,857
Current Service Cost (Note 22.1)	93,674	77,908	94,588	78,439
Benefits Paid	(62,796)	(62,096)	(62,796)	(63,392)
Gratuity Payable	(12,315)	(2,306)	(12,315)	(2,306)
Actuarial (Gain)/ Loss	38,442	74,847	41,032	75,254
As at 31 December	774,073	652,473	785,249	659,454

**22.3** In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation, a sensitivity analysis for all employees of the Group, assuming the above is as follows:.

2020				2019			
Salary Escalation Rate	Discount Rate	PVDBO	Effect on Other Comprehensive Income	Salary Escalation Rate	Discount Rate	PVDBO	Effect on Other Comprehensive Income
		LKR '000	LKR '000			LKR '000	LKR '000
7.0%	8.75%	743,605	41,644	8.0%	10.90%	629,777	29,677
7.0%	6.75%	831,609	(46,360)	8.0%	8.90%	692,045	(32,591)
8.0%	7.75%	835,149	(49,900)	9.0%	9.90%	695,290	(35,836)
6.0%	7.75%	739,662	45,587	7.0%	9.90%	626,303	33,151

**22.4** Average future working life time as per the assumptions made in year 2020: 5.99 years (Year 2019: 6.01 years).

## 23 CURRENT TAX LIABILITIES

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance as at 01 January	1,337,499	1,547,833	1,362,108	1,574,972
Payments Made / Tax Credits Set Off	(2,239,781)	(2,355,175)	(2,305,358)	(2,431,506)
Charge for the Year (Note 40.1)	2,195,429	2,565,464	2,262,825	2,639,265
(Over)/Under Provisions for the Previous Year (Note 40.1)	-	(420,623)	-	(420,623)
Balance as at 31 December	1,293,147	1,337,499	1,319,575	1,362,108

As per the Inland Revenue Department announcement dated 12 February 2020, the income tax rate applicable for the banking sector will be reduced to 24% from the year of assessment 2020/21. Since the above amendment is yet to be enacted, existing rate of 28% is applied in ascertaining the income tax liability and deferred tax liability as at 31 December 2020.

Had we considered the proposed rate;

For Bank : the Income tax liability as at 31 December 2020 would have decreased by LKR 314 Mn resulting in an increase of LKR 314 Mn in profit after tax.

For Group : the Income tax liability as at 31 December 2020 would have decreased by LKR 323 Mn resulting in an increase of LKR 323 Mn in profit after tax.

In addition to the above, along with the deferred tax reduction (as per Note 25) it accumulates an increase in profit after tax by LKR 417 Mn in Bank and LKR 425 Mn in Group.

## 24 OTHER LIABILITIES

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Accounts Payable and Sundry Creditors	1,781,460	1,993,110	1,792,912	2,005,932
Obligations under Financial Guarantees (Note 24.1)	124,355	150,856	124,355	150,856
Margin Balances	622,491	513,918	622,491	513,918
Pay Orders	547,738	535,622	547,738	535,622
Share Based Payments (Note 24.2)	72,623	69,188	72,623	69,188
Impairment in respect of off-balance sheet credit exposure (Note 24.3)	487,735	429,055	487,735	429,055
Others	2,608,432	2,666,646	2,624,855	2,685,389
	6,244,834	6,358,395	6,272,709	6,389,960

### 24.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows;

	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
As at 01 January	150,856	121,357
Income recognised during the year	(308,181)	(319,767)
Arising during the Year	281,680	349,266
As at 31 December	124,355	150,856



# notes to the financial statements

## 24 OTHER LIABILITIES (CONTD.)

### 24.2 Share Based Payments

Employee Share Appreciation Rights (ESAR)

	BANK/GROUP							
	Scheme 1 - 2017		Scheme 2 - 2018		Scheme 3 - 2019		Scheme 4 - 2020	
	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000
<b>As at 01 January 2019</b>	925,976	32,306	1,488,637	32,200	-	-	-	-
Granted during the year	-	-	-	-	1,500,000	14,469	-	-
Granted during the year due to Bonus Issue	13,829	488	32,537	1,045	-	-	-	-
Exercised during the year	(47,379)	(393)	(34,848)	(255)	-	-	-	-
SARS payable on retirement/resignation	(33,266)	(60)	(25,000)	(66)	-	-	-	-
Cancelled during the year	(57,459)	(1,352)	(158,333)	(5,084)	(107,142)	(2,882)	-	-
Forfeited during the year	(7,056)	(166)	(24,241)	(778)	-	-	-	-
Movement of ESAR during the Year	-	(12,339)	-	6,451	-	5,604	-	-
<b>As at 31 December 2019</b>	794,645	18,484	1,278,752	33,513	1,392,858	17,191	-	-
Granted during the year	-	-	-	-	-	-	1,500,000	3,524
Exercised during the year	-	-	-	-	-	-	-	-
Cancelled during the year	(199,596)	(4,643)	(250,758)	(6,572)	(255,100)	(3,148)	(141,344)	(332)
Forfeited during the year	(10,081)	(234)	(16,667)	(437)	(14,456)	(178)	-	-
Movement of ESAR during the Year	-	(3,262)	-	(2,349)	-	(5,112)	-	26,178
<b>As at 31 December 2020</b>	584,968	10,345	1,011,327	24,155	1,123,302	8,753	1,358,656	29,370

The following table lists the input to the model used for valuation of the liability under ESARs as at 31 December each year.

	2020				2019		
	Scheme 1	Scheme 2	Scheme 3	Scheme 4	Scheme 1	Scheme 2	Scheme 3
Dividend Yield	3.80%	3.80%	3.80%	3.80%	2.59%	2.59%	2.59%
Expected Volatility	14.59%	14.59%	14.59%	14.59%	16.86%	16.86%	16.86%
Risk Free Interest Rate	5.05%	5.05%	5.05%	5.05%	8.45%	8.45%	8.45%
Employee turnover	10.10%	10.10%	10.10%	10.10%	15.40%	15.40%	15.40%
Expected Life of the Option	1.5 Years	2.25 Years	3.25 Years	4.25 Years	2.5 Years	3.25 Years	4.25 Years
Weighted Average Share Price on Grant Date	79.29	78.47	89.61	72.26	79.29	78.47	89.61
Adjusted Share Price on Grant Date	75.64	76.80	89.61	72.26	75.64	76.80	89.61

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

### 24.3 Impairment in Respect of Off-Balance Sheet Credit Exposure

	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
<b>Balance as at 01 January</b>	429,055	471,484
Charge / (Write back) to the income statement (Note 36)	58,680	(42,429)
<b>Balance as at 31 December</b>	487,735	429,055

## 25 DEFERRED TAXATION

### Bank

	2020				2019			
	1/1/2020	Recognised	Recognised	31/12/2020	1/1/2019	Recognised	Recognised	31/12/2019
	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)
	LKR '000	(Note 40.1)	LKR '000	LKR '000	LKR '000	(Note 40.1)	LKR '000	LKR '000
Accelerated depreciation allowances for tax purposes - property plant and equipment and intangible assets	305,973	(81,404)	-	224,569	350,184	(44,211)	-	305,973
Accelerated depreciation allowances for tax purposes- lease rentals receivable	741,332	(211,303)	-	530,029	1,244,715	(503,383)	-	741,332
Net gains on re-measuring of financial assets at fair value through OCI	117,435	-	138,726	256,161	(38,143)	-	155,578	117,435
Revaluation of land & building	309,505	-	-	309,505	262,357	-	47,148	309,505
Carry forward tax losses on lease business	-	-	-	-	(279,806)	279,806	-	-
Share based payments (ESAR)	(19,373)	(962)	-	(20,334)	(18,062)	(1,311)	-	(19,373)
Retirement benefit plan - Gratuity	(197,422)	(33,402)	(10,764)	(241,588)	(134,535)	(41,929)	(20,957)	(197,421)
Impairment on loans & advances	(205,898)	183,517	-	(22,381)	(8,754)	(197,144)	-	(205,898)
Impairment on other financial assets	(35,100)	(95,391)	-	(130,492)	(20,019)	(15,081)	-	(35,100)
Operating leases	-	(42,388)	-	(42,388)	-	-	-	-
Impact of first time adoption of SLFRS 9 - loans & advances	-	-	-	-	(391,270)	391,270	-	-
Impact of first time adoption of SLFRS 9 - other financial assets	-	-	-	-	(5,884)	5,884	-	-
Impact of first time adoption of of SLFRS16 - operating lease	(21,380)	21,380	-	-	-	(21,380)	-	(21,380)
Total	995,072	(259,954)	127,962	863,082	960,783	(147,479)	181,769	995,073

### Group

	2020				2019			
	1/1/2020	Recognised	Recognised	31/12/2020	1/1/2019	Recognised	Recognised	31/12/2019
	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)
	LKR '000	(Note 40.1)	LKR '000	LKR '000	LKR '000	(Note 40.1)	LKR '000	LKR '000
Accelerated depreciation allowances for tax purposes - property plant and equipment and intangible assets	305,023	(80,247)	-	224,776	348,942	(43,919)	-	305,023
Accelerated depreciation allowances for tax purposes- lease rentals receivable	741,332	(211,303)	-	530,029	1,244,715	(503,383)	-	741,332
Net gains on re-measuring of financial assets at fair value through OCI	117,435	-	138,726	256,161	(38,143)	-	155,578	117,435
Revaluation of land & building	478,675	-	-	478,675	354,936	-	123,738	478,675
Carry forward tax losses on lease business	-	-	-	-	(279,806)	279,806	-	-
Share based payments (ESAR)	(19,373)	(962)	-	(20,334)	(18,062)	(1,311)	-	(19,373)
Retirement benefit plan - Gratuity	(198,827)	(33,752)	(11,489)	(244,068)	(135,924)	(41,837)	(21,066)	(198,827)
Impairment on loans & advances	(208,095)	183,517	-	(24,578)	(9,126)	(198,969)	-	(208,095)
Impairment on other financial assets	(35,100)	(95,391)	-	(130,492)	(20,019)	(15,082)	-	(35,100)
Operating leases	-	(42,388)	-	(42,388)	-	-	-	-
Impact of first time adoption of SLFRS 9 - loans & advances	-	-	-	-	(391,270)	391,270	-	-
Impact of first time adoption of SLFRS 9 - other financial assets	-	-	-	-	(5,884)	5,884	-	-
Impact of first time adoption of of SLFRS16 - operating lease	(21,561)	21,561	-	-	-	(21,561)	-	(21,561)
Total	1,159,506	(258,966)	127,237	1,027,777	1,050,358	(149,102)	258,250	1,159,506

Deferred tax has been determined based on the effective tax rate of 28%.

# notes to the financial statements

## 25 DEFERRED TAXATION (CONTD.)

### Income Tax Changes

Further to the Note 23, had we considered the proposed rate:

for Bank : the deferred tax liability as at 31 December 2020 would have decreased by LKR 123 Mn resulting in an increase of LKR 103 Mn in profit after tax and LKR 20 Mn increase in OCI.

for Group : the deferred tax liability as at 31 December 2020 would have decreased by LKR 147 Mn resulting in an increase of LKR 102 Mn in profit after tax and LKR 45 Mn increase in OCI.

## 26 STATED CAPITAL

	BANK /GROUP 2020		BANK /GROUP 2019	
	Number	LKR '000	Number	LKR '000
<b>Ordinary Shares - Voting</b>				
<b>Issued and fully paid</b>				
As at 01 January	244,878,841	6,289,307	238,664,673	5,739,916
Scrip Dividend for 2018*	-	-	5,176,579	466,410
Conversion of Non Voting Shares to Voting Shares	255,980	20,485	1,037,589	82,981
<b>As at 31 December</b>	<b>245,134,821</b>	<b>6,309,792</b>	<b>244,878,841</b>	<b>6,289,307</b>
<b>Ordinary Shares - Convertible Non Voting</b>				
<b>Issued and fully paid</b>				
As at 01 January	38,973,031	3,118,828	39,082,463	3,125,607
Scrip Dividend for 2018*	-	-	928,157	76,202
Conversion of Non Voting Shares to Voting Shares	(255,980)	(20,485)	(1,037,589)	(82,981)
<b>As at 31 December</b>	<b>38,717,051</b>	<b>3,098,343</b>	<b>38,973,031</b>	<b>3,118,828</b>
<b>Total Ordinary Shares/Stated Capital as at 31 December</b>	<b>283,851,872</b>	<b>9,408,135</b>	<b>283,851,872</b>	<b>9,408,135</b>

\*Dividend for the year 2018 was paid in the form of a scrip dividend in the proportion of 01 share for every 46.10018487 Ordinary Voting Shares amounting to a total of 5,176,579 new Ordinary Voting Shares and 01 share for every 42.00693871 Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares) amounting to a total of 928,157 new Convertible Non-Voting Shares. Fractions in shares were paid in cash.

## 27 STATUTORY RESERVE FUND

**27.1** Statutory reserve fund is maintained as per the requirement in terms of Section 20 of the Banking Act No 30 of 1988. Accordingly, a sum equivalent to 5% of profit after tax is transferred to the reserve fund until reserve fund is equal to 50% of the Bank's Stated Capital. Thereafter, a further 2% of profits will be transferred until the said reserve fund is equal to the Bank's stated Capital.

### 27.2 Movement in Statutory Reserve Fund

	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
As at 01 January	1,371,853	1,199,130
Transfers during the year (Note 28)	189,934	172,723
<b>As at 31 December</b>	<b>1,561,787</b>	<b>1,371,853</b>

## 28 RETAINED EARNINGS

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	18,465,483	15,820,900	19,082,807	16,179,448
Total Comprehensive Income	3,771,007	3,400,575	4,025,416	3,659,351
Dividend Paid	(652,859)	(583,269)	(652,859)	(583,269)
Transfers to Reserve Fund (Note 27.2)	(189,934)	(172,723)	(189,934)	(172,723)
<b>As at 31 December</b>	<b>21,393,697</b>	<b>18,465,483</b>	<b>22,265,430</b>	<b>19,082,807</b>

## 29 OTHER RESERVES

### 29.1 Other Comprehensive Income (OCI) Reserve

	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
As at 01 January	301,976	(98,082)
Net change in Fair value during the year	476,606	555,636
Changes in Allowance for Expected Credit Losses	18,845	-
Income tax relating to the above	(138,726)	(155,578)
<b>As at 31 December</b>	<b>658,701</b>	<b>301,976</b>

### 29.2 Revaluation Reserve

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
As at 01 January	795,870	674,631	1,230,875	912,691
Revaluation Surplus during the year	-	168,387	-	441,922
Deferred Tax charge / (reversal) relating to revaluation	-	(47,148)	-	(123,738)
<b>As at 31 December</b>	<b>795,870</b>	<b>795,870</b>	<b>1,230,875</b>	<b>1,230,875</b>

## 30 INTEREST INCOME

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cash and Cash Equivalents	92,372	48,277	92,372	48,277
Financial Assets Recognized through Profit or Loss				
- Measured at fair value	263,462	218,407	263,462	218,407
Financial Assets at Amortised Cost				
- Loans and Advances to Customers	25,105,728	32,228,385	25,105,944	32,229,056
- Reverse Repurchase Agreements	175,289	166,598	175,289	166,598
- Debt Instruments	2,014,565	1,839,547	2,014,565	1,839,547
Financial Assets Measured at Fair Value Through Other Comprehensive Income	5,070,551	4,872,337	5,070,551	4,872,337
Interest Income Accrued on Impaired Financial Assets	221,562	197,309	221,562	197,309
	<b>32,943,529</b>	<b>39,570,860</b>	<b>32,943,745</b>	<b>39,571,531</b>

# notes to the financial statements

## 30 INTEREST INCOME (CONTD.)

a Net interest income from Sri Lanka government securities

For the Year Ended 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Interest income	7,060,881	6,755,854
Less: Interest expenses	-	-
<b>Net interest income from Sri Lanka government securities</b>	<b>7,060,881</b>	<b>6,755,854</b>

## 31 INTEREST EXPENSE

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Due to banks	325,007	828,961	325,007	828,961
Financial Liabilities At Amortised Cost				
- Due to Customers	14,846,364	18,450,986	14,839,413	18,443,432
- Repurchase Agreements	721,140	1,330,351	664,643	1,279,204
- Due to Debt Security Holders	1,673,047	1,108,282	1,673,047	1,108,282
- Due to Other Borrowers	1,591,343	1,591,571	1,591,343	1,591,571
- Interest Expense on Lease Liabilities	180,245	196,823	174,439	181,077
- Others	2,710	3,110	3,739	4,532
	<b>19,339,856</b>	<b>23,510,084</b>	<b>19,271,631</b>	<b>23,437,059</b>

## 32 NET FEE AND COMMISSION INCOME

### 32.1 Fees and Commission income

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Portfolio and Other Management Fees	-	-	2,730	2,639
Credit Card Related Fee and Commission	2,671,825	3,414,325	2,671,826	3,414,325
Commission on Trade Finance Facilities & Remittances	680,845	719,131	680,845	719,131
Commission on Services-Loans	1,224,815	1,139,195	1,224,815	1,139,195
Commission on Services-Deposits	278,218	563,818	278,218	563,818
Other Fees	391,978	358,246	656,591	642,728
	<b>5,247,681</b>	<b>6,194,715</b>	<b>5,515,025</b>	<b>6,481,836</b>

### 32.2 Fees and Commission Expenses

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Brokerage Fees	(24,452)	(27,591)	(24,452)	(27,591)
Credit Card Related Fees	(93,753)	(252,379)	(93,753)	(252,379)
Other	(35,704)	(45,136)	(35,705)	(45,136)
	<b>(153,909)</b>	<b>(325,106)</b>	<b>(153,910)</b>	<b>(325,106)</b>
<b>Net Fee and Commission Income</b>	<b>5,093,772</b>	<b>5,869,609</b>	<b>5,361,115</b>	<b>6,156,730</b>

### 33 NET GAIN/ (LOSS) FROM TRADING

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Foreign Exchange				
- From Banks	336,739	(346,491)	336,739	(346,491)
- From Other Customers	672,516	786,925	672,516	786,925
Fixed Income Securities (Realised)	1,437,466	283,225	1,437,466	283,225
Derivative financial instruments	106,357	(2,039,317)	106,357	(2,039,317)
	2,553,078	(1,315,658)	2,553,078	(1,315,658)

### 34 NET FAIR VALUE GAINS/ (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Net gains on financial assets at fair value through profit or loss	-	11,030	-	11,030
Net losses on financial assets at fair value through profit or loss	(11,591)	-	(11,591)	-
	(11,591)	11,030	(11,591)	11,030

### 35 OTHER OPERATING INCOME/(LOSS)-NET

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Dividend Income	5,440	4,732	5,440	4,732
Gain/(Loss) on Sale of Property, Plant and Equipment	1,276	(2)	1,334	12
Gain/(Loss) on Revaluation of Foreign Exchange	(824,424)	1,090,693	(824,424)	1,090,693
Other Non-Trading Foreign Exchange	7,675	(11,465)	7,675	(11,465)
Recovery of Loans Written -Off	344,485	236,250	344,485	236,250
Others	131,469	245,339	131,469	245,339
	(334,079)	1,565,547	(334,021)	1,565,561



# notes to the financial statements

## 36 IMPAIRMENT CHARGES

For the Year Ended 31 December	Notes	BANK		GROUP	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Financial assets at amortised cost - Loans and Advances					
Stage 1	13.4	(75,297)	37,577	(75,297)	37,577
Stage 2	13.4	(278,276)	(47,158)	(278,276)	(47,158)
Stage 3	13.4	(3,064,831)	(3,294,029)	(3,064,831)	(3,294,029)
Financial assets at amortised cost – Debt Instruments					
Stage 1	12.3	(321,837)	(3,979)	(321,837)	(3,979)
Stage 2		-	-	-	-
Stage 3	12.3	-	-	-	-
Financial assets at fair value through other comprehensive income– debt instruments					
Stage 1	29.1	(18,845)	-	(18,845)	-
Stage 2		-	-	-	-
Stage 3		-	-	-	-
Financial assets at amortised cost – Others					
Stage 1	6.1	850	(775)	850	(775)
Stage 2		-	-	-	-
Stage 3	14.1	(29,704)	(28,098)	(29,704)	(34,619)
Contingent liabilities & commitments					
Stage 1	24.3	(74,531)	25,837	(74,531)	25,837
Stage 2	24.3	15,850	11,085	15,850	11,085
Stage 3	24.3	-	5,507	-	5,507
<b>Total Impairment Loss</b>		<b>(3,846,621)</b>	<b>(3,294,033)</b>	<b>(3,846,621)</b>	<b>(3,300,554)</b>

Following is a sensitivity analysis of Economic Factor Adjustment (EFA) used in the expected credit loss calculation.

Change in Economic Factor Adjustment (EFA)	Impact on Allowance for Credit Loss	
	2020 LKR '000	2019 LKR '000
1%	13,106	12,799
5%	65,531	63,995
10%	131,062	127,990

## 37 PERSONNEL EXPENSES

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Salaries and Bonus	3,327,127	3,078,176	3,353,958	3,102,479
Employee Benefits - Defined Contribution Plan	419,369	397,200	422,778	400,264
Employee Benefits - Defined Benefit Plan (Note 22.1)	158,269	136,997	159,874	138,296
Share Based Payments (Note 24.2)	3,435	5,457	3,435	5,457
Amortisation of Staff Loan Day 1 Difference	68,192	68,538	68,192	68,538
Other Allowances	622,639	821,756	624,591	824,945
	<b>4,599,031</b>	<b>4,508,124</b>	<b>4,632,828</b>	<b>4,539,979</b>

### 38 OTHER OPERATING EXPENSES

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Operating Lease Expenses	89,593	129,259	89,639	141,774
Professional Fees	27,098	17,934	28,056	18,691
Auditors Fees and Expenses	9,072	10,170	10,046	11,368
Non Audit fees and Expenses to Auditors	1,620	4,648	1,620	4,648
Legal Fees	27,919	29,817	27,919	29,817
Transport	139,420	273,589	139,491	273,968
Office Administration & Establishment	3,603,432	4,547,208	3,625,546	4,579,848
	3,898,154	5,012,625	3,922,317	5,060,114

### 39 TAXES AND LEVIES ON FINANCIAL SERVICES

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Value Added Tax (VAT)	1,495,525	1,594,259	1,496,239	1,595,286
Nations Building Tax (NBT)	-	196,308	-	196,480
Debt Repayment Levy (DRL) (Note 39.1)	-	868,976	-	868,976
	1,495,525	2,659,543	1,496,239	2,660,742

**39.1** Debt Repayment Levy is calculated at 7% on value addition computed for VAT on Financial Services by Banks and Financial Institutions with effect from 01/10/2018 and it was abolished from 01/01/2020 onward by the Bill to Amend the Finance act on 7th February 2020.

### 40 INCOME TAX EXPENSE

#### 40.1 Amount Recognized in Profit or Loss

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
The component of Income Tax expense for years ended 31 December 2020 & 2019 are ;				
<b>Current Tax Expense</b>				
Current Income Tax on Profit for the Year (Note 40.2)	2,195,429	2,565,464	2,262,825	2,639,265
Over Provision in respect of Prior Years	-	(420,623)	-	(420,623)
<b>Deferred Tax Expense</b>				
Charge for Deferred Tax (Note 25)	(259,954)	(147,479)	(258,966)	(149,102)
	1,935,475	1,997,362	2,003,859	2,069,540
Effective Income Tax Rate	33.75%	36.64%	33.07%	35.79%

# notes to the financial statements

## 40 INCOME TAX EXPENSE (CONTD.)

### 40.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's tax rate for the years ended 31 December 2020 and 2019 is as follows;

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
<b>Accounting Profit (Profit before Taxation)</b>	5,734,159	5,451,827	6,058,818	5,783,079
Add : Disallowable Expenses	10,483,664	19,032,011	10,400,515	18,968,533
	16,217,823	24,483,838	16,459,333	24,751,612
Less: Allowable Expenses	(8,081,302)	(15,183,664)	(8,082,112)	(15,187,861)
Exempt Income	(295,702)	(137,804)	(295,702)	(137,804)
<b>Statutory Income</b>	7,840,819	9,162,370	8,081,519	9,425,947
<b>Taxable Income</b>	7,840,819	9,162,370	8,081,519	9,425,947
Current Income Tax Expense	2,195,429	2,565,464	2,262,825	2,639,265

The Group tax expense is based on the taxable profit of each Company, since at present the tax laws do not provide for Group taxation.

## 41 BASIC / DILUTED EARNINGS PER SHARE

### 41.1 Earnings Per Share - Basic / Diluted

For the Year Ended 31 December	BANK		GROUP	
	2020	2019	2020	2019
<b>Amount Used as the Numerator:</b>				
Net Profit Attributable to Ordinary Shareholders (LKR '000)	3,798,684	3,454,465	4,054,959	3,713,539
<b>No of Ordinary Shares Used as the Denominator:</b>				
Weighted Average Number of Ordinary Shares (Note 41.2)	283,851,872	283,851,872	283,851,872	283,851,872
<b>Basic / Diluted Earnings per Share (LKR)</b>	13.38	12.17	14.29	13.08

### 41.2 Weighted Average Number of Ordinary Shares

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements that require adjustment of the weighted average number of ordinary shares.

## 42 DIVIDENDS PAID AND DECLARED

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date. (Note 50).

### 42.1 Paid During the Year

For the Year Ended 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
<b>Dividends on Ordinary Voting Shares:</b>		
First and Final dividend for 2019 : LKR 2.30 per share*	563,221	-
First and Final dividend for 2018 : LKR 2.10 per share**	-	501,382
<b>Dividends on Ordinary Non-Voting Shares:</b>		
First and Final dividend for 2019 : LKR 2.30 per share*	89,638	-
First and Final dividend for 2018 : LKR 2.10 per share**	-	81,887
	652,859	583,269

\*Dividend for the year 2019 was paid in cash.

\*\*Dividend for the year 2018 was paid in the form of a scrip dividend in the proportion of 01 share for every 46.10018487 Ordinary Voting Shares amounting to a total of 5,176,579 new Ordinary Voting Shares and 01 share for every 42.00693871 Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares) amounting to a total of 928,157 new Convertible Non-Voting Shares. Fractions in shares were paid in cash.

### 42.2 Declared by the Board of Directors

(not recognized as a liability as at 31 December)

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
<b>Dividends on Ordinary Voting Shares:</b>		
First and Final dividend for 2020: LKR 2.00 per share	490,270	-
First and Final dividend for 2019: LKR 2.30 per share	-	563,221
<b>Dividends on Ordinary Non-Voting Shares:</b>		
First and Final dividend for 2020: LKR 2.00 per share	77,434	-
First and Final dividend for 2019: LKR 2.30 per share	-	89,638
<b>Total dividends declared</b>	<b>567,704</b>	<b>652,859</b>

# notes to the financial statements

## 43 CASH FLOW INFORMATION

### 43.1 (Increase)/Decrease in Operating Assets

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Reverse Repurchase Agreements	8,733,717	(13,639,817)	8,733,717	(13,639,817)
Financial Assets - At Fair Value through Profit or Loss	(1,711,320)	36,660	(1,711,320)	36,660
Financial Assets - At Amortized Cost - Debt Instruments	(7,745,158)	(2,472,597)	(7,745,158)	(2,472,597)
Financial Assets - At Fair Value through Other Comprehensive Income	(34,732,208)	21,122,294	(34,732,208)	21,122,294
Financial Assets - At Amortized Cost - Loans & Advances	14,714,578	(9,383,892)	14,716,622	(9,381,476)
Other Assets	(158,079)	(53,333)	(148,588)	(49,258)
	(20,898,470)	(4,390,685)	(20,886,935)	(4,384,194)

### 43.2 Increase/(Decrease) in Operating Liabilities

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Repurchase Agreements	(136,297)	(5,311,659)	(469,480)	(6,046,301)
Financial Liabilities - At Amortized Cost - Due to Depositors	14,853,477	(5,043,212)	14,852,192	(4,578,019)
Other Liabilities	(80,831)	(1,431,206)	(84,413)	(1,432,093)
	14,636,349	(11,786,077)	14,298,299	(12,056,413)

### 43.3 Other Non Cash Items Included in Profit Before Tax

For the Year Ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Depreciation of Property, Plant and Equipment (Note 16)	448,893	441,150	490,988	472,323
Depreciation of ROU Assets (Note 17)	502,757	476,541	412,985	386,769
Amortisation of Intangible Assets (Note 18)	379,713	347,461	379,899	348,575
(Gain)/Loss on Fair Valuation of Financial Assets - At Fair Value through Profit or Loss (Note 34)	11,591	(11,030)	11,591	(11,030)
Unrealized (Gain)/Loss on Derivative Financial Instruments	(108,091)	2,038,670	(108,091)	2,038,670
Interest Income/Expense on Loans, Deposits & Government Securities	2,300,124	1,892,190	2,294,316	1,876,444
Interest Income Accrued on Impaired Financial Assets	(221,562)	(197,309)	(221,562)	(197,309)
	3,313,425	4,987,673	3,260,126	4,914,442

#### 43.4 Changes in Liabilities Arising from Financing Activities

For the Year Ended 31 December	BANK/GROUP			
	01 January	Cash Flows	Non - Cash	31 December
	2020		Flows	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Development Finance Institutions (DFI)	16,982,877	(1,526,399)	(82,357)	15,374,122
Refinance Borrowings	1,962,222	2,999,332	1,092	4,962,647
Financial Institutions	6,719,071	(850,000)	366,338	6,235,409
Rated, Unsecured, Redeemable Debentures	13,263,434	-	(1,461)	13,261,973
<b>Total Debt Issued and Other Borrowed Funds</b>	<b>38,927,604</b>	<b>622,934</b>	<b>283,613</b>	<b>39,834,151</b>
Money Market Borrowings	5,836,777	(4,990,049)	-	846,728
<b>Total</b>	<b>44,764,382</b>	<b>(4,367,115)</b>	<b>283,613</b>	<b>40,680,879</b>

For the Year Ended 31 December	BANK/GROUP			
	01 January	Cash Flows	Non - Cash	31 December
	2019		Flows	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Development Finance Institutions (DFI)	16,285,609	746,290	(49,022)	16,982,877
Refinance Borrowings	1,411,180	544,102	6,940	1,962,222
Financial Institutions	2,552,027	3,925,000	242,044	6,719,071
Rated, Unsecured, Redeemable Debentures	8,745,611	4,500,000	17,823	13,263,434
<b>Total Debt Issued and Other Borrowed Funds</b>	<b>28,994,427</b>	<b>9,715,392</b>	<b>217,785</b>	<b>38,927,604</b>
Money Market Borrowings	9,878,203	(4,041,426)	-	5,836,777
<b>Total</b>	<b>38,872,630</b>	<b>5,673,966</b>	<b>217,785</b>	<b>44,764,381</b>

#### 44 RELATED PARTY DISCLOSURES

The Bank has carried out transactions with related parties as defined in LKAS 24 - Related Party Disclosures. The pricing applicable to such transactions were based on the assessment of risk and pricing model of the Bank and was comparable with what was applied to transactions between the Bank and non related parties.

##### 44.1 Transactions With Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank and Chief Executive Officer of the Bank.

##### (a) Compensation to Key Management Personnel

For the Year Ended 31 December	2020	2019
	LKR '000	LKR '000
Key Management Personnel Benefits	74,852	72,009
Post Employment Benefits	9,347	4,026
	<b>84,199</b>	<b>76,035</b>

In addition to the salaries, the Group also has arranged non cash benefits such as vehicle & insurance to Executive Director in line with approved benefits plan of the Group. Executive Director is also entitled to 200,520 share appreciation rights as at 31.12.2020. (Share appreciation rights amounting to 161,931 held by Ex-CEO as at 31.12.2019 were cancelled upon retirement, due to non exercise of the same).

The Bank owned motor vehicle used by the former Chief Executive Officer/Director was sold to her, on the retirement on 01 April 2020 at the book value of LKR 3.091 Mn as at that date, as per the Board approved terms of employment. This transaction has been seconded by the shareholders of the Bank at the annual general meeting held on 29 June 2020.



# notes to the financial statements

## 44 RELATED PARTY DISCLOSURES (CONTD.)

### 44.1 Transactions With Key Management Personnel (Contd.)

(b) Transactions, Arrangements and Agreements involving Key Management Personnel

For the Year Ended 31 December	Key Management Personnel & their Close Family Members (CFM)			
			Maximum Balances	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Items in the Statement of Financial Position</b>				
<b>Assets</b>				
Loans & Advances	2,472	29,618	5,261	29,618
Credit Cards	2,978	4,033	3,341	5,313
<b>Liabilities</b>				
Due to Customers	173,758	200,107	238,985	200,107
Other Liabilities	58	104	-	-
<b>Equity</b>				
Dividends (Net)	136	251	-	-
<b>Commitments</b>				
Undrawn Facilities	6,347	14,231	-	-
<b>Items in Statement of Profit or Loss</b>				
Interest Income Earned	346	1,915	-	-
Interest Expenses Paid	8,470	15,005	-	-
Fees & Other Income Earned	399	1,119	-	-
Expenses Paid	-	723	-	-

There were no transactions carried out by the entities in which KMPs and CFMs have control or joint control for the year ended 31 December 2020.

For the Year Ended 31 December	Entities in which KMPs and CFMs have control or joint control	
	2019	2019
	LKR '000	LKR '000
<b>Liabilities</b>		
Due to Customers	25,223	25,223
<b>Items in Statement of Profit or Loss</b>		
Interest Expenses Paid	2,156	-

### 44.2 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank has contributed a sum of LKR 337.65 Mn (2019 - LKR 319.75 Mn) to the Fund during the year.

As at 31 December 2020, the Fund has invested a sum of LKR 1,368.97 Mn (2019 - LKR 988.85 Mn) in financial instruments (Repo, Fixed Deposits and Debentures) of the Bank. Also as at 31 December 2020, the fund has maintained a sum of LKR 58/- (2019 - LKR 39,881/-) in current/savings accounts of the bank.

During the year, the Bank has incurred a sum of LKR 119.56 Mn (2019 - LKR 105.74 Mn) as interest expense to the Fund out of which a sum of LKR 69.66 Mn (2019 - LKR 61.57 Mn) is payable as of 31 December 2020.

#### 44.3 Transactions with Related Entities

For the Year Ended 31 December	Subsidiaries *				Significant Investors **				Significant Investor Related Entities ***			
	Maximum Balances				Maximum Balances				Maximum Balances			
	2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000
<b>Items in the Statement of Financial Position</b>												
<b>Assets</b>												
Loans & Advances	-	-	-	-	-	-	572,652	845,788	232,805	82,956	739,939	310,039
Corporate Credit Cards	-	-	-	-	979	260	979	422	-	187	174	962
Derivative Financial Assets	-	-	-	-	-	-	-	-	1	-	-	-
Other Assets	-	-	-	-	-	-	-	-	3,290	17,674	-	-
<b>Liabilities</b>												
Due to Customers	9,756	8,471	360,359	500,559	24,425	1,355,588	1,344,854	4,158,164	458,270	565,843	631,264	1,513,970
Borrowing & Others	1,170,149	846,219	1,170,149	850,857	895,328	3,438,788	3,885,004	4,929,695	374,504	1,260,414	375,488	1,260,414
Debtenture Issued	-	-	-	-	-	-	-	-	1,178,235	57,000	1,178,235	57,000
Other Liabilities	-	-	-	-	2,804	1,056	-	-	27,609	105,185	-	-
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	3,593	-	-	-
<b>Equity</b>												
Dividends (Net)	-	-	-	-	450,154	370,592	-	-	-	-	-	-
<b>Commitments</b>												
Undrawn Facilities	-	-	-	-	1,878,500	1,907,296	-	-	996,571	1,094,328	-	-
Letter of Credit / Guarantees	-	-	-	-	137,765	108,969	-	-	784,509	281,235	-	-
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	300,960	-	-	-
<b>Items in Income statement</b>												
Interest Income Earned	-	-	-	-	11,733	28,018	-	-	23,186	12,127	-	-
Interest Expenses Paid	63,446	58,701	-	-	230,988	248,313	-	-	44,432	47,160	-	-
Fees & Other Income Earned	8,074	7,620	-	-	2,471	1,932	-	-	28,197	261,672	-	-
Expenses Paid	101,656	86,925	-	-	19,772	25,060	-	-	52,084	61,134	-	-

\* Subsidiaries of the Group includes Waldox Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

\*\* Significant Investors include John Keells Holdings PLC, Mackinnon Keells Limited, HWIC Asia Fund, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Pvt) Ltd.

\*\*\* Significant investor related entities include entities controlled and/or jointly controlled by the significant investors of the Bank and private provident funds of such significant investors.

In addition to the above, the bank has carried out various promotional activities with related entities during the year.

Waldox Mackenzie Limited - Subsidiary manages portfolio of certain Benefit Plans of related party entities and earned a fee of LKR 2.56 Mn for the year ended 31 December 2020 (2019 - LKR 2.32Mn). The maximum value of portfolio managed at any time during the year was LKR 1,748.21 Mn (2019 - LKR 1,693.45Mn). There were no other transactions carried out by the subsidiaries of the Bank with related party entities other than with the Bank, for the year ended 31 December 2020 (2019 - Nil).

# notes to the financial statements

## 45 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2020	BANK			GROUP		
	Within	After	Total	Within	After	Total
	12 months	12 months		12 months	12 months	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>						
Cash and Cash Equivalents	9,144,540	-	9,144,540	9,144,621	-	9,144,621
Balances with Central Bank of Sri Lanka	2,127,648	67,599	2,195,247	2,127,648	67,599	2,195,247
Reverse Repurchase Agreements	5,091,335	-	5,091,335	5,091,335	-	5,091,335
Derivative Financial Instruments	239,535	-	239,535	239,535	-	239,535
Financial Assets - Recognised through Profit or Loss	2,416,792	-	2,416,792	2,416,792	-	2,416,792
Financial Assets at Fair Value through Other Comprehensive Income	73,241,685	16,150	73,257,835	73,241,685	16,150	73,257,835
Financial Assets at Amortised Cost - Debt Instruments	4,813,541	21,834,542	26,648,083	4,813,541	21,834,542	26,648,083
Financial Assets at Amortised Cost - Loans and Advances	126,949,716	83,235,770	210,185,486	126,950,028	83,235,899	210,185,927
Other Assets	858,970	1,525,092	2,384,062	874,249	1,535,079	2,409,328
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	2,672,882	2,672,882	-	3,681,952	3,681,952
Right of Use (ROU) Asset	360,558	1,137,824	1,498,382	360,558	1,137,824	1,498,382
Intangible Assets	-	1,221,419	1,221,419	-	1,222,279	1,222,279
<b>Total Assets</b>	<b>225,244,320</b>	<b>112,389,988</b>	<b>337,634,308</b>	<b>225,259,992</b>	<b>112,731,324</b>	<b>337,991,316</b>
<b>Liabilities</b>						
Due to Banks	4,941,573	-	4,941,573	4,941,573	-	4,941,573
Derivative Financial Instruments	250,700	-	250,700	250,700	-	250,700
Financial liabilities at Amortised Cost						
Due to Depositors	233,860,965	6,723,057	240,584,022	233,851,209	6,723,057	240,574,266
Repurchase Agreements	7,562,588	-	7,562,588	6,392,440	-	6,392,440
Due to Other Borrowers	9,696,724	18,343,402	28,040,126	9,669,838	18,370,288	28,040,126
Debt Securities Issued	5,269,339	7,992,634	13,261,973	5,269,339	7,992,634	13,261,973
Retirement Benefit Obligations	99,047	675,026	774,073	100,477	684,772	785,249
Current Tax Liabilities	1,293,147	-	1,293,147	1,319,575	-	1,319,575
Other Liabilities	5,269,845	974,989	6,244,834	5,285,428	987,281	6,272,709
Deferred Tax Liabilities	236,360	626,722	863,082	236,442	791,335	1,027,777
<b>Total Liabilities</b>	<b>268,480,288</b>	<b>35,335,830</b>	<b>303,816,118</b>	<b>267,317,021</b>	<b>35,549,367</b>	<b>302,866,388</b>
<b>Net</b>	<b>(43,235,968)</b>	<b>77,054,158</b>	<b>33,818,190</b>	<b>(42,057,029)</b>	<b>77,181,957</b>	<b>35,124,928</b>

As at 31 December 2019	BANK			GROUP		
	Within 12 months LKR '000	After 12 months LKR '000	Total LKR '000	Within 12 months LKR '000	After 12 months LKR '000	Total LKR '000
<b>Assets</b>						
Cash and Cash Equivalents	8,755,848	-	8,755,848	8,755,930	-	8,755,930
Balances with Central Bank of Sri Lanka	8,183,669	193,809	8,377,478	8,183,669	193,809	8,377,478
Reverse Repurchase Agreements	13,827,423	-	13,827,423	13,827,423	-	13,827,423
Derivative Financial Instruments	192,714	-	192,714	192,714	-	192,714
Financial Assets - Recognised through Profit or Loss	634,075	-	634,075	634,075	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income	38,301,267	13,880	38,315,147	38,301,267	13,880	38,315,147
Financial Assets at Amortised Cost - Debt Instruments	2,133,651	16,928,955	19,062,606	2,133,651	16,928,955	19,062,606
Financial Assets at Amortised Cost - Loans and Advances	139,555,158	87,236,411	226,791,569	139,557,779	87,236,411	226,794,190
Other Assets	834,380	1,300,042	2,134,422	871,911	1,308,327	2,180,238
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	3,023,776	3,023,776	-	4,072,538	4,072,538
Right of Use (ROU) Asset	-	1,870,729	1,870,729	-	1,780,957	1,780,957
Intangible Assets	-	1,375,581	1,375,581	-	1,376,159	1,376,159
<b>Total Assets</b>	<b>212,418,186</b>	<b>112,621,893</b>	<b>325,040,078</b>	<b>212,458,419</b>	<b>112,911,036</b>	<b>325,369,455</b>
<b>Liabilities</b>						
Due to Banks	6,484,157	-	6,484,157	6,484,157	-	6,484,157
Derivative Financial Instruments	311,971	-	311,971	311,971	-	311,971
Financial liabilities at Amortised Cost						
Due to Depositors	221,915,098	4,964,936	226,880,034	221,906,628	4,964,935	226,871,563
Repurchase Agreements	11,033,047	-	11,033,047	10,186,828	-	10,186,828
Due to Other Borrowers	4,822,903	22,557,775	27,380,678	4,727,053	22,557,775	27,284,828
Debt Securities Issued	271,758	12,991,676	13,263,434	271,758	12,991,676	13,263,434
Retirement Benefit Obligations	99,739	552,734	652,473	100,806	558,648	659,454
Current Tax Liabilities	1,337,499	-	1,337,499	1,362,108	-	1,362,108
Other Liabilities	5,422,041	936,354	6,358,395	5,448,537	941,423	6,389,960
Deferred Tax Liabilities	228,452	766,621	995,073	228,069	931,437	1,159,506
<b>Total Liabilities</b>	<b>251,926,666</b>	<b>42,770,096</b>	<b>294,696,761</b>	<b>251,027,915</b>	<b>42,945,894</b>	<b>293,973,809</b>
<b>Net</b>	<b>(39,508,480)</b>	<b>69,851,797</b>	<b>30,343,317</b>	<b>(38,569,496)</b>	<b>69,965,142</b>	<b>31,395,646</b>

#### 46. FAIR VALUE OF ASSETS AND LIABILITIES

##### 46.1. Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorized. The amounts are based on the value recognized in the Statement of Financial Position in the Financial Statements.

Bank

As at 31 December

	Date of Valuation	2020					2019				
		Fair Value Measurement Using					Fair Value Measurement Using				
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
		LKR'000	LKR'000	LKR'000	LKR'000		LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
<b>Financial Assets Measured at Fair Value</b>											
<b>Derivative Financial Instruments</b>											
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-20	-	239,535	-	239,535	31-Dec-19	-	192,714	-	192,714	
<b>Financial Assets - Recognised through Profit or Loss</b>											
Government Treasury Bills	31-Dec-20	987,733	-	-	987,733	31-Dec-19	12,731	-	-	12,731	
Government Treasury Bonds	31-Dec-20	684,759	744,301	-	1,429,059	31-Dec-19	621,344	-	-	621,344	
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>											
<b>Debt Instruments</b>											
Government Treasury Bills	31-Dec-20	50,462,433	-	-	50,462,433	31-Dec-19	17,547,404	-	-	17,547,404	
Government Treasury Bonds	31-Dec-20	15,451,185	6,850,867	-	22,302,053	31-Dec-19	17,138,893	3,614,970	-	20,753,863	
Sri Lanka Sovereign Bonds	31-Dec-20	477,199	-	-	477,199	-	-	-	-	-	
<b>Equity Instruments</b>											
Unquoted Equity Shares	31-Dec-20	-	-	16,150	16,150	31-Dec-19	-	-	13,880	13,880	
<b>Total Financial Assets Measured at Fair Value</b>		68,063,309	7,834,703	16,150	75,914,162		35,320,372	3,807,684	13,880	39,141,936	
<b>Non Financial Assets Measured at Fair Value</b>											
Freehold Land	31-Dec-19	-	-	1,578,900	1,578,900	31-Dec-19	-	-	1,578,900	1,578,900	
Freehold Building	31-Dec-19	-	-	154,730	154,730	31-Dec-19	-	-	154,730	154,730	
<b>Total Non Financial Assets Measured at Fair Value</b>		-	-	1,733,630	1,733,630		-	-	1,733,630	1,733,630	
<b>Financial Liabilities</b>											
<b>Derivative Financial Instruments</b>											
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-20	-	250,700	-	250,700	31-Dec-19	-	311,971	-	311,971	
<b>Total Financial Liabilities Measured at Fair Value</b>		-	250,700	-	250,700		-	311,971	-	311,971	

Group

As at 31 December

Group	As at 31 December	2019									
		2020					2019				
		Fair Value Measurement Using					Fair Value Measurement Using				
		Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
			LKR'000	LKR'000	LKR'000	LKR'000		LKR'000	LKR'000	LKR'000	LKR'000
<b>Financial Assets Measured at Fair Value</b>											
<b>Derivative Financial Instruments</b>											
Forward Foreign Exchange Contracts and Currency Swaps		31-Dec-20	-	239,535	-	239,535	31-Dec-19	-	192,714	-	192,714
<b>Financial Assets - Recognised through Profit or Loss</b>											
Government Treasury Bills		31-Dec-20	987,733	-	-	987,733	31-Dec-19	12,731	-	-	12,731
Government Treasury Bonds		31-Dec-20	684,759	744,301	-	1,429,059	31-Dec-19	621,344	-	-	621,344
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>											
<b>Debt Instruments</b>											
Government Treasury Bills		31-Dec-20	50,462,433	-	-	50,462,433	31-Dec-19	17,547,404	-	-	17,547,404
Government Treasury Bonds		31-Dec-20	15,451,185	6,850,867	-	22,302,053	31-Dec-19	17,138,893	3,614,970	-	20,753,863
Sri Lanka Sovereign Bonds		31-Dec-20	477,199	-	-	477,199	-	-	-	-	-
<b>Equity Instruments</b>											
Unquoted Equity Shares		31-Dec-20	-	-	16,150	16,150	31-Dec-19	-	-	13,880	13,880
<b>Total Financial Assets Measured at Fair Value</b>			68,063,309	7,834,703	16,150	75,914,162		35,320,372	3,807,684	13,880	39,141,936
<b>Non Financial Assets Measured at Fair Value</b>											
Freehold Land		31-Dec-19	-	-	1,578,900	1,578,900	31-Dec-19	-	-	1,578,900	1,578,900
Freehold Building		31-Dec-19	-	-	1,045,778	1,045,778	31-Dec-19	-	-	1,045,778	1,045,778
<b>Total Non Financial Assets Measured at Fair Value</b>			-	-	2,624,678	2,624,678		-	-	2,624,678	2,624,678
<b>Financial Liabilities</b>											
<b>Derivative Financial Instruments</b>											
Forward Foreign Exchange Contracts and Currency Swaps		31-Dec-20	-	250,700	-	250,700	31-Dec-19	-	311,971	-	311,971
<b>Total Financial Liabilities Measured at Fair Value</b>			-	250,700	-	250,700		-	311,971	-	311,971



# notes to the financial statements

## 46. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

### 46.1. Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy (Contd.)

#### 46.1.1 Fair Value Measurement of Assets Classified as Level 3

##### Reconciliation

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value.

	Unquoted Equity Shares BANK / GROUP	
	2020 LKR '000	2019 LKR '000
As at 01 January	13,880	13,974
Investments made during the year	1,875	-
Change in value due to exchange rate fluctuation	395	(94)
As at 31 December	16,150	13,880

Equity instruments at FVOCI classified as "Level 3" in the fair value hierarchy comprises of Unquoted Equity Shares. Further details are given in Note 11.1.

Reconciliation of the non - financial assets " Freehold Land and Buildings" classified as level 3 in the fair value hierarchy;

##### Bank

	Non Financial Assets Measured at Level 3			
	Freehold Land 2020 LKR '000	Freehold Buildings 2020 LKR '000	Freehold Land 2019 LKR '000	Freehold Buildings 2019 LKR '000
As at 01 January	1,578,900	154,730	1,401,500	168,967
Additions during the year	-	4,470	-	-
Depreciation charge for the year	-	(4,973)	-	(5,224)
Fair value gain/(loss) due to revaluation of land and buildings	-	-	177,400	(9,013)
	1,578,900	154,227	1,578,900	154,730

##### Group

	Non Financial Assets Measured at Level 3			
	Freehold Land 2020 LKR '000	Freehold Buildings 2020 LKR '000	Freehold Land 2019 LKR '000	Freehold Buildings 2019 LKR '000
As at 01 January	1,578,900	1,045,778	1,401,500	810,190
Additions during the year	-	4,470	-	-
Depreciation charge for the year	-	(39,170)	-	(28,934)
Fair value gain/(loss) due to revaluation of land and buildings	-	-	177,400	264,522
As at 31 December	1,578,900	1,011,078	1,578,900	1,045,778

## Unobservable Inputs used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used in measuring the fair value of the assets categorised under Level 3 of the fair value hierarchy.

Location	Type of Asset	Extent	No. of Buildings	Bank		Group		Valuation Technique	Significant Unobservable Inputs	Weighted Average Range of Estimates for Unobservable inputs
				Fair Value as at 31.12.2020	Fair Value as at 31.12.2019	Fair Value as at 31.12.2020	Fair Value as at 31.12.2019			
No 76, York Street, Colombo	Land	10,82 P		201,900	201,900	201,900	201,900	Direct Capital Comparison Method	Price per perch	LKR 20 Mn and LKR 12 Mn
	Building	8,660 (Sq.Ft)	1	19,100	19,100	19,100	19,100		Price per Sq.Ft	LKR 1,000 - LKR 6,000
No 242, Union Place, Colombo 2	Land	77.2 P		1,377,000	1,377,000	1,377,000	1,377,000	Direct Capital Comparison Method	Price per perch	LKR 18 Mn
	Building	33,650 (Sq.Ft)	1	135,630	135,630	135,630	135,630		Price per Sq.Ft	LKR 1,000 LKR 5,000
46/58, Nawam Mawatha, Colombo 2	Building	61,300 (Sq.Ft)	1	-	-	891,048	891,048	Investment method	Rent per Sq.Ft	LKR 160/- to LKR 290/-
Total				1,733,630	1,733,630	2,624,678	2,624,678			

Note: Significant increases/(decreases) in any of these inputs in isolation would result in a higher/(lower) fair value. Fair value measurements positively correlate with the unobservable inputs.

# notes to the financial statements

## 46. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

### 46.2 Fair value of Financial Assets and Liabilities not Carried at Fair Value

Below are the methodologies and assumptions used to determine fair values for the financial instruments which are not recorded and measured at fair value in the Bank's financial statements. These fair values were calculated for disclosure purposes only.

#### Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value as they are short-term in nature to reprice to current market rates frequently;

#### Financial Assets

Cash and Cash Equivalents

Balances with Central Bank of Sri Lanka

Reverse Repurchase Agreements

Sri Lanka Development Bonds

#### Financial Liabilities

Due to banks

Repurchase agreements

This assumption is also applied to demand deposits, call deposits and savings deposits which does not have a specific maturity. It is also assumed that the amortized cost of floating rate financial instruments approximate the fair value as the amortized cost represents most recent fair value. Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with variable rate are also considered to be carried at fair value in the books.

#### Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of treasury bonds portfolio at amortised cost where the original tenure exceeds one year. In fair valuing such securities, rates published by the CBSL for similar trading securities were used. Loans and advances with fixed interest rates were fair valued using average market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenure above one year and interest paid at maturity were discounted using current market rate offered to customers during the fourth quarter of the reporting year. Interest rates based on treasury bond rates with similar tenure with an adjustment for premium have been used to arrive at the fair value of debentures issued and invested.

For financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

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

Bank As at 31 December	2020							2019						
	Fair Value Measurement Using							Fair Value Measurement Using						
	Carrying amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total			Carrying amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total		
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000			LKR'000	LKR'000	LKR'000	LKR'000	LKR'000		LKR'000
<b>Financial Assets</b>														
Financial Assets at Amortised Cost - Debt Instruments	26,648,083	5,570,449	22,668,407	-	28,238,856			19,062,606	5,314,249	14,416,802	-	19,731,051		
	26,648,083	5,570,449	22,668,407	-	28,238,856			19,062,606	5,314,249	14,416,802	-	19,731,051		
<b>Loans and Advances to Customers</b>														
Corporate Loans	76,630,926	-	75,631,565	-	75,631,565			74,532,270	-	74,132,247	-	74,132,247		
Retail, SME and Consumer Lending	95,070,111	-	94,896,297	-	94,896,297			108,391,799	-	108,373,837	-	108,373,837		
Housing Loans	4,503,075	-	5,005,907	-	5,005,907			4,431,696	-	4,590,653	-	4,590,653		
Leases	39,303,114	-	41,302,905	-	41,302,905			44,142,733	-	45,566,564	-	45,566,564		
Staff Loans	3,960,179	-	3,225,756	-	3,225,756			3,652,422	-	2,648,692	-	2,648,692		
	219,467,405	-	220,062,430	-	220,062,430			235,150,920	-	235,311,993	-	235,311,993		
<b>Total Financial Assets</b>	246,115,488	5,570,449	242,730,837	-	248,301,285			254,213,526	5,314,249	249,728,795	-	255,043,044		
<b>Financial Liabilities</b>														
Due to Customers	240,584,022	-	241,167,303	-	241,167,303			226,880,034	-	226,890,751	-	226,890,751		
Due to Other Borrowers	28,040,126	-	28,861,341	-	28,861,341			27,380,678	-	27,733,460	-	27,733,460		
Debt Securities Issued	13,261,973	-	14,674,006	-	14,674,006			13,263,434	-	13,912,222	-	13,912,222		
<b>Total Financial Liabilities</b>	281,886,121	-	284,702,650	-	284,702,650			267,524,146	-	268,536,433	-	268,536,433		

## 46 FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

### 46.3 Financial Assets and Financial Liabilities Not Carried at Fair Value (Contd.)

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

Group As at 31 December	2020							2019						
	Carrying amount		Quoted Prices in Active Markets (Level 1)		Fair Value Measurement Using Significant Observable Inputs (Level 2)		Total	Carrying amount		Quoted Prices in Active Markets (Level 1)		Fair Value Measurement Using Significant Observable Inputs (Level 2)		Total
	LKR'000		LKR'000		LKR'000		LKR'000	LKR'000		LKR'000		LKR'000		LKR'000
<b>Financial Assets</b>														
Financial Assets at Amortised Cost - Debt Instruments	26,648,083	5,570,449	22,668,407	-	28,238,856		19,062,606	5,314,249	14,416,802	-	19,731,051			
	26,648,083	5,570,449	22,668,407	-	28,238,856		19,062,606	5,314,249	14,416,802	-	19,731,051			
<b>Loans and Advances to Customers</b>														
Corporate Loans	76,630,926	-	75,631,565	-	75,631,565		74,532,270	-	74,132,247	-	74,132,247			
Retail, SME and Consumer Lending	95,070,423	-	94,896,609	-	94,896,609		108,394,289	-	108,376,326	-	108,376,326			
Housing Loans	4,503,075	-	5,005,907	-	5,005,907		4,431,696	-	4,590,653	-	4,590,653			
Leases	39,303,114	-	41,302,905	-	41,302,905		44,142,733	-	45,566,564	-	45,566,564			
Staff Loans	3,960,179	-	3,225,756	-	3,225,756		3,652,422	-	2,648,692	-	2,648,692			
	219,467,717	-	220,062,742	-	220,062,742		235,153,410	-	235,314,482	-	235,314,482			
<b>Total Financial Assets</b>	246,115,800	5,570,449	242,731,149	-	248,301,598		254,216,016	5,314,249	249,731,284	-	255,045,533			
<b>Financial Liabilities</b>														
Due to Customers	240,574,266	-	241,157,546	-	241,157,546		226,871,563	-	226,882,280	-	226,882,280			
Due to Other Borrowers	28,040,126	-	28,861,341	-	28,861,341		27,284,828	-	27,637,611	-	27,637,611			
Debt Securities Issued	13,261,973	-	14,674,006	-	14,674,006		13,263,434	-	13,912,222	-	13,912,222			
<b>Total Financial Liabilities</b>	281,876,365	-	284,692,893	-	284,692,893		267,419,825	-	268,432,113	-	268,432,113			

## 47. FINANCIAL RISK MANAGEMENT

### 47.1 Introduction

Risks are inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks. In addition, cyber security threats have emerged as a significant risk to the industry in recent times.

The objective of the Risk Management Framework at the Bank is to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank. The goal is to manage these risks to enhance the risk-return profile of the Bank.

The Board of Directors is responsible for establishing the overall Risk Management Framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different executive risk committees. It also monitors compliance with Bank policies and regulations.

The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on market risk management and liquidity risk management whilst Head Office Credit Committee focuses on the credit risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's Risk Management Framework. It acts as the second line of defense in managing risks. Responsibilities of the IRMD include the following:

#### Monitor

- Formulation of Risk policies & procedures
- Compliance with Risk policies & procedures
- Bank's overall risk profile & changes in overall risk positions
- Risks across business units and escalate risk and control issues to management

#### Develop and Report

- Risk management standards and measurement tools
- Aggregate risk profile of the Bank in relation to capital

#### Support

- Bank's risk culture through development of a common risk language and Bank-wide training
- Interpretation of risk related regulations / leading practices to business units

#### Risk Measurement and Reporting Systems

The Bank uses appropriate risk measurement techniques, models and industry best practices to evaluate its various risk exposures. Such risks identified are managed through establishment of limits. These limits reflect the business strategy and the Bank's stance in the market environment as well as the level of risk that the Bank is willing to accept.

The Bank also carries out a detail stress testing exercise, which is a key component of the Internal Capital Adequacy Assessment Process (ICAAP) as well as the risk management framework. This exercise measures the extent of risks the Bank is exposed to when variables associated with its risks are simulated considering plausible changes in the external/internal environment.

The risk so measured is presented to relevant board committees & heads of each business division at regular intervals.

#### Risk Mitigation

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies. The Bank also accepts various types of collateral as a credit risk mitigant whilst insurance is used to transfer operational types of risks.

#### Excessive Risk Concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.



# notes to the financial statements

## The impact of COVID - 19 on the business/operations and risk management of the Bank

The COVID-19 pandemic has had a direct impact on economic activities both locally and globally, while pandemic-related uncertainties have affected the overall business landscape of the country. Sri Lanka's efforts to gradually revive its economic activities subsequent to the countrywide lockdown have been once again impeded by the emergence of the second wave of the pandemic; which has forced lockdowns in selected areas and provinces with mobility restrictions being imposed to control a possible community spread.

Subsequent to the COVID-19 outbreak in Sri Lanka, the Bank had strictly adhered to the guidelines and directions issued by the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. The Bank provided relief for affected businesses and individuals in-line with the directions issued by CBSL. Such relief measures include, offering concessionary rates of interest to eligible loan products (debt moratorium), deferment of repayment terms of credit facilities, and waiving off selected fees and charges. Based on the Guidance Notes on Accounting Considerations of the COVID-19 Outbreak issued by the CA Sri Lanka, concessionary rates on the Equal Monthly Installment loans given under government debt moratorium relief packages have been considered under non-substantial modification methodology and the impact have been charged to profit or loss immediately in these Financial Statements.

## 47.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss resulting from its customers or counterparties failing to or delaying meeting their contractual obligations. This arises from loans and receivables and investments in debt instruments forming direct funding exposures (on Balance Sheet exposure) or indirect liabilities such as Letters of Credit and Guarantees (off Balance Sheet exposure).

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations and by monitoring exposures in relation to such limits and by taking appropriate collateral.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. A scientifically developed internal risk rating mechanism has been implemented via a work-flow based software covering various types of customer segments of the Bank excluding consumer products. Such 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. A score card-based model is used to evaluate credit risk of consumer products as these were not evaluated through the established internal risk rating system.

### Impairment Assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

### Definition of Default and Cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or when classified as a Non Performing Loan (NPL) as per directions issued by the Central Bank of Sri Lanka (CBSL). 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.

In assessing whether a borrower is in default, the Bank reviews its individually significant loans and advances above a predefined threshold at each reporting date against a set of credit loss indicators. Customers associated with mentioned indicators are then critically evaluated for recoverability. If there is a negative mismatch between the amount due and the expected cash flow, those customers are considered as Stage 3 (Credit-impaired) customer irrespective of the number of days past due.

### Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis above a predetermined threshold limit. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout if bankruptcy happens, the availability of other financial support, the realizable value and timing of collateral and expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. The Bank has currently set Individually Significant Threshold at Rupees Fifty Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). The Bank applies a risk-based approach for its Corporate Banking portfolio where exposures between Rupees Fifty Million and Rupees Hundred Million are assessed against limited number of OEIL and exposures above Rupees Hundred Million are assessed against the complete list of OEILs. If the Bank finds such customers are having OEIL, those customers are individually impaired taking in to account the estimated value of future cash flows.

### Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances that have been assessed individually and found to be not requiring an impairment provision at individual customer level.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether allowance should be made for expected credit losses (ECL). The collective assessment takes account of data from the loan portfolios such as utilization of sanctioned

limits, levels of arrears, historical losses on the portfolio and expected receipts and recoveries once defaulted. The Bank uses SLFRS 9 based ECL model to assess impairment as detailed in note 13.4

#### Probability of Default (PD) Estimation Process

The ECL model is based on historical delinquency levels and forward looking macro-economic factors to estimate PDs of its portfolios. These macro-economic factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in financial industry, revisions in the Interest rates, changes in regulatory environment and other available consumer data. The Bank uses aforementioned factors as appropriate to adjust the impairment allowances.

The Probability of Default only during the next twelve months is estimated for a Stage 1 asset where credit risk has remained at same level from origination to the reporting date. For Stage 2 assets where credit risk has significantly increased compared to the level which was at the origination, Probability of Default during remaining total lifetime is estimated. Stage 3 assets are where the default event has occurred.

#### Exposure at Default (EAD)

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.

The Bank uses Credit Conversion Factors (CCF) which explains the historical utilization of defaulted facilities at the time of default to calculate EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, the already utilized amount plus any accrued interest over same is considered as the EAD.

In order to assess impairment provision at appropriate granular level, the Bank has stratified certain portfolios further reflecting grouping of similar risk customer profiles. Such stratification of the portfolios has helped the Bank to make a reasonable assessment of required impairment provisions as it focuses on avoiding generalization of possible potential loss indicative parameters.

#### Loss Given Default (LGD)

In Loans and Receivable portfolios, The Bank assesses its LGDs using the historical default database. The Bank recovers the full amount or a portion of the defaulted amount using multiple options including legal means and realization of collateral. The total net cash flows from the date of default are discounted in order to assess the net loss incurred from the defaulted amount. The LGD of a certain portfolio represents the actual loss incurred from its defaulted exposures.

#### Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or Life Time ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the subject borrower or exposure becomes 30 days past due on its contractual payments. When estimating ECL on a collective basis for a group of similar financial assets, the Bank applies the same principle of assessing whether there has been a significant increase in credit risk since the origination.

#### Management of Elevated Credit Risk due to COVID - 19

During the year, the Bank enhanced its credit risk management processes to cover whether a Significant Increase in Credit Risk (SICR) has taken place for customers operating in industries more severely affected by the COVID – 19 pandemic. As such, when assessing collective impairment, exposures outstanding from customers in industries identified by the Bank having an elevated risk e.g. tourism & hospitality were classified as stage 2 & 3 and assessed for lifetime ECLs. Further, all customers within a debt moratorium or a debt restructuring arranged on their request, are closely monitored on an ongoing basis for any adverse developments in the customers' credit quality and assessed on a case – by – case basis whether the movement to Stage 2 or whether consideration as credit-impaired would be necessary.

In addition to the on-going monitoring process, when assessing the expected credit losses, the Bank considered the potential impact of the COVID-19 outbreak based on the available information and has made provisions as management overlays to counter possible deteriorations in credit quality in future. However, due to the uncertainty of the pandemic-ridden business environment actual losses may differ from the amount provided.

The bank recorded an additional impairment charge of Rs. 479Mn as a provision buffer to absorb any probable credit losses that might arise from the impact of the pandemic. For this assessment, the bank shortlisted the impacted / likely to be impacted customers based on the industry they are operating in and availing of the debt moratorium. Accordingly, the bank recorded an additional impairment charge of Rs. 161Mn against the customers in the Tourism Industry, Rs. 243Mn against other impacted industries and a further Rs. 75Mn against specific customers assessed under the individual impairment.

#### Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME customers through a credit rating mechanism. Customers in Consumer lending portfolio have not been rated.

## notes to the financial statements

Qualities of Financial Assets are categorized into five categories as described below.

Credit Quality Category	Definition	Description
<b>High Grade</b>	Very High Safety	The exposure to the Government, Banks and Reverse Repurchase transactions backed by Government Securities are identified as 'High Grade'. The external rating of the Banks has not been considered in this regard as these exposures are highly liquid and are of self-liquidating nature. Chances of default are negligible and highly unlikely. The obligor/counterparty is likely to honour its commitments even under adverse business/market conditions.
<b>Investment Grade (A+ &amp; B-)</b>	High Safety	The ability to honour the terms of trade is high or fully secured by cash. The obligor/counterparty is likely to honour its commitments even under adverse business conditions. There would be an insignificant likelihood of default associated with adverse economic events of significant scale.
<b>Intermediary Grade (C+ and C)</b>	Moderate Safety	The ability to honour the terms of trade is strong, but not as strong as in Investment Grade. The obligor/counterparty may take longer than anticipated/planned to honour its commitments under adverse business conditions. There is a moderate likelihood of default.
<b>Speculative Grade (C- and D)</b>	Low Safety	The ability to honour the terms of trade is low. Any adverse changes in the business/economic conditions may impair the obligor's/counterparty's ability to honour its commitments.
<b>Customers whose credit quality is not yet finalized</b>	Safe	The ability to honour the terms of trade is assumed acceptable but yet to be confirmed by way of a finalized rating.

Credit Risk exposure for each internal credit risk rating

Bank's Internal Credit Rating	Historical Default Rates %	Amortized Cost	
		2020 LKR'000	2019 LKR'000
<b>Investment Grade</b>			
A	Less than 1%	28,018,893	30,332,350
B	Less than 1.5%	73,026,506	67,896,501
<b>Intermediary Grade</b>			
C + and C	Less than 2.5%	5,929,002	6,362,453
<b>Speculative Grade</b>			
C-	Less than 5.5%	1,851,768	3,381,757
D	Minimum of 13%	4,144,110	3,713,450
<b>Past Due - Rated Customers</b>			
	Less than 30 Days	3,494,992	8,825,378
	30 - 90 Days	1,904,479	6,542,078
	More than 90 Days	4,874,129	4,233,971
<b>Past Due - Fully Secured by Cash</b>		1,622,478	2,017,296
<b>Individually Impaired - Rated Customers</b>		14,398,979	15,943,648
<b>Sum of Amortized Cost of Rated Customers</b>		139,265,337	149,248,883

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of Obligor Risk. All internal risk ratings are tailored to measure specific default characteristics and risks inherent in various business segments. Shown above is internal credit rating classification of the Corporate, Retail & SME portfolios of the Bank. The attributable risk ratings are assessed and updated regularly.

The exposures of which credit quality is not yet aligned to a bank-wide single point indicator rating scale mainly consists of security backed lending and customers evaluated using risk scoring system. Leasing and cash secured lending are the significant security backed portfolios while consumer lending customers are assessed through a credit score system. The Bank is in the process of aligning such portfolios under the coverage of the bank-wide single point indicator rating scale.

#### Credit Quality by class of Financial Assets

Bank - 31 December 2020	High Grade	Neither past due nor impaired			Customers whose credit rating is not yet finalized	Past due but not impaired	Individually Impaired	Total
		Investment Grade	Intermediary Grade	Speculative Grade				
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	9,144,540	-	-	-	-	-	-	9,144,540
Balances with Central Bank of Sri Lanka	2,195,247	-	-	-	-	-	-	2,195,247
Reverse Repurchase Agreements	1,002,324	-	-	-	4,089,011	-	-	5,091,335
<b>Derivative Financial Instruments</b>								
Forward Foreign Exchange Contracts and Currency Swaps	236,526	2,162	-	-	848	-	-	239,535
<b>Financial Assets - Recognised through Profit or Loss</b>								
Government Treasury Bills and Bonds	2,416,792	-	-	-	-	-	-	2,416,792
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>								
Government Treasury Bills and Bonds	72,764,485	-	-	-	-	-	-	72,764,485
Sri Lanka Sovereign Bonds	477,199	-	-	-	-	-	-	477,199
Unquoted Equity Shares	-	-	-	-	16,150	-	-	16,150
<b>Financial Assets at Amortised Cost</b>								
Government Treasury Bills and Bonds	13,526,578	-	-	-	-	-	-	13,526,578
Sri Lanka Development Bonds	9,540,886	-	-	-	-	-	-	9,540,886
Sri Lanka Sovereign Bonds	3,420,341	-	-	-	-	-	-	3,420,341
Quoted Debentures	-	514,240	-	-	-	-	-	514,240
<b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>								
Corporate Loans	-	67,223,832	10,290	2,584,307	-	1,100,319	5,712,178	76,630,926
Retail, SME and Consumer	-	31,125,266	2,926,750	3,393,998	36,904,503	12,409,079	8,310,514	95,070,111
Housing Loans	-	353,188	104,916	-	3,000,573	1,044,398	-	4,503,075
Leases	-	2,343,113	2,887,046	17,573	21,371,552	12,086,081	597,749	39,303,114
Staff Loans	-	-	-	-	3,938,350	21,829	-	3,960,179
<b>Total</b>	<b>114,724,918</b>	<b>101,561,800</b>	<b>5,929,002</b>	<b>5,995,878</b>	<b>69,320,987</b>	<b>26,661,707</b>	<b>14,620,440</b>	<b>338,814,733</b>

Note 1: All loans under "Neither past due nor individually impaired" are Stage 1 assets. Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 26.6Bn categorized under "past due but not individually impaired", Rs. 11.5Bn (41%) is in Stage 1, Rs. 5.1Bn (20%) is in Stage 2 and Rs. 10Bn (39%) is in Stage 3. All individually impaired loans are Stage 3 assets.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis

# notes to the financial statements

## Credit Quality by Class of Financial Assets

Bank - 31 December 2019	High Grade	Neither past due nor impaired			Customers whose credit rating is not yet finalized	Past due but not impaired	Individually Impaired	Total
		Investment Grade	Intermediary Grade	Speculative Grade				
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	8,755,848	-	-	-	-	-	-	8,755,848
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	11,404,692	20,412	-	-	2,402,319	-	-	13,827,423
<b>Derivative Financial Instruments</b>								
Forward Foreign Exchange Contracts and Currency Swaps	146,996	45,718	-	-	-	-	-	192,714
<b>Financial Assets - Recognised through Profit or Loss</b>								
Government Treasury Bills and Bonds	634,075	-	-	-	-	-	-	634,075
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>								
Government Treasury Bills and Bonds	38,301,267	-	-	-	-	-	-	38,301,267
Unquoted Equity Shares	-	-	-	-	13,880	-	-	13,880
<b>Financial Assets at Amortised Cost</b>								
Government Treasury Bills and Bonds	13,559,215	-	-	-	-	-	-	13,559,215
Sri Lanka Development Bonds	4,247,098	-	-	-	-	-	-	4,247,098
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-
Quoted Debentures	209,024	1,079,394	-	-	-	-	-	1,288,418
<b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>								
Corporate Loans	-	61,248,722	41,680	3,421,624	-	3,663,376	6,156,869	74,532,271
Retail, SME and Consumer	-	34,015,905	2,908,854	3,660,359	40,222,560	18,021,892	9,562,229	108,391,799
Housing Loans	-	275,382	98,923	-	3,134,199	903,646	19,545	4,431,696
Leases	-	2,688,843	3,312,995	13,225	21,050,740	16,444,745	632,186	44,142,733
Staff Loans	-	-	-	-	3,626,540	25,882	-	3,652,422
<b>Total</b>	<b>85,635,694</b>	<b>99,374,376</b>	<b>6,362,453</b>	<b>7,095,207</b>	<b>70,450,237</b>	<b>39,059,542</b>	<b>16,370,829</b>	<b>324,348,337</b>

Note 1: All loans under "Neither past due nor individually impaired" are Stage 1 assets. Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 39Bn categorized under "past due but not individually impaired", Rs. 16Bn (42%) is in Stage 1, Rs. 15.8Bn (40%) is in Stage 2 and Rs. 7.2Bn (18%) is in Stage 3. All individually impaired loans are Stage 3 assets.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis

## Credit Quality by Class of Financial Assets

Group - 31 December 2020	High Grade	Neither past due nor impaired			Customers whose credit rating is not yet finalized	Past due but not impaired	Individually Impaired	Total
		Investment Grade	Intermediary Grade	Speculative Grade				
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	9,144,621	-	-	-	-	-	-	9,144,621
Balances with Central Bank of Sri Lanka	2,195,247	-	-	-	-	-	-	2,195,247
Reverse Repurchase Agreements	1,002,324	-	-	-	4,089,011	-	-	5,091,335
<b>Derivative Financial Instruments</b>								
Forward Foreign Exchange Contracts and Currency Swaps	236,526	2,162	-	-	848	-	-	239,535
<b>Financial Assets - Recognised through Profit or Loss</b>								
Government Treasury Bills and Bonds	2,416,792	-	-	-	-	-	-	2,416,792
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>								
Government Treasury Bills and Bonds	72,764,485	-	-	-	-	-	-	72,764,485
Sri Lanka Sovereign Bonds	477,199	-	-	-	-	-	-	477,199
Unquoted Equity Shares	-	-	-	-	16,150	-	-	16,150
<b>Financial Assets at Amortised Cost</b>								
Government Treasury Bills and Bonds	13,526,578	-	-	-	-	-	-	13,526,578
Sri Lanka Development Bonds	9,540,886	-	-	-	-	-	-	9,540,886
Sri Lanka Sovereign Bonds	3,420,341	-	-	-	-	-	-	3,420,341
Quoted Debentures	-	514,240	-	-	-	-	-	514,240
<b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>								
Corporate Loans	-	67,223,832	10,290	2,584,307	-	1,100,319	5,712,178	76,630,926
Retail, SME and Consumer	-	31,125,577	2,926,750	3,394,081	36,904,420	12,409,079	8,310,514	95,070,422
Housing Loans	-	353,188	104,916	-	3,000,573	1,044,398	-	4,503,075
Leases	-	2,343,113	2,887,046	17,573	21,371,552	12,086,081	597,749	39,303,114
Staff Loans	-	-	-	-	3,938,350	21,829	-	3,960,179
<b>Total</b>	<b>114,724,999</b>	<b>101,562,112</b>	<b>5,929,002</b>	<b>5,995,961</b>	<b>69,320,904</b>	<b>26,661,707</b>	<b>14,620,440</b>	<b>338,815,126</b>

Note 1: All loans under "Neither past due nor individually impaired" are Stage 1 assets. Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 26.6Bn categorized under "past due but not individually impaired", Rs. 11.5Bn (41%) is in Stage 1, Rs. 5.1Bn (20%) is in Stage 2 and Rs. 10Bn (39%) is in Stage 3. All individually impaired loans are Stage 3 assets.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis



# notes to the financial statements

## Credit Quality by Class of Financial Assets

Group - 31 December 2019	High Grade	Neither past due nor impaired			Customers whose credit rating is not yet finalized	Past due but not impaired	Individually Impaired	Total
		Investment Grade	Intermediary Grade	Speculative Grade				
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	8,755,930	-	-	-	-	-	-	8,755,930
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	11,404,692	20,412	-	-	2,402,319	-	-	13,827,423
<b>Derivative Financial Instruments</b>								
Forward Foreign Exchange Contracts and Currency Swaps	146,996	45,718	-	-	-	-	-	192,715
<b>Financial Assets - Recognised through Profit or Loss</b>								
Government Treasury Bills and Bonds	634,075	-	-	-	-	-	-	634,075
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>								
Government Treasury Bills and Bonds	38,301,267	-	-	-	-	-	-	38,301,267
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	13,880	-	-	13,880
<b>Financial Assets at Amortised Cost</b>								
Government Treasury Bills and Bonds	13,559,215	-	-	-	-	-	-	13,559,215
Sri Lanka Development Bonds	4,247,098	-	-	-	-	-	-	4,247,098
Quoted Debentures	209,024	1,079,394	-	-	-	-	-	1,288,418
<b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>								
Corporate Loans	-	61,248,722	41,680	3,421,624	-	3,663,376	6,156,868	74,532,271
Retail, SME and Consumer	-	34,018,394	2,908,854	3,660,359	40,222,560	18,021,892	9,562,229	108,394,288
Housing Loans	-	275,382	98,923	-	3,134,199	903,646	19,545	4,431,696
Leases	-	2,688,843	3,312,995	13,225	21,050,740	16,444,745	632,186	44,142,733
Staff Loans	-	-	-	-	3,626,540	25,882	-	3,652,422
<b>Total</b>	<b>85,635,775</b>	<b>99,376,866</b>	<b>6,362,453</b>	<b>7,095,207</b>	<b>70,450,237</b>	<b>39,059,542</b>	<b>16,370,828</b>	<b>324,350,908</b>

Note 1: All loans under "Neither past due nor individually impaired" are Stage 1 assets. Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 39.0Bn categorized under "past due but not individually impaired", Rs. 16Bn (42%) is in Stage 1, Rs. 15.8Bn (40%) is in Stage 2 and Rs. 7.2Bn (18%) is in Stage 3. All individually impaired loans are Stage 3 assets.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis

## Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Bank - 31 December 2020	Maximum Exposure to Credit Risk	Cash	Government Securities	Bank Guarantees	Immovable Property	Equity	Life Insurance	Gold	Other	Surplus Collateral	Net Collateral	Net Exposure
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	9,144,540	-	-	-	-	-	-	-	-	-	-	9,144,540
Balances with Central Bank of Sri Lanka	2,195,247	-	-	-	-	-	-	-	-	-	-	2,195,247
Reverse Repurchase Agreements	5,091,335	-	5,639,433	-	-	-	-	-	-	(548,098)	5,091,335	(0)
Derivative Financial Instruments	239,535	-	-	-	-	-	-	-	-	-	-	239,535
Financial Assets - Recognised through Profit or Loss	2,416,792	-	-	-	-	-	-	-	-	-	-	2,416,792
Financial Assets at Fair Value through Other Comprehensive Income	73,257,835	-	-	-	-	-	-	-	-	-	-	73,257,835
Financial Assets at Amortised Cost	26,696,512	-	-	110,286	-	-	-	-	-	-	110,286	26,586,226
Financial Assets at Amortised Cost – Loans and Advances (Gross)	219,467,404	27,402,681	-	-	36,476,597	2,725,723	-	417,237	109,121,299	(85,027,690)	91,115,847	128,351,557
Financial Guarantees	2,526,706	-	-	11,183	-	-	-	-	-	-	11,183	2,515,523
Letters of Credit	10,396,025	-	-	-	-	-	-	-	327,604	-	327,604	10,068,421
Other Commitments	180,887,357	-	-	266,349	-	-	-	-	-	-	10,909,270	169,978,087
	532,319,288	27,402,681	5,639,433	387,817	36,476,597	2,725,723	-	417,237	109,448,903	(85,575,788)	107,565,525	424,753,763

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## Collateral and other credit enhancements

Bank - 31 December 2019	Maximum Exposure to Credit Risk	Cash	Government Securities	Bank Guarantees	Immovable Property	Equity	Life Insurance	Gold	Other	Surplus Collateral	Net Collateral	Net Exposure
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	8,755,848	-	-	-	-	-	-	-	-	-	-	8,755,848
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	13,827,423	-	15,264,310	-	-	-	-	-	-	(1,436,887)	13,827,423	-
Derivative Financial Instruments	192,714	-	-	-	-	-	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss	634,075	-	-	-	-	-	-	-	-	-	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income	38,315,147	-	-	-	-	-	-	-	-	-	-	38,315,147
Financial Assets at Amortised Cost	19,062,606	-	-	110,286	-	-	-	-	-	-	110,286	18,952,320
Financial Assets at Amortised Cost - Loans and Advances (Gross)	235,150,920	31,646,137	-	-	39,644,516	2,433,105	2,673	631,582	122,033,174	(92,972,863)	103,418,323	131,735,087
Financial Guarantees	624,094	-	-	3,155	-	-	-	-	-	-	3,155	620,939
Letters of Credit	7,758,860	-	-	-	-	-	-	-	191,280	-	191,280	7,567,580
Other Commitments	190,972,177	-	-	304,261	-	-	-	-	-	-	10,464,991	180,507,186
	523,671,343	31,646,137	15,264,310	417,701	39,644,516	2,433,105	2,673	631,582	122,224,453	(94,409,750)	128,015,457	395,658,375

Collateral and other credit enhancements

Group - 31 December 2020	Maximum Exposure to Credit Risk	Cash	Government Securities	Bank Guarantees	Immovable Property	Equity	Life Insurance	Gold	Other	Surplus Collateral	Net Collateral	Net Exposure
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	9,144,621	-	-	-	-	-	-	-	-	-	-	9,144,621
Balances with Central Bank of Sri Lanka	2,195,247	-	-	-	-	-	-	-	-	-	-	2,195,247
Reverse Repurchase Agreements	5,091,335	-	5,639,433	-	-	-	-	-	-	(548,098)	5,091,335	-
Derivative Financial Instruments	239,535	-	-	-	-	-	-	-	-	-	-	239,535
Financial Assets - Recognised through Profit or Loss	2,416,792	-	-	-	-	-	-	-	-	-	-	2,416,792
Financial Assets at Fair Value through Other Comprehensive Income	73,257,835	-	-	-	-	-	-	-	-	-	-	73,257,835
Financial Assets at Amortised Cost	26,696,512	-	-	110,286	-	-	-	-	-	-	110,286	26,586,226
Financial Assets at Amortised Cost - Loans and Advances (Gross)	219,467,716	27,402,681	-	-	36,476,597	2,727,280	-	417,237	109,121,299	85,028,935	91,116,159	128,351,557
Financial Guarantees	2,526,706	-	-	11,183	-	-	-	-	-	-	11,183	2,515,523
Letters of Credit	10,396,025	-	-	-	-	-	-	-	327,604	-	327,604	10,068,421
Other Commitments	180,888,136	-	-	266,349	-	-	-	-	-	-	10,910,049	169,978,087
	532,320,459	27,402,681	5,639,433	387,817	36,476,597	2,727,280	-	417,237	109,448,903	84,480,838	107,566,615	424,753,844

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## Collateral and other credit enhancements

Group - 31 December 2019	Maximum Exposure to Credit Risk	Cash	Government Securities	Bank Guarantees	Immovable Property	Equity	Life Insurance	Gold	Other	Surplus Collateral	Net Collateral	Net Exposure
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	8,755,930	-	-	-	-	-	-	-	-	-	-	8,755,930
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	13,827,423	-	15,264,310	-	-	-	-	-	-	(1,436,887)	13,827,423	-
Derivative Financial Instruments	192,714	-	-	-	-	-	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss	634,075	-	-	-	-	-	-	-	-	-	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income	38,315,147	-	-	-	-	-	-	-	-	-	-	38,315,147
Financial Assets at Amortised Cost	19,062,606	-	-	110,286	-	-	-	-	-	-	110,286	18,952,320
Financial Assets at Amortised Cost - Loans and Advances (Gross)	235,153,410	31,646,137	-	-	39,644,516	2,433,105	2,673	631,582	122,033,174	(92,972,863)	103,418,323	131,735,087
Financial Guarantees	624,094	-	-	3,155	-	-	-	-	-	-	3,155	620,939
Letters of Credit	7,758,860	-	-	-	-	-	-	-	191,280	-	191,280	7,567,580
Other Commitments	190,976,301	-	-	304,261	-	-	-	-	-	-	10,467,480	180,508,821
	523,678,039	31,646,137	15,264,310	417,701	39,644,516	2,433,105	2,673	631,582	122,224,453	(94,409,750)	128,017,947	395,660,092

## Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by the industry for the components of the Statement of Financial Position. Assets concentrated as "Other" include Consumer Loans, Credit Cards and Leases. A major portion of the Leases consist of Leases granted to individuals for the purpose of facilitating their small/micro level business activities which cannot be directly attributable to a single identified sector, hence classified under "Other".

During the early stages of the global pandemic the bank conducted an in-depth analysis on the probable industries which would get affected and the scale of impact it may have on the bank's lending portfolio. The outset of COVID - 19 in Sri Lanka in mid-March 2020 stressed the importance of diversification of the Bank's loan book across wide range of industries which in turn would ensure the resilience of the Bank in an economic shock of this nature. The Bank is comfortable with the existing composition of its loan book and continuous monitoring activities will be carried out to avoid accumulation of exposures to risky economic segments.

Bank - 31 December 2020	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommunication	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	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	LKR'000	
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	-	-	-	9,144,540	9,144,540
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	2,195,247	2,195,247
Reverse Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-	5,091,335	5,091,335
<b>Derivative Financial Instruments</b>														
Forward Foreign Exchange Contracts and Currency Swaps	-	43	-	-	238,463	-	-	512	368	150	-	-	-	239,535
<b>Financial Assets - Recognised through Profit or Loss</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	2416,792	2,416,792
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	727,644,85	727,644,85
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	471,199	471,199
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	16,150	-	16,150
<b>Financial Assets at Amortised Cost</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	13,526,578	13,526,578
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	9,540,886	9,540,886
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	3,420,341	3,420,341
Quoted Debentures	-	-	-	-	514,240	-	-	-	-	-	-	-	-	514,240
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(53,962)
<b>Financial Assets at Amortized Cost - Loans and Advances</b>														
Corporate Loans	19,401,183	514,216	6,374,828	8,278,707	2,335,900	13,330,801	3,807,186	3,504,850	11,005,787	797,341	-	7,138,960	141,167	76,630,926
Retail SME and Consumer	8,128,912	15,539,885	3,999,242	8,466,927	3,884,975	1,163,306	3,693,637	3,812,384	19,812,905	3,948,650	3,058,533	7,168,805	12,391,951	95,070,111
Housing Loans	19,397	50,887	50,389	7,180	107,550	5,684	17,015	146,353	253,839	83,340	3,702,876	55,825	2,750	4,503,075
Leases	6,088,313	6,476,290	1,415,569	3,633,568	1,806,642	214,598	1,662,563	1,306,386	787,803	1,321,564	1,400,924	616,4894	-	39,303,114
Staff loans	-	-	3,255,419	-	-	-	-	-	-	-	-	-	-	3,255,419
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,577,159)
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	210,185,486
	33,587,804	22,581,321	15,095,447	20,386,381	8,887,769	14,714,389	9,180,401	8,770,485	38,943,702	6,142,036	8,162,334	20,544,634	131,113,270	329,178,852



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## Analysis of Risk Concentration

Bank - 31 December 2019

	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommunication	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	Total
	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	-	-	-	8,755,848	8,755,848
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	8,377,478	8,377,478
Reverse Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-	13,827,423	13,827,423
<b>Derivative Financial Instruments</b>														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	192,714	-	-	-	-	-	-	-	-	192,714
<b>Financial Assets - Recognised through Profit or Loss</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	634,075	634,075
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	38,301,267	38,301,267
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	13,880	-	13,880
<b>Financial Assets at Amortised Cost</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	13,559,215	13,559,215
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	4,247,098	4,247,098
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quoted Debentures	-	-	-	-	934,192	-	-	354,226	-	-	-	-	-	1,288,418
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(32,125)
<b>Financial Assets at Amortised Cost - Loans and Advances</b>														
Corporate Loans	19,492,436	3,289,928	3,459,121	82,329	8,181,078	1,565,899	1,159,380	14,954,576	7,887,694	4,694,596	8,279,340	66	1,485,827	74,532,270
Retail SME and Consumer	8,846,674	4,759,581	4,727,715	12,359,457	3,712,555	4,892,671	3,403,205	29,372,548	14,077,63	10,465,755	7,058,614	3,372,862	14,012,400	108,391,799
Housing Loans	21,861	26,784	17,596	215,707	48,772	73,187	88,896	579,166	5,971	7,689	56,250	3,283,361	6456	4,431,696
Leases	7,094,523	1,859,659	1,837,537	6,887,101	1,517,857	1,482,706	1,331,107	8,435,023	250,634	4,241,618	7,507,919	1,697,048	-	44,142,733
Staff Loans	-	-	-	-	2,876,490	-	-	-	-	-	-	-	-	2,876,490
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,583,419)
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	226,791,569
	35,455,494	9,935,952	10,041,968	19,544,594	17,463,659	8,014,463	5,982,588	53,695,540	9,552,063	19,409,658	22,902,123	8,367,217	103,207,087	315,956,861

## Analysis of Risk Concentration

Group - 31 December 2020

	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommuni-cation	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	Total
	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	LKR000	
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	-	-	-	9,144,621	9,144,621
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	2,195,247	2,195,247
Reverse Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-	5,091,335	5,091,335
<b>Derivative Financial Instruments</b>														
Forward Foreign Exchange Contracts and Currency Swaps	-	43	-	-	238,463	-	-	512	368	150	-	-	-	239,535
<b>Financial Assets - Recognised through Profit or Loss</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	2,416,792	2,416,792
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	72,764,485	72,764,485
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	471,199	471,199
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	16,150	-	16,150
<b>Financial Assets at Amortised Cost</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	13,526,578	13,526,578
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	9,540,886	9,540,886
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	3,420,341	3,420,341
Quoted Debentures	-	-	-	-	514,240	-	-	-	-	-	-	-	-	514,240
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(853,962)
<b>Financial Assets at Amortised Cost - Loans and Advances</b>														
Corporate Loans	19,401,183	514,216	6,374,828	8,278,707	2,335,900	13,330,801	3,807,186	3,504,850	11,005,787	797,341	-	7,138,960	141,167	76,630,926
Retail SME and Consumer	8,128,912	15,539,885	3,999,554	8,466,927	3,884,975	1,163,306	3,693,637	3,812,384	19,812,905	3,948,650	3,058,533	7,168,805	12,391,951	95,070,423
Housing Loans	19,397	50,887	50,389	7,180	107,550	5,684	17,015	146,353	253,839	83,330	3,702,876	55,825	2,750	4,503,075
Leases	6,088,313	6,476,290	1,415,569	3,633,568	1,806,642	214,598	1,662,563	1,306,386	7,870,803	1,312,564	1,400,924	616,4894	-	39,303,114
Staff Loans	-	-	3,255,419	-	-	-	-	-	-	-	-	-	-	3,255,419
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,577,029)
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	210,185,928
	33,587,804	22,581,321	15,095,759	20,386,381	8,887,769	14,743,389	9,180,401	8,770,485	38,943,702	6,142,036	8,162,334	20,544,634	130,636,152	328,702,177

# notes to the financial statements

## Analysis of Risk Concentration

Group - 31 December 2019

	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommunication	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	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	LKR'000	
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	-	-	-	8755930	8755930
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	8377478	8377478
Reverse Purchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-	13827423	13827423
<b>Derivative Financial Instruments</b>														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	192714	-	-	-	-	-	-	-	-	192714
<b>Financial Assets - Recognised through Profit or Loss</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	634075	634075
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	38301267	38301267
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	13880	-	13880
<b>Financial Assets at Amortised Cost</b>														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	13559215	13559215
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	4247098	4247098
Sri Lanka Sovereign Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quoted Debentures	-	-	-	-	934192	-	-	354226	-	-	-	-	-	1288418
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(32125)
<b>Financial Assets at Amortized Cost - Loans and Advances</b>														
Corporate Loans	19492436	7887694	3459121	82329	8181078	1565899	1159380	14954576	3289928	4694596	8729340	66	1485827	74532271
Retail SME and Consumer Housing Loans	8846674	1407763	4727715	12359457	3715045	4892671	3403205	29372548	4759581	10465755	7058614	3372862	14012400	108394288
Leases	21861	5971	17596	215707	48772	73187	88896	579166	26784	7689	56250	3283361	6456	443696
Staff loans	7094523	250634	1837537	6887101	157857	1482706	1331107	8435023	1859659	4241618	7507919	1697048	-	44142733
Impairment for Loans and Advances	-	-	-	-	2876490	-	-	-	-	-	-	-	-	2876490
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(7583420)
	-	-	-	-	-	-	-	-	-	-	-	-	-	226794058
	35,455,494	9,552,063	10,041,968	19,544,594	17,466,148	8,014,463	5,982,588	53,695,540	9,935,952	19,409,658	22,902,123	83,6727	103,20770	315,959,432

### Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion. (Refer to "Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities" under 47.3 Liquidity Risk and Funding Management).

## 47.3 Liquidity risk and funding management

Bank's liquidity is that ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the Bank.

Liquidity risk is the inability to meet the financial obligations of the Bank in a timely and cost effective manner. Liquidity risk arises from various factors including those outside the Bank's control. Liquidity risk faced by the Bank falls into two major categories, namely funding liquidity risk and market liquidity risk.

The funding liquidity is a level of liquidity whereby the Bank is able to meet its current and future cash flows and collateral needs, both expected and unexpected, without materially affecting its daily operations or overall financial condition. The market liquidity is Bank's ability in the financial market (interbank market) to exchange financial assets quickly without any material effect on prices/costs.

The Bank manages liquidity risk according to the liquidity risk management policy. In accordance with the Bank's policy, two approaches are adopted to measure liquidity risk namely stock approach and flow approach.

Under the stock approach, the Bank uses certain financial ratios such as Net Loans to Total Assets, Loan to Deposits, Liquidity Coverage Ratio, Net Stable Funding Ratio, Statutory Liquid Assets Ratio (SLAR) etc. to measure the liquidity risk of banks. The Bank monitors these ratios by putting in place an internally defined limit approved by the Board for these ratios.

The flow approach determines liquidity/net funding requirements of banks by analyzing the Bank's current and future cash flows based on assumptions of the current and future behavior of assets and liabilities that are classified into specified time buckets and then calculating the cumulative net flows over the time frame for liquidity assessment.

The Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to potential liquidity crisis events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication and identifies potential counter measures to be considered at various stages of an event.

The Bank actively manages the diversification of its deposit liabilities by source and type of deposit.

The Bank introduced more rigor to the processes already in place to manage its liquid assets with the onset of COVID-19 pandemic in late March of this year. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Bank is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

For the year ended 31 December	2020		2019	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	38.8%	30.8%	23.8%	24.3%

Liquid assets mainly consist of cash, short-term bank deposits, standing deposit facilities and government securities. In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 2% (2019 – 5%) of Sri Lanka Rupee customer deposits.

While the general market risk is monitored according to the Board approved risk parameters on daily basis (some of the parameters are monitored online), the market risk management unit performs stress testing on the trading book periodically. Probable adverse macro-economic scenarios are considered while designing the stress testing framework and the results of the stress testing are presented to Integrated Risk Management Committee of the Bank.

# notes to the financial statements

## Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2020 under the flow approach.

Bank - As at 31 December 2020	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
<b>Financial Assets</b>						
Cash and Cash Equivalents	9,144,735	-	-	-	-	9,144,735
Balances with Central Bank of Sri Lanka	836,295	508,857	782,496	67,564	35	2,195,247
Reverse Repurchase Agreements	5,092,629	-	-	-	-	5,092,629
<b>Financial Assets - Recognised through Profit or Loss</b>						
Government Debt Securities - Treasury Bills and Bonds	47,610	20,250	1,073,575	1,556,238	-	2,697,673
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>						
Government Debt Securities - Treasury Bills and Bonds	10,746,676	9,826,722	40,639,165	15,396,435	-	76,608,998
Unquoted Equity Shares	-	-	-	-	16,150	16,150
<b>Financial Assets at Amortised Cost</b>						
Government Debt Securities - Treasury Bills and Bonds	94,036	829,625	4,386,978	8,846,307	3,900,744	18,057,690
Other Financial Assets	-	282,326	3,015,589	13,316,890	-	16,614,804
<b>Financial Assets at Amortised Cost – Loans and Advances</b>	81,242,084	32,908,024	38,646,074	81,657,615	11,575,300	246,029,098
<b>Total Undiscounted Financial Assets</b>	107,204,066	44,375,805	88,543,877	120,841,047	15,492,229	376,457,023
<b>Financial Liabilities</b>						
Due to Banks	4,942,277	-	-	-	-	4,942,277
<b>Financial Liabilities at Amortised Cost</b>						
Due to Depositors	91,216,409	55,044,499	91,290,604	7,825,210	3,200	245,379,921
Repurchase Agreements	3,224,511	2,317,565	2,071,109	-	-	7,613,185
Due to Other Borrowers	78,624	2,312,214	7,679,320	19,475,275	2,779,482	32,324,914
Debt Securities Issued	-	-	6,659,066	8,919,753	2,032,200	17,611,020
<b>Total Undiscounted Financial Liabilities</b>	99,461,821	59,674,278	107,700,099	36,220,238	4,814,882	307,871,317
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	7,742,244	(15,298,473)	(19,156,222)	84,620,810	10,677,347	68,585,706
<b>Gross Settled Derivatives not Held for Trading</b>						
<b>Financial Assets</b>						
Contractual Amounts Receivable	3,464,248	6,480,809	2,481,990	-	-	12,427,047
Contractual Amounts Payable	(3,464,248)	(6,480,809)	(2,481,990)	-	-	(12,427,047)
	-	-	-	-	-	-
<b>Financial Liabilities</b>						
Contractual Amounts Receivable	1,400,895	2,914,458	10,888,521	-	-	15,203,873
Contractual Amounts Payable	(1,400,895)	(2,914,458)	(10,888,521)	-	-	(15,203,873)
	-	-	-	-	-	-
<b>Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading</b>	-	-	-	-	-	-
<b>Total Net Financial Assets/ (Liabilities)</b>	7,742,244	(15,298,473)	(19,156,222)	84,620,810	10,677,347	68,585,706

# Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Bank - As at 31 December 2019	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
<b>Financial Assets</b>						
Cash and Cash Equivalents	8,757,606	-	-	-	-	8,757,606
Balances with Central Bank of Sri Lanka	2,760,170	2,021,970	3,401,529	193,671	138	8,377,478
Reverse Repurchase Agreements	13,832,999	-	-	-	-	13,832,999
<b>Financial Assets - Recognised through Profit or Loss</b>						
Government Debt Securities - Treasury Bills and Bonds	-	19,913	53,753	817,564	-	891,229
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>						
Government Debt Securities - Treasury Bills and Bonds	2,892,400	4,960,459	14,119,748	21,923,454	262,741	44,158,802
Unquoted Equity Shares	-	-	-	-	13,880	13,880
<b>Financial Assets at Amortised Cost</b>						
Government Debt Securities - Treasury Bills and Bonds	94,036	329,842	1,070,819	12,594,938	5,460,521	19,550,157
Other Financial Assets	-	116,165	1,895,720	4,122,332	-	6,134,217
Financial Assets at Amortised Cost – Loans and Advances	87,681,347	33,983,744	45,525,482	90,313,750	14,077,573	271,581,896
<b>Total Undiscounted Financial Assets</b>	<b>116,018,558</b>	<b>41,432,091</b>	<b>66,067,050</b>	<b>129,965,710</b>	<b>19,814,854</b>	<b>373,298,263</b>
<b>Financial Liabilities</b>						
Due to Banks	4,111,131	2,395,065	-	-	-	6,506,195
<b>Financial liabilities at amortised cost</b>						
Due to Depositors	73,468,434	57,015,180	97,099,192	6,213,085	3,200	233,799,091
Repurchase Agreements	6,442,960	4,472,526	156,320	-	-	11,071,807
Due to Other Borrowers	552,773	566,100	5,428,113	24,126,031	2,995,314	33,668,330
Debt Securities Issued	-	-	1,660,199	15,346,691	2,264,400	19,271,290
<b>Total Undiscounted Financial Liabilities</b>	<b>84,575,299</b>	<b>64,448,871</b>	<b>104,343,824</b>	<b>45,685,807</b>	<b>5,262,914</b>	<b>304,316,714</b>
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	<b>31,443,259</b>	<b>(23,016,779)</b>	<b>(38,276,774)</b>	<b>84,279,903</b>	<b>14,551,941</b>	<b>68,981,549</b>
<b>Gross Settled Derivatives not Held for Trading</b>						
<b>Financial Assets</b>						
Contractual Amounts Receivable	2,636,549	10,019,475	2,506,340	93,650	-	15,256,014
Contractual Amounts Payable	(2,636,549)	(10,019,475)	(2,506,340)	(93,650)	-	(15,256,014)
	-	-	-	-	-	-
<b>Financial Liabilities</b>						
Contractual Amounts Receivable	1,770,054	7,626,072	13,892,082	187,550	-	23,475,758
Contractual Amounts Payable	(1,770,054)	(7,626,072)	(13,892,082)	(187,550)	-	(23,475,758)
	-	-	-	-	-	-
<b>Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>31,443,259</b>	<b>(23,016,779)</b>	<b>(38,276,774)</b>	<b>84,279,903</b>	<b>14,551,941</b>	<b>68,981,549</b>



# notes to the financial statements

## Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Group - As at 31 December 2020	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
<b>Financial Assets</b>						
Cash and Cash Equivalents	9,144,816	-	-	-	-	9,144,816
Balances with Central Bank of Sri Lanka	836,295	508,857	782,496	67,564	35	2,195,247
Reverse Repurchase Agreements	5,092,629	-	-	-	-	5,092,629
<b>Financial Assets - Recognised through Profit or Loss</b>						
Government Debt Securities - Treasury Bills and Bonds	47,610	20,250	1,073,575	1,556,238	-	2,697,673
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>						
Government Debt Securities - Treasury Bills and Bonds	10,746,676	9,826,722	40,639,165	15,396,435	-	76,608,998
Unquoted Equity Shares	-	-	-	-	16,150	16,150
<b>Financial Assets at Amortised Cost</b>						
Government Debt Securities - Treasury Bills and Bonds	94,036	829,625	4,386,978	8,846,307	3,900,744	18,057,690
Other Financial Assets	-	282,326	3,015,589	13,316,890	-	16,614,804
Financial Assets at Amortised Cost - Loans and Advances	81,242,397	32,908,024	38,646,205	81,657,615	11,575,300	246,029,540
<b>Total Undiscounted Financial Assets</b>	<b>107,204,459</b>	<b>44,375,805</b>	<b>88,544,007</b>	<b>120,841,047</b>	<b>15,492,229</b>	<b>376,457,547</b>
<b>Financial Liabilities</b>						
Due to Banks	4,942,277	-	-	-	-	4,942,277
<b>Financial liabilities at amortised cost</b>						
Due to Depositors	91,206,653	55,044,499	91,290,604	7,825,210	3,200	245,370,165
Repurchase Agreements	3,102,896	2,050,885	1,272,653	-	-	6,426,434
Due to Other Borrowers	78,624	2,312,214	7,679,320	19,475,275	2,779,482	32,324,914
Debt Securities Issued	-	-	6,659,066	8,919,753	2,032,200	17,611,020
<b>Total Undiscounted Financial Liabilities</b>	<b>99,330,449</b>	<b>59,407,598</b>	<b>106,901,643</b>	<b>36,220,238</b>	<b>4,814,882</b>	<b>306,674,810</b>
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	<b>7,874,010</b>	<b>(15,031,794)</b>	<b>(18,357,636)</b>	<b>84,620,810</b>	<b>10,677,347</b>	<b>69,782,737</b>
<b>Gross Settled Derivatives not Held for Trading</b>						
<b>Financial Assets</b>						
Contractual Amounts Receivable	3,464,248	6,480,809	2,481,990	-	-	12,427,047
Contractual Amounts Payable	(3,464,248)	(6,480,809)	(2,481,990)	-	-	(12,427,047)
	-	-	-	-	-	-
<b>Financial Liabilities</b>						
Contractual Amounts Receivable	1,400,895	2,914,458	10,888,521	-	-	15,203,873
Contractual Amounts Payable	(1,400,895)	(2,914,458)	(10,888,521)	-	-	(15,203,873)
	-	-	-	-	-	-
<b>Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>7,874,010</b>	<b>(15,031,794)</b>	<b>(18,357,636)</b>	<b>84,620,810</b>	<b>10,677,347</b>	<b>69,782,737</b>

# Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Group - As at 31 December 2019	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
<b>Financial Assets</b>						
Cash and Cash Equivalents	8,757,688	-	-	-	-	8,757,688
Balances with Central Bank of Sri Lanka	2,760,170	2,021,970	3,401,529	193,671	138	8,377,478
Reverse Repurchase Agreements	13,832,999	-	-	-	-	13,832,999
<b>Financial Assets - Recognised through Profit or Loss</b>						
Government Debt Securities - Treasury Bills and Bonds	-	19,913	53,753	817,564	-	891,229
<b>Financial Assets at Fair Value through Other Comprehensive Income</b>						
Government Debt Securities - Treasury Bills and Bonds	2,892,400	4,960,459	14,119,748	21,923,454	262,741	44,158,802
Unquoted Equity Shares	-	-	-	-	13,880	13,880
<b>Financial Assets at Amortised Cost</b>						
Government Debt Securities - Treasury Bills and Bonds	94,036	329,842	1,070,819	12,594,938	5,460,521	19,550,157
Other Financial Assets	-	116,165	1,895,720	4,122,332	-	6,134,217
Financial Assets at Amortised Cost – Loans and Advances	87,683,838	33,983,744	45,525,482	90,313,750	14,077,573	271,584,387
<b>Total Undiscounted Financial Assets</b>	<b>116,021,131</b>	<b>41,432,091</b>	<b>66,067,050</b>	<b>129,965,710</b>	<b>19,814,854</b>	<b>373,300,836</b>
<b>Financial Liabilities</b>						
Due to Banks	4,111,131	2,395,065	-	-	-	6,506,195
<b>Financial liabilities at amortised cost</b>						
Due to Depositors	73,459,964	57,015,180	97,099,192	6,213,085	3,200	233,790,620
Repurchase Agreements	6,330,371	3,738,896	156,320	-	-	10,225,587
Due to Other Borrowers	552,773	591,514	5,504,355	24,126,031	2,995,314	33,769,986
Debt Securities Issued	-	-	1,660,199	15,346,691	2,264,400	19,271,290
<b>Total Undiscounted Financial Liabilities</b>	<b>84,454,239</b>	<b>63,740,654</b>	<b>104,420,066</b>	<b>45,685,807</b>	<b>5,262,914</b>	<b>303,563,680</b>
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	<b>31,566,891</b>	<b>(22,308,563)</b>	<b>(38,353,016)</b>	<b>84,279,903</b>	<b>14,551,941</b>	<b>69,737,156</b>
<b>Gross Settled Derivatives not Held for Trading</b>						
<b>Financial Assets</b>						
Contractual Amounts Receivable	2,636,549	10,019,475	2,506,340	93,650	-	15,256,014
Contractual Amounts Payable	(2,636,549)	(10,019,475)	(2,506,340)	(93,650)	-	(15,256,014)
	-	-	-	-	-	-
<b>Financial Liabilities</b>						
Contractual Amounts Receivable	1,770,054	7,626,072	13,892,082	187,550	-	23,475,758
Contractual Amounts Payable	(1,770,054)	(7,626,072)	(13,892,082)	(187,550)	-	(23,475,758)
	-	-	-	-	-	-
<b>Total Gross Settled Derivative Assets/ (Liabilities) not Held for Trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>31,566,891</b>	<b>(22,308,563)</b>	<b>(38,353,016)</b>	<b>84,279,903</b>	<b>14,551,941</b>	<b>69,737,156</b>

# notes to the financial statements

## Contractual Maturity of Commitments and Guarantees

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioral nature of these cash flows when managing the overall liquidity profile. Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing asset growth with liquidity in mind whilst monitoring future cash flows and liquidity.

In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Bank 31 December 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	1,096,218	6,020,757	8,140,815	2,185,453	-	17,443,244
Acceptance	1,539,518	4,369,644	1,474,755	-	-	7,383,916
Guarantees	2,526,706	-	-	-	-	2,526,706
Letters of Credit	1,925,102	7,294,256	1,176,667	-	-	10,396,025
Foreign Exchange Contracts	4,865,142	9,395,267	13,370,510	-	-	27,630,920
Forward Contracts to Buy/Sell Government Securities	4,833,542	-	-	-	-	4,833,542
Undrawn Commitments						
Credit Cards	44,790,990	-	-	-	-	44,790,990
Other	82,224,745	-	-	-	-	82,224,745
<b>Total Commitments and Guarantees</b>	<b>143,801,963</b>	<b>27,079,924</b>	<b>24,162,747</b>	<b>2,185,453</b>	<b>-</b>	<b>197,230,088</b>

Note 1: Forward Exchange Contract amounts shown above are the total of gross purchase and sales contracts with the counter parties. However, the net exposure on these contracts are estimated at LKR 312Mn as at end of 2020 based on a 2.5% price premium movement on 6 month forward exchange rate as at end of each year.

Bank 31 December 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	966,881	3,985,783	8,632,264	3,820,134	-	17,405,062
Acceptance	586,185	2,569,583	380,880	-	-	3,536,649
Guarantees	624,094	-	-	-	-	624,094
Letters of Credit	828,270	5,614,876	1,315,714	-	-	7,758,860
Foreign Exchange Contracts	4,406,603	17,645,547	16,398,422	281,200	-	38,731,772
Forward Contracts to Buy/Sell Government Securities	308,728	-	-	-	-	308,728
Undrawn Commitments						
Credit Cards	40,800,230	-	-	-	-	40,800,230
Other	90,189,736	-	-	-	-	90,189,736
<b>Total Commitments and Guarantees</b>	<b>138,710,728</b>	<b>29,815,789</b>	<b>26,727,280</b>	<b>4,101,334</b>	<b>-</b>	<b>199,355,131</b>

Note 1: Forward Exchange Contract amounts shown above are the total of gross purchase and sales contracts with the counter parties. However, the net exposure on these contracts are estimated at LKR 605Mn as at end of 2019 based on a 2.5% price premium movement on 6 month forward exchange rate as at end of year.

## 47.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavorable movements in market indices such as interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. The values of these indices are set in public market and the risk cannot be eliminated through diversification.

The Bank manages the market risk on both trading and non-trading portfolios through a comprehensive market risk management framework. The objective of such framework is to reduce the exposure to the aforementioned unfavorable movements and mitigate the impact on the economic income and cash flows.

The Bank sets market risk limits for both trading and non-trading portfolios which carries the concurrence of the Board of Directors. These limits are reviewed periodically and all revisions and amendments are subject to Board approval. A daily report summarizes the Bank's market risk exposure against approved limits and same being scrutinized by the relevant members in the management team which includes the Chief Executive Officer as well.

### Types of Market Risk

Both trading and non-trading activities of the Bank are exposed to unfavorable movements in the market indices which reflect in the profit and losses. Bank identifies two types of market risks which directly influence the banking book.

- Interest Rate Risk
- Currency Risk

### Interest Rate Risk

Interest Rate Risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose the Bank's Net Interest Income to variations. The Board has established limits on the interest rate gaps. The Bank's policy is to monitor positions on a monthly basis and to ensure positions are maintained within the established limits.

IRR exposure is primarily managed with repricing gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term for their next re-pricing (floating rate). The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

Bank - As at 31 December 2020	Total LKR'000	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Non-interest bearing LKR'000
<b>Assets</b>							
Cash and balances with Central Bank of Sri Lanka	11,337,861	-	-	-	-	-	11,337,861
Loans and Advances	209,315,292	68,139,535	50,575,632	33,539,995	40,996,014	4,793,882	11,270,234
Investments	108,280,847	15,578,260	14,264,602	45,639,836	29,070,987	3,231,818	495,345
Other	36,995,198	5,228,727	9,817,652	12,997,865	-	-	8,950,954
<b>Total Assets</b>	<b>365,929,198</b>	<b>88,946,522</b>	<b>74,657,886</b>	<b>92,177,696</b>	<b>70,067,000</b>	<b>8,025,700</b>	<b>32,054,394</b>
<b>Liabilities</b>							
Deposits	236,558,661	68,467,627	52,743,792	86,646,385	6,205,300	3,200	22,492,358
Borrowings	50,736,561	7,312,099	10,462,739	18,276,969	10,615,312	4,069,442	-
Other	78,633,976	5,991,784	9,738,117	13,077,318	-	-	49,826,756
<b>Total Shareholder Funds and Liabilities</b>	<b>365,929,198</b>	<b>81,771,510</b>	<b>72,944,648</b>	<b>118,000,672</b>	<b>16,820,612</b>	<b>4,072,642</b>	<b>72,319,114</b>
<b>Total Interest Sensitivity Gap</b>		<b>7,175,012</b>	<b>1,713,238</b>	<b>(25,822,976)</b>	<b>53,246,388</b>	<b>3,953,058</b>	<b>(40,264,720)</b>

\*\* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

# notes to the financial statements

## Interest Rate Risk

Bank - As at 31 December 2019

	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
<b>Assets</b>							
Cash and balances with Central Bank of Sri Lanka	14,872,929	-	-	-	-	-	14,872,929
Loans and Advances	226,655,725	79,631,037	50,676,588	34,992,898	45,025,219	5,371,600	10,958,383
Investments	72,440,133	16,665,317	8,320,899	14,287,860	27,108,641	4,581,818	1,475,598
Other	50,020,780	6,985,808	17,536,651	16,022,130	272,130	-	9,204,062
<b>Total Assets</b>	<b>363,989,567</b>	<b>103,282,162</b>	<b>76,534,138</b>	<b>65,302,888</b>	<b>72,405,990</b>	<b>9,953,418</b>	<b>36,510,971</b>
<b>Liabilities</b>							
Deposits	221,564,372	55,003,604	53,682,467	90,211,411	4,476,821	3,200	18,186,869
Borrowings	54,891,230	9,694,553	17,080,176	9,971,579	14,294,763	3,850,160	-
Other	87,533,964	5,360,183	17,620,376	16,320,408	281,200	-	47,951,797
<b>Total Shareholder Funds and Liabilities</b>	<b>363,989,567</b>	<b>70,058,340</b>	<b>88,383,019</b>	<b>116,503,398</b>	<b>19,052,784</b>	<b>3,853,360</b>	<b>66,138,666</b>
<b>Total Interest Sensitivity Gap</b>		<b>33,223,822</b>	<b>(11,848,881)</b>	<b>(51,200,510)</b>	<b>53,353,206</b>	<b>6,100,058</b>	<b>(29,627,695)</b>

\*\* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

Group - As at 31 December 2020

	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
<b>Assets</b>							
Cash and balances with Central Bank of Sri Lanka	11,343,766	-	-	-	-	-	11,343,766
Loans and Advances	209,315,604	68,139,847	50,575,632	33,539,995	40,996,014	4,793,882	11,270,234
Investments	108,402,448	15,232,306	14,264,602	46,107,391	29,070,987	3,231,818	495,345
Other	37,640,822	5,228,727	9,817,652	12,997,865	-	-	9,596,579
<b>Total Assets</b>	<b>366,702,640</b>	<b>88,600,880</b>	<b>74,657,886</b>	<b>92,645,251</b>	<b>70,067,000</b>	<b>8,025,700</b>	<b>32,705,924</b>
<b>Liabilities</b>							
Deposits	236,558,661	68,467,627	52,743,792	86,646,385	6,205,300	3,200	22,492,358
Borrowings	50,147,405	7,312,099	10,341,138	17,809,414	10,615,312	4,069,442	-
Other	79,996,574	5,991,784	9,738,117	13,077,318	-	-	51,189,355
<b>Total Shareholder Funds and Liabilities</b>	<b>366,702,640</b>	<b>81,771,510</b>	<b>72,823,047</b>	<b>117,533,117</b>	<b>16,820,612</b>	<b>4,072,642</b>	<b>73,681,713</b>
<b>Total Interest Sensitivity Gap</b>		<b>6,829,370</b>	<b>1,834,839</b>	<b>(24,887,866)</b>	<b>53,246,388</b>	<b>3,953,058</b>	<b>(40,975,789)</b>

\*\* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

## Interest Rate Risk

Group - As at 31 December 2019

	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
<b>Assets</b>							
Cash and balances with Central Bank of Sri Lanka	14,872,345	-	-	-	-	-	14,872,345
Loans and Advances	226,653,235	79,628,548	50,676,588	34,992,898	45,025,219	5,371,600	10,958,383
Investments	72,440,133	16,665,317	8,320,899	14,287,860	27,108,641	4,581,818	1,475,598
Other	49,986,633	6,985,808	17,536,651	16,022,130	272,130	-	9,169,914
<b>Total Assets</b>	<b>363,952,346</b>	<b>103,279,673</b>	<b>76,534,138</b>	<b>65,302,888</b>	<b>72,405,990</b>	<b>9,953,418</b>	<b>36,476,240</b>
<b>Liabilities</b>							
Deposits	221,564,372	55,003,604	53,682,467	90,211,411	4,476,821	3,200	18,186,869
Borrowings	55,326,639	9,807,119	17,403,019	9,971,579	14,294,763	3,850,160	-
Other	87,061,335	5,360,183	17,620,376	16,320,408	281,200	-	47,479,167
<b>Total Shareholder Funds and Liabilities</b>	<b>363,952,346</b>	<b>70,170,906</b>	<b>88,705,862</b>	<b>116,503,398</b>	<b>19,052,784</b>	<b>3,853,360</b>	<b>65,666,037</b>
<b>Total Interest Sensitivity Gap</b>		<b>33,108,767</b>	<b>(12,171,724)</b>	<b>(51,200,510)</b>	<b>53,353,206</b>	<b>6,100,058</b>	<b>(29,189,797)</b>

\* \* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

The ALCO monitors the above gaps and the sensitivity on the Profit or Loss and equity for Sri Lanka Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits, while closely scrutinizing the impact on Net Interest Margin (NIM) resulting from Interest Rate related relief measures announced by CBSL to the COVID-19 affected groups. The sensitivity of the Profit or Loss and equity is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

The following table demonstrates the sensitivity of the Bank's Profit or Loss to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.



## notes to the financial statements

Bank	Increase / (Decrease) in basis points	Sensitivity to Profit After Tax		Sensitivity to Equity After Tax	
Asset/Liabilities		2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000
LKR	+100/-100	+46,756/-47,221	+192,089/-194,835	-733,848/+773,250	-616,083/+651,147
USD	+50/-50	+12,066/-12,187	-1,637/+1,639	-66,068/+67,543	-7,121/+7,232

Group	Increase / (Decrease) in basis points	Sensitivity to Profit After Tax		Sensitivity to Equity After Tax	
Asset/Liabilities		2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000
LKR	+100/-100	+45,446/-45,893	+192,081/-194,827	-735,158/+774,578	-616,091/+651,155
USD	+50/-50	+12,066/-12,187	-1,637/+1,639	-66,068/+67,543	-7,121/+7,232

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

### Currency Risk

Currency risk is the potential risk of loss due to unfavorable movements in foreign exchange rates when the Bank has foreign currency denominated assets, liabilities or trading positions. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

The Board has set following limits to mitigate against currency risk exposures:

- Exposure on currencies on individual and an aggregate basis
- Exposure for each currency by maturity for forward currency contracts
- Dealer and counter-party Limits
- Overnight and Intra-Day Limits
- Stop-loss limits

Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had material exposures at 31 December 2020. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the Profit or Loss. A negative amount in the table reflects a potential net reduction in Profit or Loss, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact.

The sensitivity related to trading position in the Domestic Banking Unit is given below.

Currency	Change in Currency Rate in % 2020 LKR'000	Change in Currency Rate in % 2019 LKR'000	Effect on Profit after tax 2020 LKR'000	Effect on Profit after tax 2019 LKR'000
USD	+5	+5	(10,935.6)	1,332.3
GBP	+5	+5	(11.4)	(422.7)
EUR	+5	+5	71.0	113.9
AUD	+5	+5	(265.1)	(157.0)
JPY	+5	+5	(40.9)	142.3
Other	+5	+5	751.8	632.7

In addition to above trading exposures, the Bank carries a Positive US Dollar reserves accumulated in Foreign Currency Banking Unit books. The sensitivity to Profit or Loss from this exposure is as follows;

Currency	Change in Currency Rate in %	Change in Currency Rate in %	Effect on Profit after tax	Effect on Profit after tax
	2020 LKR'000	2019 LKR'000	2020 LKR'000	2019 LKR'000
USD	+5	+5	5,210.5	(678.2)

## 48 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

### 48.1 Legal Claims and Contingent Liabilities

There have been no significant legal claims against the Bank / Group as at 31 December 2020 ( 2019 - Nil).

### 48.2 Capital Commitments

The commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows;

As at 31 December	GROUP	
	2020 LKR '000	2019 LKR '000
<b>Capital Commitments for Property, Plant and Equipment</b>		
Approved and Contracted for	117,765	278,780
Approved but not Contracted for	65,468	78,546
	183,233	357,326
<b>Capital Commitments for Intangible Assets</b>		
Approved and Contracted for	203,334	360,239
Approved but not Contracted for	95,801	94,841
	299,135	455,080
	482,368	812,406

### 48.3 Lease Arrangements

#### 48.3.1 Operating Lease Commitments – Group as Lessee

The Group has entered into commercial leases for premises and non bank motor vehicles for bank use. These leases have an average life of five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Set out below are the undiscounted potential future rental payments as at 31 December.

As at 31 December	GROUP	
	2020 LKR '000	2019 LKR '000
Within one year	481,479	434,816
After one year but not more than five years	1,301,479	1,409,158
More than five years	107,037	356,055
	1,889,995	2,200,029

# notes to the financial statements

## 48 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (CONTD.)

### 48.3 Lease Arrangements (Contd.)

#### 48.3.2 Operating Lease Receivable – Group as Lessor

The table below provides an analysis of operating lease receivables for leases of certain properties in which the Group is the lessor.

As at 31 December	GROUP	
	2020 LKR '000	2019 LKR '000
Within one year	21,911	53,778
After one year but not more than five years	35,159	57,070
	57,070	110,848

## 49 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

### 49.1 Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises share capital, share premium, retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

### 49.2 Net Assets Value Per Ordinary Share

As at 31 December	BANK		GROUP	
	2020	2019	2020	2019
<b>Amount Used as the Numerator:</b>				
Net Assets Attributable to Equity Holders of the Parent (LKR'000)	33,818,190	30,343,317	35,124,928	31,395,646
<b>Number of Ordinary Shares Used as the Denominator:</b>				
Number of Ordinary Shares in Issue at the End of the Year (Note 26)	283,851,872	283,851,872	283,851,872	283,851,872
<b>Net Assets Value per Ordinary Share (LKR)</b>	<b>119.14</b>	<b>106.90</b>	<b>123.74</b>	<b>110.61</b>

## 50 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2020 that require disclosure or/and adjustments in these financial statements, except for the following;

#### a) Dividends Declared (Note 42.2)

The Board of Directors declared a payment of a first and final cash dividend of LKR 2.00 per share for both Ordinary Voting and Ordinary Non - Voting Shareholders for the year ended 31 December 2020.

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## gri context index

GRI Standard	Disclosure	Page number	Omission
<b>GRI 101: Foundation 2016 (does not include any disclosures)</b>			
<b>General Disclosures</b>			
GRI 102: General Disclosures 2016	102-1 Name of Organisation	2	
	102-2 Activities, brands, products and services	19,27-30	
	102-3 Location of headquarters	IBC	
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	102-41 Collective bargaining agreements		The Bank does not have collective bargaining agreements in place
	102-42 Identifying and selecting stakeholders	22	
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	102-45 Entities included in the consolidated financial statements	3	
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	102-48 Restatement of information	3	
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# gri context index

GRI Standard	Disclosure	Page number	Omission
	102-52 Reporting cycle	3	
	102-53 Contact point for questions regarding Report	3	
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	102-55 GRI context index	181-183	
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<b>Material topics</b>			
Economic Performance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	22,44	
	103-2 Evaluation of the Management Approach	22,44	
GRI 201: Economic Performance 2016	201-2- Financial implications and other risks and opportunities due climate change	21	
<b>Materials</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	44	
	103-2 Evaluation of the Management Approach	45	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	45	
<b>Energy</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	44	
	103-2 Evaluation of the Management Approach	45	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	45	
<b>Biodiversity</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	43	
	103-2 Evaluation of the Management Approach	43	
GRI 304: Biodiversity 2016	304-2 Significant impacts of activities, products and services on biodiversity	43	
<b>Emissions</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	46	
	103-2 Evaluation of the Management Approach	46	
GRI 305 Emissions: 2016	305-1 Direct greenhouse gas (GHG) emissions	46	
	305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	46	
	305-3 Other indirect greenhouse gas (GHG) emissions (Scope 3)	46	
	305-4 GHG emission intensity	46	
<b>Effluents and waste</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	45	
	103-2 Evaluation of the Management Approach	45	
GRI 306 Effluents and Waste 2016	306-2 Waste by type and disposal method	45	
<b>Environmental compliance</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	44	
	103-2 Evaluation of the Management Approach	44	
GRI 307 Environmental compliance	307-1 Non-compliance with environmental laws and regulations	44	

GRI Standard	Disclosure	Page number	Omission
<b>Occupational health and safety</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	38	
	103-2 Evaluation of the Management Approach	38	
GRI 403: Occupational health and safety	403-2 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	38	
<b>Training and education</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	39	
	103-2 Evaluation of the Management Approach	39	
GRI 404: Training and education	404-1 Average hours of training per year per employee	39	
	404-2 Programs for upgrading skills and transition assistance programmes	39	
	404-3 Percentage of employees receiving regular performance and career development reviews	39	
<b>Diversity and equal opportunity</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	38	
	103-2 Evaluation of the Management Approach	38,49	
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of government bodies and employees	37,49	
<b>Local communities</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	43	
	103-2 Evaluation of the Management Approach	43	
GRI 413-1	Operations with local community engagement, impact assessments and development programs	43	
<b>Marketing and labelling</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	42	
	103-2 Evaluation of the Management Approach	42	
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	42	
	417-2 Incidents of non-compliance concerning product and service information and labelling	42	
	417-3 Incidents of non-compliance concerning marketing communications	42	
<b>Customer Privacy</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	47	
	103-2 Evaluation of the Management Approach	47	
GRI 418: Customer Privacy 2016	418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	47	
<b>Socio-economic compliance</b>			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	184	
	103-2 The Management Approach and its components	47	
	103-2 Evaluation of the Management Approach	47	
GRI 419 Socio-economic compliance	419-2 Non-compliance with laws and regulations in the social and economic area	47	



# material topics annexure

Material topic and why it is material to us	Topic boundary and change in boundary	Corresponding GRI topics
<b>Growth and profitability</b> Achieving sustainable growth in earnings is vital in driving shareholder value and ensuring the sufficiency of financial resources in fulfilling strategic aspirations.	The Group's financial performance will directly impact its primary stakeholders such as shareholders, employees, and customers.	201: Economic Performance
<b>Health and safety</b> Health and safety of employees, customers, and other stakeholders was of critical importance during the year, given the outbreak of the COVID-19 pandemic and the magnitude of its implications.	The Reporting boundary relates to our employees, customers, and communities in which our branches are located.	403: Occupational health and safety
<b>Customer experience</b> Elevating customer experience through convenience, accessibility, and technology to be a key source of competitive advantage is a strategic priority for the Bank.	While the impacts of the material topic arise primarily from customers it will have a long-term impact on the Bank's commercial sustainability.	
<b>Digitisation</b> Digitisation has transformed the way Banks interact with their customers as well as how business is conducted, and risks are managed on a day to day basis.	The impacts of digitisation are both internal and external as it directly affects our internal efficiencies, cost management and customer experience.	
<b>Responsible lending</b> In order to remain commercially viable and socially relevant we ensure customer rights are protected and that lending is directed towards sustainable businesses.	Our lending practices have a direct impact on our customers, but over the long term will have an impact on our brand, market share and performance.	417: Marketing and labelling 418: Customer privacy
<b>Employee attraction</b> Recruiting and retaining the employees with the right skills, attitudes and work ethic is vital in achieving our strategic objectives.	Human capital management relates primarily to our direct employees across the island	401: Employment 405: Diversity and equal opportunity
<b>Training and development</b> With the Bank's digital transformation, it is imperative that we continue to upskill our employees and equip them with the right tools to drive our strategic ambitions.	Relates to the Bank's direct employees.	404: Training and education
<b>Employee satisfaction</b> A satisfied pool of employees ensure retention, productivity, good customer engagement and performance.	Satisfaction relates primarily to the Bank's employees but will have long-term implications on the Bank's competitive edge.	

Material topic and why it is material to us	Topic boundary and change in boundary	Corresponding GRI topics
<b>Operational efficiency</b> Achieving process efficiencies and increased productivity has a direct impact on the Bank's profitability while freeing up employee time for customer interaction.	Directly impacts the Group's financial performance.	
<b>Preserving the environment</b> As a responsible corporate citizen, we strive to minimise the adverse environmental impacts of our operations	The Group's internal environmental impacts consist of paper, energy and water consumption and the carbon footprint it generates. The Bank's most significant external environmental impact arises from its lending portfolio.	301: Materials 302: Energy 304: Bio diversity 305: Emissions 306: Effluents and waste
<b>Corporate social responsibility</b> Creating value to the communities we operate in through strategic, ongoing CSR projects can help us sustain our social license to operate.	The impacts of this topic arise in the communities we operate in across the island.	413: Local communities
Corporate Governance and compliance  Sustainable value creation is underpinned by robust governance frameworks and practices.	Non-compliance to regulations and laws as well as weak corporate governance practices could result in potential legal liability and significant affect the Bank's reputation and continuity of operations.	307: Environmental compliance 419: Socio-economic compliance

# investor information

## STOCK EXCHANGE LISTING

The ordinary shares of the bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31 December 2020, and the Statement of Financial Position as at that date will be submitted to the Colombo Stock Exchange within two months of the reporting date.

## DISTRIBUTION OF ORDINARY SHAREHOLDERS - VOTING

As at December 31, 2020		Resident			Non - Resident			Total		
Shareholdings		No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1	- 1000	3,987	1,230,305	0.50	28	9,752	0.00	4,015	1,240,057	0.50
1001	- 10,000	2,270	6,643,434	2.71	35	111,390	0.05	2,305	6,754,824	2.76
10,001	- 100,000	400	10,460,057	4.27	10	465,857	0.19	410	10,925,914	4.46
100,001	- 1,000,000	55	12,323,538	5.03	4	1,461,765	0.60	59	13,785,303	5.63
Over	1,000,000	16	174,274,152	71.09	2	38,154,571	15.56	18	212,428,723	86.65
		6,728	204,931,486	83.60	79	40,203,335	16.40	6,807	245,134,821	100.00

## DISTRIBUTION OF ORDINARY SHAREHOLDERS - NON VOTING

As at December 31, 2020		Resident			Non - Resident			Total		
Shareholdings		No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1	- 1000	213	46,675	0.12	-	-	-	213	46,675	0.12
1001	- 10,000	35	94,977	0.25	-	-	-	35	94,977	0.25
10,001	- 100,000	7	112,356	0.29	-	-	-	7	112,356	0.29
100,001	- 1,000,000	1	140,055	0.36	-	-	-	1	140,055	0.36
Over	1,000,000	5	32,514,473	83.98	1	5,808,515	15.00	6	38,322,988	98.98
		261	32,908,536	85.00	1	5,808,515	15.00	262	38,717,051	100.00

## ANALYSIS OF SHAREHOLDERS - VOTING

	31 December 2020			31 December 2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	6,467	28,423,742	11.60	5,454	24,264,905	9.91
Institutional	340	216,711,079	88.40	288	220,613,936	90.09
	6,807	245,134,821	100.00	5,742	244,878,841	100.00

## ANALYSIS OF SHAREHOLDERS - NON VOTING

	31 December 2020			31 December 2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	231	323,793	0.84	229	534,788	1.37
Institutional	31	38,393,258	99.16	30	38,438,243	98.63
	262	38,717,051	100.00	259	38,973,031	100.00

## FLOAT ADJUSTED MARKET CAPITALISAZION

	31.12.2020		31.12.2019	
	Number	%	Number	%
Number of shareholders representing the public holding (Voting)	6,794	35.76	5,730	35.68
Number of shareholders representing the public holding (Non Voting)	252	0.99	250	1.54
Float Adjusted Market Capitalization	LKR' 5.29 Bn		LKR' 7.04 Bn	
Compliant under	Option 3		Option 3	

## MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	Voting		Non-Voting	
	2020	2019	2020	2019
<b>Market value</b>				
Highest Value (LKR)	80.00	94.80	92.00	95.00
Lowest Value (LKR)	52.60	76.00	61.00	70.20
Value at end of year (LKR)	60.00	80.00	75.00	80.00
<b>Trading Statistics</b>				
No. of Transactions	12,819	2,158	35	47
No. of shares Traded (Mn)	46.54	10.92	0.0019	1.92
Value of shares Traded (LKR Mn)	2,920.94	936.09	0.14	159.28
<b>Market Capitalization</b>				
Market Capitalization (LKR Mn)	14,708.09	19,590.31	2,903.78	3,117.84

# investor information

## TWENTY LARGEST VOTING SHAREHOLDERS AS AT 31 DECEMBER 2020

Name of the Shareholder	2020		2019*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	48,347,078	19.72	48,347,078	19.74
HWIC Asia Fund	36,770,223	15.00	36,731,826	15.00
Central Finance Company PLC A/C No 03	24,124,933	9.84	24,124,933	9.85
Mackinnons Keells Limited	23,931,802	9.76	23,931,802	9.77
Janashakthi Insurance PLC - Shareholders	19,479,368	7.95	19,479,368	7.95
CF Insurance Brokers (Pvt) Ltd	12,152,256	4.96	12,152,256	4.96
CF Growth Fund Ltd A/C No.01	12,069,880	4.92	12,069,880	4.93
Sri Lanka Insurance Corporation Ltd - Life Fund	9,587,516	3.91	-	-
Sri Lanka Insurance Corporation Ltd - General Fund	5,705,290	2.33	-	-
Janashakthi Insurance PLC - Non Par.	4,288,517	1.75	4,288,517	1.75
Hatton National Bank PLC A/C No 1	3,882,252	1.58	3,882,252	1.59
Mr. M.F. Hashim	2,640,548	1.08	2,606,412	1.06
National Savings Bank	2,331,061	0.95	-	-
Mr. Premalal Brahmanage	2,152,839	0.88	2,152,839	0.88
Mr. N.R. Somaiya	1,384,348	0.56	1,384,348	0.57
Timex Garments (Pvt) Ltd	1,298,225	0.53	1,298,225	0.53
Mrs. H.K.S.R Perera	1,153,763	0.47	1,153,763	0.47
Deutsche Bank AG As Trustee To Assetline Income Plus Growth Fund	1,128,824	0.46	-	-
Askold (Pvt) Ltd	782,478	0.32	-	-
Hallsville Trading Group INC.	763,822	0.31	-	-
Sub Total	213,975,023	87.28	193,603,499	79.06
Other Shareholders	31,159,798	12.72	51,275,342	20.96
<b>Total</b>	<b>245,134,821</b>	<b>100.00</b>	<b>244,878,841</b>	<b>100.00</b>

\*Shareholding as at 31 December 2019 of the top twenty shareholders as at 31 December 2020.

The Director of Bank Supervision of the Central Bank of Sri Lanka (CBSL) has informed that in terms of a decision of the Monetary Board of the CBSL, John Keells Group and Central Finance Group have been granted further time till 31 December 2021 to reduce their shareholding in the voting shares of the Bank to 20% and 15%, respectively. Further, John Keells Group is required to reduce its shareholding in the Bank to 15% on or before 31 December 2022. Restriction on voting rights at 10% each is applicable to John Keells Group and Central Finance Group until the shareholding is reduced to 15% each.

## TWENTY LARGEST NON VOTING SHAREHOLDERS AS AT 31 DECEMBER 2020

Name of the Shareholder	2020		2019*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	16,000,788	41.33	16,000,788	41.06
Central Finance Company PLC A/C No 03	8,121,765	20.98	8,121,765	20.84
HWIC Asia Fund	5,808,515	15.00	5,846,912	15.00
Mackinnons Keells Limited	4,170,662	10.77	4,170,662	10.70
CF Insurance Brokers (Pvt) Ltd	2,117,807	5.47	2,117,807	5.43
CF Growth Fund Ltd A/C No.01	2,103,451	5.43	2,103,451	5.40
Mr. M. G. H. I. Jafferjee	140,055	0.36	140,055	0.36
The Incorporated Trustees of the Church of Ceylon	25,118	0.06	25,118	0.06
Mr. K.N.J.Balendra	19,673	0.05	19,673	0.05
Mr. S. J. Hirdaramani	18,267	0.05	18,267	0.05
Mr. D. C. Fernando	15,542	0.04	15,542	0.04
Vinik (Pvt) Ltd	12,786	0.03	12,786	0.03
People's Leasing & Finance PLC/Mr. A.B.K. Weeraman	10,503	0.03	10,503	0.03
Mr. J. B. Hirdaramani	10,467	0.03	10,467	0.03
Mrs. E.M. Dias Bandaranaike	8,303	0.02	8,303	0.02
Mr. K.O.V.S.M.S.Wijesinghe	7,242	0.02	7,242	0.02
Miss. T.T. Weerasinghe	6,392	0.02	6,392	0.02
Mr. I.A.H. Esufally	5,724	0.01	5,724	0.01
Allianz Life Insurance Lanka Limited - A/C NO.02 (Allianz Growth Fund)	5,022	0.01	-	-
Mr. K.S.N. Hirdaramani	4,185	0.01	-	-
Sub Total	38,612,267	99.72	38,641,457	99.15
Other Shareholders	104,784	0.28	331,574	0.85
<b>Total</b>	<b>38,717,051</b>	<b>100.00</b>	<b>38,973,031</b>	<b>100.00</b>

\*Shareholding as at 31 December 2019 of the top twenty shareholders as at 31 December 2020.



## DEBENTURE INFORMATION

The rated unsecured subordinated redeemable debentures 2016/21, 2018/23, 2019/24 and 2019/26 of the bank are listed in the Colombo Stock Exchange.

Debtenture Categories	CSE Listing	Interest Payable Frequency	Issued Date	Maturity Date	Face Value		Market Values 2020		Interest Rates 2020		Interest Rate of Comparable Government Securities		Other Ratios as at Date of Last Trade		
					2020 LKR '000	2019 LKR '000	Highest LKR	Lowest LKR	Year End LKR	Coupon Rate %	Effective Annual yield %	31.12.2020 %	31.12.2019 %	Interest Yield %	Yield to Maturity %
Floating	NTB-BD-08/11/21-C2363	Semi-Annually	8-Nov-16	8-Nov-21	2,410	2,410	Not traded during the current period			6.19**	6.29**	4.98**	8.65**	Not traded during the current period	
Fixed Rate	NTB-BD-08/11/21-C2365-1265	Semi-Annually	8-Nov-16	8-Nov-21	3,885,800	3,885,800	10324	10000	10324	12.65	13.05	4.98	8.65	1225	9.63
Fixed Rate	NTB-BD-08/11/21-C2364-128	Annually	8-Nov-16	8-Nov-21	1,111,790	1,111,790	Not traded during the current period			12.80	12.80	4.98	8.65	Not traded during the current period	
Fixed Rate	NTB-BD-20/04/23-C2402-1265	Semi-Annually	20-Apr-18	20-Apr-23	2,213,000	2,213,000	Not traded during the current period			12.65	13.05	5.88	9.33	Not traded during the current period	
Fixed Rate	NTB-BD-20/04/23-C2401-13	Annually	20-Apr-18	20-Apr-23	1,287,000	1,287,000	Not traded during the current period			13.00	13.00	5.88	9.33	Not traded during the current period	
Fixed Rate	NTB-BD-23/12/24 - C2441-128	Annually	23-Dec-19	23-Dec-24	2,700,000	2,700,000	Not traded during the current period			12.80	12.80	6.45	9.74	Not traded during the current period	
Fixed Rate	NTB-BD-23/12/26 - C2442-129	Annually	23-Dec-19	23-Dec-26	1,800,000	1,800,000	Not traded during the current period			12.90	12.90	6.80	9.87	Not traded during the current period	
					13,000,000	13,000,000									

### Ratios of Debt

	2020	2019
* Debt / Equity Ratio (%)	84.58	110.18
Interest Cover (Times)	3.05	3.24
Quick Asset Ratio (%)	155	125

\* Borrowings of which original maturity with five years or more are considered for debt.

\*\* Floating rate debenture repricing at 6 months T-Bill rate + 1.5%

All the securities were issued by Nations Trust Bank PLC. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2020.

# risk management annexures

## Credit Risk

Table 1

### Gross Loans & Advances - Individual Impairment (as per financial reporting)

2020	Exposure		Impairment		Age Analysis			
	On Balance Sheet	Off Balance Sheet	Impairment Provision	Net Present Value of Future Cash Flows*	Write Offs During the Period	0 - 30 Days	31 -90 Days	Above 90 Days
Corporate Loans	5,712,178	-	911,782	4,842,854	285,088	3,738,379	8,725	1,965,074
Retail, SME & Consumer	8,310,514	-	2,224,762	7,445,331	191,551	3,960,880	95,154	4,254,480
Housing Loans	-	-	-	-	-	-	-	-
Leasing	597,748	-	348,034	251,722	-	-	-	597,748
	14,620,440	-	3,484,578	12,539,907	476,639	7,699,259	103,879	6,817,302

\*Sum of net present value of cash flows expected through normal business activities and collateral liquidation.

Table 2

### Gross Loans & Advances - Collective Impairment (as per financial reporting)

2020	Exposure		Impairment		Age Analysis			
	On Balance Sheet	Off Balance Sheet	Impairment Provision	Write Offs During the Period	0 - 30 Days	31 -90 Days	Above 90 Days	
Corporate Loans	70,918,748	-	222,633	-	70,750,036	78,127	90,585	
Retail, SME & Consumer	86,759,596	-	3,610,934	1,835,225	79,037,898	2,246,187	5,475,511	
Housing Loans	4,503,075	-	191,519	-	3,929,203	186,430	387,442	
Leasing	38,705,365	-	1,067,495	112,802	31,001,102	4,889,669	2,814,594	
	200,886,784	-	5,092,581	1,948,027	184,718,239	7,400,413	8,768,132	

\* Staff Loans are not assessed for impairment.

Table 3

### Performing & Non Performing Loans(as per regulatory reporting)

2020	Performing Loans				Non Performing Loans						
	Exposure		Exposure		Provision		Age Analysis				
	On Balance Sheet	Off Balance Sheet	On Balance Sheet	Off Balance Sheet	Specific Provision	Collateral Information	Write Offs During the Period	Special Mention	Substandard	Doubtful	Loss
Corporate Loans	74,573,484	-	2,057,442	-	1,171,898	175,040	-	559,346	208,033	682,244	607,819
Retail, SME & Consumer	85,192,833	-	9,877,277	-	6,884,330	3,541,740	2,026,776	824,593	1,334,878	1,465,299	6,252,507
Housing Loans	4,058,122	-	444,953	-	124,343	560,784	-	128,119	58,621	84,693	173,520
Leasing	35,141,820	-	4,161,293	-	1,021,426	-	112,802	1,711,008	1,325,240	547,857	577,188
	198,966,259	-	16,540,965	-	9,201,997	4,277,564	2,139,578	3,223,066	2,926,772	2,780,093	7,611,034

Note: Rs 9,761Mn worth of NPL contracts were not impaired individually as they were below individually significant threshold.

# risk management annexures

## Market Risk

Table 1

### Composition of Trading and Non-Trading Book

Assets	2020		Total (LKR million)
	Trading book (LKR million)	Non-trading book (LKR million)	
Cash and Cash Equivalents	-	9,145	9,145
Balances with Central Bank of Sri Lanka	-	2,195	2,195
Reverse Repurchase Agreements	-	5,091	5,091
Derivative Financial Instruments	240	-	240
Financial Assets	2,417	73,258	75,675
Other Financial Assets	-	-	-
Financial Assets at Amortised Cost - Debt Instruments	-	26,648	26,648
Financial Assets at Amortised Cost – Loans and Advances	-	210,185	210,185
Other Assets	-	2,384	2,384
Investments in Subsidiaries	-	679	679
Fixed Assets (PPE, ROU & Intangibles)	-	5,392	5,392
<b>Total</b>	<b>2,657</b>	<b>334,977</b>	<b>337,634</b>
<b>Liabilities</b>			
Due to Banks	-	4,942	4,942
Derivative Financial Instruments	251	-	251
Due to Depositors	-	240,584	240,584
Repurchase Agreements	-	7,563	7,563
Due to other Borrowers	-	28,040	28,040
Debt Securities Issued	-	13,262	13,262
Retirement benefit obligations	-	774	774
Tax Liabilities (Current & Deferred)	-	2,155	2,155
Other Liabilities	-	6,245	6,245
Equity & Other Reserves	-	33,818	33,818
<b>Total</b>	<b>251</b>	<b>337,383</b>	<b>337,634</b>
Contingent Liabilities & Commitments	32,464	164,766	197,230
Commitment & Guarantees	-	164,766	164,766
Forward on Government Securities	4833	-	4833
Derivative Assets- Held for Trading (Net)	27,631	-	27,631

Table 2

Net Open Position of Foreign Currency Denominated Assets and Liabilities of Domestic Banking Unit \* (in millions of respective currency)

CCY		Up to One month	1 - 3 months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	NOP
USD	Assets (On & Off Balance sheet)	86.524	27.809	62.528	15.097	41.393	20.875	2.535	(1.617)
	Liabilities (On & Off Balance sheet)	54.412	30.749	40.555	24.869	40.585	10.319	56.889	
	Periodic Gap	32.112	(2.940)	21.973	(9.772)	.808	10.556	(54.354)	
GBP	Assets (On & Off Balance sheet)	4.593	3.679	1.714	0.028	0.082	0.014	(0.002)	(0.001)
	Liabilities (On & Off Balance sheet)	0.737	0.736	2.364	1.157	0.422	0.161	4.531	
	Periodic Gap	3.856	2.943	(0.650)	(1.129)	(0.340)	(0.147)	(4.533)	
EUR	Assets (On & Off Balance sheet)	5.436	2.496	0.013	0.047	0.062	0.006	0.069	0.006
	Liabilities (On & Off Balance sheet)	2.850	0.493	0.451	0.849	0.674	0.255	2.551	
	Periodic Gap	2.586	2.003	(0.438)	(0.802)	(0.612)	(0.249)	(2.482)	
AUD	Assets (On & Off Balance sheet)	9.036	8.103	2.404	0.008	0.035	0.013	-	(0.051)
	Liabilities (On & Off Balance sheet)	3.197	1.375	2.312	1.744	0.715	0.273	10.033	
	Periodic Gap	5.839	6.728	0.092	(1.736)	(0.680)	(0.260)	(10.033)	
JPY	Assets (On & Off Balance sheet)	15.202	0.228	0.401	6.447	0.237	0.023	17.265	(0.680)
	Liabilities (On & Off Balance sheet)	30.769	0.605	1.149	0.288	2.363	0.894	4.414	
	Periodic Gap	(15.567)	(0.377)	(0.748)	6.159	(2.126)	(0.871)	12.851	

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## Liquidity Risk

Table 1

### Maturity Gaps in Major Currencies (in millions of respective currency)

CCY		Up to One month	1 - 3 months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
LKR	Assets (On & Off Balance sheet)	66,204	61,633	26,752	20,918	55,053	26,940	44,278
	Liabilities (On & Off Balance sheet)	45,731	27,084	32,609	23,841	25,393	18,618	270,843
	Periodic Gap	20,473	34,549	(5,857)	(2,924)	29,660	8,322	(226,566)
	Cumulative GAP	20,473	55,022	49,165	46,241	75,902	84,224	(142,342)
USD	Assets (On & Off Balance sheet)	30	36	74	23	85	43	9
	Liabilities (On & Off Balance sheet)	61	44	41	34	60	11	114
	Periodic Gap	(31)	(8)	33	(10)	25	32	(105)
	Cumulative GAP	(31)	(39)	(7)	(17)	8	40	(65)
GBP	Assets (On & Off Balance sheet)	5	4	2	-	-	-	-
	Liabilities (On & Off Balance sheet)	1	1	3	1	-	-	9
	Periodic Gap	4	3	(1)	(1)	-	-	(9)
	Cumulative GAP	4	7	6	5	5	5	(5)
EUR	Assets (On & Off Balance sheet)	6	3	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	3	1	-	1	1	-	6
	Periodic Gap	3	2	-	(1)	(1)	-	(6)
	Cumulative GAP	3	5	5	4	3	3	(3)
AUD	Assets (On & Off Balance sheet)	9	8	2	-	-	-	-
	Liabilities (On & Off Balance sheet)	3	1	2	2	1	-	9
	Periodic Gap	6	7	-	(2)	(1)	-	(9)
	Cumulative GAP	6	12	13	11	10	10	1
JPY	Assets (On & Off Balance sheet)	15	-	-	6	-	-	17
	Liabilities (On & Off Balance sheet)	35	5	1	-	2	1	98
	Periodic Gap	(20)	(5)	(1)	6	(2)	(1)	(81)
	Cumulative GAP	(20)	(25)	(25)	(19)	(22)	(22)	(103)

## Interest Rate Risk

Table 1

### Interest Rate Sensitivity Gap Analysis (in millions of respective currency)

CCY		Up to One month	1 - 3 months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
LKR	Assets	101,710	25,730	28,961	44,757	44,873	16,222	8,007	270,260
	Liabilities	78,620	40,592	51,649	40,620	11,265	5,556	4,073	232,374
	Periodic Gap	23,090	(14,862)	(22,688)	4,137	33,608	10,666	3,935	37,886
USD	Assets	125	93	83	11	34	13	-	360
	Liabilities	159	72	91	26	-	-	-	348
	Periodic Gap	(34)	22	(8)	(15)	34	13	-	12
GBP	Assets	5	4	2	-	-	-	-	10
	Liabilities	2	2	3	3	-	-	-	10
	Periodic Gap	2	2	(2)	(3)	-	-	-	(0)
EUR	Assets	5	2	-	-	-	-	-	8
	Liabilities	5	1	1	1	-	-	-	8
	Periodic Gap	-	1	(1)	(1)	-	-	-	(0)
AUD	Assets	9	8	2	-	-	-	-	19
	Liabilities	6	3	6	4	-	-	-	19
	Periodic Gap	2	5	(3)	(4)	-	-	-	-
JPY	Assets	7	-	-	-	-	-	-	7
	Liabilities	38	1	2	-	-	-	-	40
	Periodic Gap	(31)	(1)	(1)	-	-	-	-	(33)

Table 2

### Interest Rate Risk in Banking Book- Economic Value at Risk- in Millions (LKR equivalent)

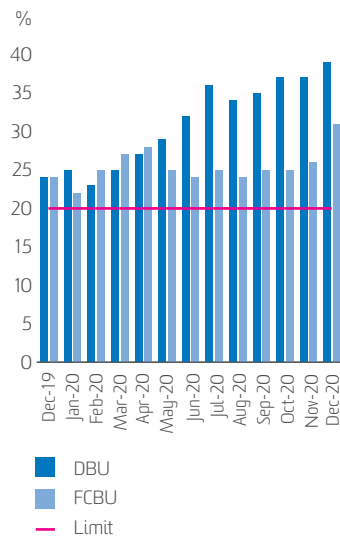
CCY		Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
LKR	Up	(18.41)	56.28	83.46	(65.67)	(1,205.21)	(572.73)	(279.50)	(2,001.78)
	Down	18.79	(57.61)	(85.65)	68.18	1,287.37	634.53	352.55	2,218.16
USD	Up	(5.09)	(34.09)	104.37	48.98	(251.79)	(166.35)	(1.70)	(305.68)
	Down	5.20	34.94	(107.43)	(50.78)	268.90	184.33	1.99	337.15
GBP	Up	0.74	2.41	3.12	9.07	(0.36)	(0.08)	-	14.91
	Down	(0.76)	(2.48)	(3.22)	(9.39)	0.39	0.09	-	(15.36)
EUR	Up	0.30	1.03	1.76	3.46	(0.25)	-	-	6.29
	Down	(0.30)	(1.05)	(1.82)	(3.57)	0.18	0.09	-	(6.47)
AUD	Up	1.16	2.46	6.94	6.87	(0.25)	-	-	17.18
	Down	(1.18)	(2.52)	(7.14)	(7.12)	0.27	-	-	(17.70)



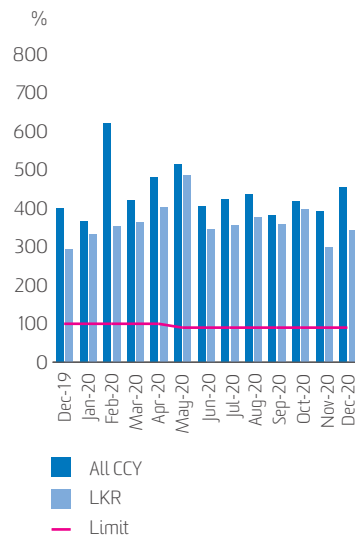
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## Liquidity Risk Trend Analysis

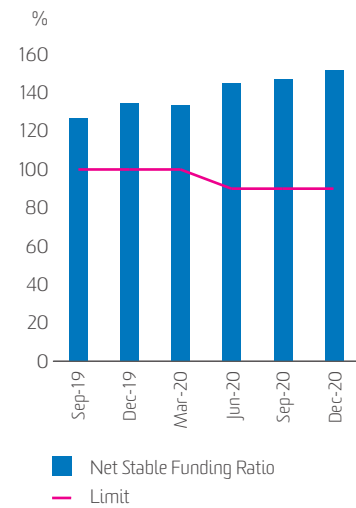
**Statutory Liquidity Ratio**



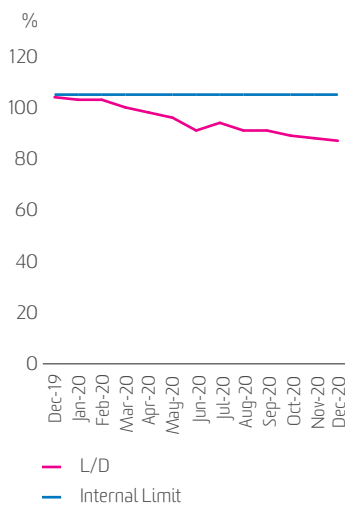
**Liquidity Coverage Ratio**



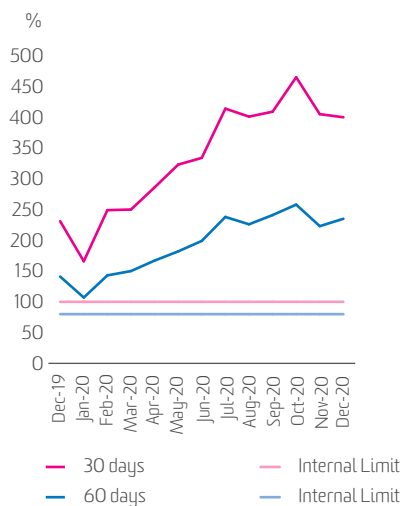
**Net Stable Funding Ratio**



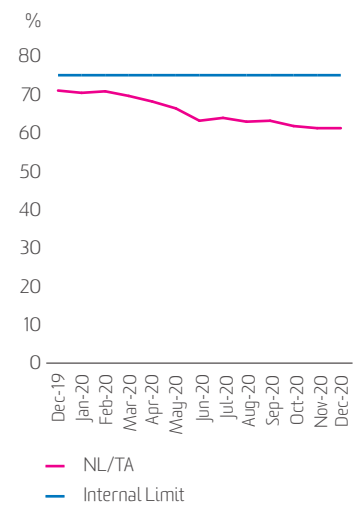
**Loan to Deposit Ratio**



**Liquid Assets to Short term Liabilities**



**Net loans to Total Assets Ratio**



**Table 1**

**Key Regulatory Ratios - Capital and Liquidity**

Item	BANK		GROUP	
	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
<b>Regulatory Capital (LKR '000)</b>				
Common Equity Tier 1	31,792,734	28,561,701	32,663,601	29,178,446
Tier 1 Capital	31,792,734	28,561,701	32,663,601	29,178,446
Total Capital	39,694,167	38,785,371	40,565,034	39,402,116
<b>Regulatory Capital Ratios (%)</b>				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.50% - 31-Dec-2020) (Minimum Requirement - 7.00% - 31-Dec-2019)	14.40%	12.99%	14.79%	13.30%
Tier 1 Capital Ratio (Minimum Requirement - 8.00% - 31-Dec-2020) (Minimum Requirement - 8.50% - 31-Dec-2019)	14.40%	12.99%	14.79%	13.30%
Total Capital Ratio (Minimum Requirement - 12.00% - 31-Dec-2020) (Minimum Requirement - 12.50% - 31-Dec-2019)	17.98%	17.64%	18.37%	17.96%
Leverage Ratio (Minimum Requirement - 3%)	9.03%	8.47%	9.27%	8.64%
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	109,941,284	63,911,288		
Off-Shore Banking Unit (LKR'000)	5,799,336	5,666,387		
Statutory Liquid Assets Ratio % (Minimum Requirement - 20%)				
Domestic Banking Unit (%)	38.79%	23.78%		
Off-Shore Banking Unit (%)	30.75%	24.34%		
Total Stock of High-Quality Liquid Assets (LKR'000)	86,501,491	47,734,687		
Liquidity Coverage Ratio (%)				
Rupee (Minimum Requirement - 90% - 31-Dec-2020) (Minimum Requirement - 100% - 31-Dec-2019)	455.66%	400.77%		
All Currency (Minimum Requirement - 90% - 31-Dec-2020) (Minimum Requirement - 100% - 31-Dec-2019)	341.63%	295.15%		
Net Stable Funding Ratio (Minimum Requirement - 90% - 31-Dec-2020) (Minimum Requirement - 100% - 31-Dec-2019)	151.62%	136.08%		

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**Table 2**

## Basel III Computation of Capital Ratios

Item	BANK LKR '000		GROUP LKR '000	
	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
<b>Common Equity Tier 1 (CET1) Capital after Adjustments</b>	31,792,734	28,561,701	32,663,601	29,178,446
<b>Common Equity Tier 1 (CET1) Capital</b>	33,014,153	29,937,283	33,885,885	30,554,608
Equity Capital (Stated Capital)/Assigned Capital	9,408,134	9,408,135	9,408,134	9,408,135
Reserve Fund	1,371,854	1,371,853	1,561,788	1,371,854
Published Retained Earnings/(Accumulated Retained Losses)	21,838,944	18,976,109	22,520,742	19,593,434
Published Accumulated Other Comprehensive Income (OCI)	395,221	181,185	395,221	181,185
General and other Disclosed Reserves	-	-	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
<b>Total Adjustments to CET1 Capital</b>	1,221,420	1,375,582	1,222,284	1,376,162
Goodwill (net)	-	-	-	-
Intangible Assets (net)	1,221,420	1,375,582	1,222,284	1,376,162
Shortfall of the Cumulative Impairment to Specific Provisions	-	-	-	-
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>	-	-	-	-
<b>Additional Tier 1 (AT1) Capital</b>	-	-	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
<b>Total Adjustments to AT1 Capital</b>	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
<b>Tier 2 Capital after Adjustments</b>	7,901,433	10,223,670	7,901,433	10,223,670
<b>Tier 2 Capital</b>	7,901,433	10,223,670	7,901,433	10,223,670
Qualifying Tier 2 Capital Instruments	6,169,524	8,666,667	6,169,524	8,666,667
Revaluation Gains	337,316	337,316	337,316	337,316
Loan Loss Provisions	1,394,594	1,219,688	1,394,594	1,219,688
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
<b>Total Adjustments to Tier 2</b>	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
<b>CET1 Capital</b>	31,792,734	28,561,701	32,663,601	29,178,446
<b>Total Tier 1 Capital</b>	31,792,734	28,561,701	32,663,601	29,178,446
<b>Total Capital</b>	39,694,167	38,785,371	40,565,034	39,402,116

Note :

As per the Directive No. 4 of 2018 issued by Central Bank of Sri Lanka on "Adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments", for the purpose of calculating capital adequacy ratio, Banks shall stagger additional credit loss provision arising from SLFRS 9 at the transition date, 01 January 2018. The Bank has charged only 75% of the first day impact (Rs. 765 Mn) against the retained earnings of the Bank for the purpose of calculating Capital Adequacy Ratio as at 31st December 2020. If 100% of the first day impact is considered, the Bank total Tier 1 Capital ratio and Bank Total Capital ratio would be decreased by 0.12%.

Table 2 (Contd.)

## Basel III Computation of Capital Ratios

Item	BANK LKR '000 31-Dec-2020	BANK LKR '000 31-Dec-2019	GROUP LKR '000 31-Dec-2020	GROUP LKR '000 31-Dec-2019
<b>Total Risk Weighted Assets (RWA)</b>	220,748,585	219,814,897	220,820,864	219,397,465
RWAs for Credit Risk	184,660,038	188,095,481	184,419,042	187,795,048
RWAs for Market Risk	9,196,617	7,292,301	9,196,617	7,292,301
RWAs for Operational Risk	26,891,930	24,427,115	27,205,205	24,310,115
<b>CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	14.40%	12.99%	14.79%	13.30%
of which: Capital Conservation Buffer (%)	2.000%	2.500%	2.000%	2.500%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
<b>Total Tier 1 Capital Ratio (%)</b>	14.40%	12.99%	14.79%	13.30%
<b>Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	17.98%	17.64%	18.37%	17.96%
of which: Capital Conservation Buffer (%)	2.000%	2.500%	2.000%	2.500%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-

Table 3

## Basel III Computation of Leverage Ratio

Item	BANK Amount (LKR '000)		GROUP Amount (LKR '000)	
	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
<b>Tier 1 Capital</b>	31,792,734	28,561,701	32,663,601	29,178,446
<b>Total Exposures</b>	352,007,308	337,243,362	352,363,453	337,572,151
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	331,086,749	309,651,464	331,442,581	309,977,763
Derivative Exposures	506,355	819,853	506,355	819,853
Securities Financing Transaction Exposures	5,086,600	13,820,317	5,086,912	13,822,806
Other Off-Balance Sheet Exposures	15,327,604	12,951,728	15,327,604	12,951,728
<b>Basel III Leverage Ratio (%) (Tier 1/Total Exposure)</b>	9.03%	8.47%	9.27%	8.64%

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**Table 4**

**Basel III Computation of Liquidity Coverage Ratio (All Currency)**

Item	Total Un-weighted Value LKR '000 31-Dec-2020	Total Weighted Value LKR '000 31-Dec-2020	Total Un-weighted Value LKR '000 31-Dec-2019	Total Weighted Value LKR '000 31-Dec-2019
<b>Total Stock of High-Quality Liquid Assets (HQLA)</b>	86,501,491	86,501,491	47,734,687	47,734,687
<b>Total Adjusted Level 1A Assets</b>	86,600,360	86,600,360	46,963,554	46,963,554
<b>Level 1 Assets</b>	86,501,491	86,501,491	47,734,687	47,734,687
<b>Total Adjusted Level 2A Assets</b>	-	-	-	-
<b>Level 2A Assets</b>	-	-	-	-
<b>Total Adjusted Level 2B Assets</b>	-	-	-	-
<b>Level 2B Assets</b>	-	-	-	-
<b>Total Cash Outflows</b>	411,641,306	45,616,812	403,299,052	47,419,929
Deposits	217,571,652	21,757,165	210,838,658	21,083,866
Unsecured Wholesale Funding	24,990,895	10,931,348	23,495,793	10,918,949
Secured Funding Transactions	419,355	-	379,822	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	165,806,560	10,075,454	164,140,425	10,972,760
Additional Requirements	2,852,845	2,852,845	4,444,354	4,444,354
<b>Total Cash Inflows</b>	44,722,393	20,296,842	63,268,225	31,246,760
Maturing Secured Lending Transactions Backed by Collateral	5,092,629	-	13,832,999	-
Committed Facilities	1,000,000	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	37,777,272	20,166,695	47,123,353	30,064,691
Operational Deposits	722,345	-	-	-
Other Cash Inflows	130,147	130,147	2,311,873	1,182,070
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100</b>		342%		295%

**Table 5**  
**Net Stable Funding Ratio**

Item	BANK Amount (LKR'000)	
	31-Dec-2020	31-Dec-2019
<b>Total Available Stable Funding</b>	264,280,333	251,062,717
Required Stable Funding – On Balance Sheet Assets	169,171,219	179,139,798
Required Stable Funding – Off Balance Sheet Items	5,128,616	5,349,917
<b>Total Required Stable Funding</b>	174,299,835	184,489,715
<b>Net Stable Funding Ratio</b>		
(Minimum Requirement - 90% - 31-Dec-2020)		
(Minimum Requirement - 100% - 31-Dec-2019)	151.62%	136.08%



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**Table 6**

## Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Shares (Voting)	Ordinary Shares (Non Voting)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)
Issuer	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
Unique Identifier (eg., ISIN or Bloomberg Identifier for Private Placement)	LK0309N00001	LK0309N00001	NTB-BD-08/11/21-C2365-12.65	NTB-BD-08/11/21-C2364-12.8
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	3-May-99	20-Feb-18	8-Nov-16	8-Nov-16
Par Value of Instrument	22.12	80	100	100
Perpetual or Dated	Perpetual	Perpetual	Dated	Dated
Original Maturity Date, if Applicable	N/A	N/A	8-Nov-21	8-Nov-21
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	6,309,791	3,098,343	647,633	185,298
Accounting Classification (Equity/Liability)	Equity	Equity	Liability	Liability
<b>Issuer Call subject to Prior Supervisory Approval</b>				
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A
<b>Coupons/Dividends</b>				
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Discretionary dividend amount	Fixed	Fixed
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	Distributable profit that has been declared as dividend	12.65%	12.80%
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
<b>Convertible or Non-Convertible</b>				
If Convertible, Conversion Trigger (s)	Non-Convertible	Starting from last market date of quarter ending 30th June and forward	Non-Convertible	Non-Convertible
If Convertible, Fully or Partially	Non-Convertible	Fully or Partially	Non-Convertible	Non-Convertible
If Convertible, Mandatory or Optional	Non-Convertible	Optional	Non-Convertible	Non-Convertible
If Convertible, Conversion Rate	Non-Convertible	1:1	Non-Convertible	Non-Convertible

Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)
Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
NTB-BD-08/11/21-C2363	NTB-BD-20/04/23-C2402-12.65	NTB-BD-20/04/23-C2401-13	NTB-BD-23/12/24 - C2441 - 12.8	NTB-BD-23/12/26 - C2442 - 12.9
Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
8-Nov-16	20-Apr-18	20-Apr-18	23-Dec-19	23-Dec-19
100	100	100	100	100
Dated	Dated	Dated	Dated	Dated
8-Nov-21	20-Apr-23	20-Apr-23	23-Dec-24	23-Dec-26
402	1,032,733	600,600	2,160,000	1,542,857
Liability	Liability	Liability	Liability	Liability
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
Floating	Fixed	Fixed	Fixed	Fixed
6.19%	12.65%	13.00%	12.80%	12.90%
Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Non-Convertible	Convertible	Convertible	Convertible	Convertible
Non-Convertible	As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016
Non-Convertible	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially
Non-Convertible	Mandatory	Mandatory	Mandatory	Mandatory
Non-Convertible	Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event.	Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event.	Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event.	Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event.

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**Table 7**

## Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	BANK					
	Exposures before Credit Conversion Factor (CCF) and CRM		LKR'000 as at -31-Dec-2020 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 CBSL	28,329,170	3,757,000	28,329,170	75,140	2,521,469	9%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%
Claims on Public Sector Entities	-	-	-	-	-	0%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%
Claims on Banks Exposures	2,190,281	22,479,558	2,190,281	472,036	1,458,030	55%
Claims on Financial Institutions	6,490,381	1,835,395	6,490,381	1,263,810	5,671,122	73%
Claims on Corporates	66,103,191	93,578,506	66,103,191	11,190,375	75,480,756	98%
Retail Claims	96,752,526	75,771,072	96,752,526	2,867,449	76,418,142	77%
Claims Secured by Residential Property	7,990,742	-	7,990,742	-	6,333,392	79%
Claims Secured by Commercial Real Estate	543,634	73,046	543,634	24,177	567,812	100%
Non-Performing Assets (NPAs)(i)	8,894,123	-	8,894,123	-	10,625,408	119%
Higher-risk Categories	25,803	-	25,803	-	64,507	250%
Cash Items and Other Assets	15,030,709	-	15,030,709	-	5,519,402	37%
<b>Total</b>	<b>232,350,560</b>	<b>197,494,577</b>	<b>232,350,560</b>	<b>15,892,988</b>	<b>184,660,038</b>	<b>74%</b>

Asset Class	GROUP					
	Exposures before Credit Conversion Factor (CCF) and CRM		LKR'000 as at -31-Dec-2020 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 CBSL	28,329,170	3,757,000	28,329,170	75,140	2,521,469	9%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%
Claims on Public Sector Entities	-	-	-	-	-	0%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%
Claims on Banks Exposures	2,190,339	22,479,558	2,190,339	472,036	1,458,042	55%
Claims on Financial Institutions	6,490,381	1,835,395	6,490,381	1,263,810	5,671,122	73%
Claims on Corporates	66,103,555	93,579,284	66,103,555	11,190,375	75,481,119	98%
Retail Claims	96,752,526	75,771,072	96,752,264	2,867,449	76,418,142	77%
Claims Secured by Residential Property	7,990,742	-	7,990,742	-	6,333,392	79%
Claims Secured by Commercial Real Estate	543,634	73,046	543,634	24,177	567,812	100%
Non-Performing Assets (NPAs)(i)	8,894,123	-	8,894,123	-	10,625,408	119%
Higher-risk Categories	-	-	-	-	-	0%
Cash Items and Other Assets	14,853,867	-	14,853,867	-	5,342,537	36%
<b>Total</b>	<b>232,148,337</b>	<b>197,495,355</b>	<b>232,148,337</b>	<b>15,892,988</b>	<b>184,419,042</b>	<b>74%</b>

Note:

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

Exposures before Credit Conversion Factor (CCF) and CRM		BANK LKR'000 as at -31-Dec-2019 Exposures post CCF and CRM		RWA and RWA Density (%)	
		On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
26,489,626	-	26,489,626	-	843,054	3%
-	-	-	-	-	0%
-	-	-	-	-	0%
-	-	-	-	-	0%
4,411,592	36,974,802	4,411,592	769,380	2,105,068	41%
9,236,145	3,270,978	9,236,145	1,213,161	6,576,362	63%
65,293,748	88,212,393	65,293,748	9,038,623	72,107,571	97%
106,088,045	74,730,209	106,088,045	2,703,118	82,898,691	76%
8,580,908	-	8,580,908	-	6,247,199	73%
668,810	40,359	668,810	17,500	686,310	100%
8,684,090	-	8,684,090	-	10,645,923	123%
25,803	-	25,803	-	64,507	250%
13,252,470	-	13,252,470	-	5,920,797	45%
242,731,236	203,228,741	242,731,236	13,741,782	188,095,481	73%

Exposures before Credit Conversion Factor (CCF) and CRM		GROUP LKR'000 as at -31-Dec-2019 Exposures post CCF and CRM		RWA and RWA Density (%)	
		On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
26,489,626	-	26,489,626	-	843,054	3%
-	-	-	-	-	0%
-	-	-	-	-	0%
-	-	-	-	-	0%
4,411,651	36,974,802	4,411,651	769,380	2,105,080	41%
9,236,145	3,270,978	9,236,145	1,213,161	6,576,362	63%
65,296,237	88,216,518	65,296,237	9,038,623	72,110,061	97%
106,088,045	74,730,209	106,088,045	2,703,118	82,898,691	76%
8,580,908	-	8,580,908	-	6,247,199	73%
668,810	40,359	668,810	17,500	686,310	100%
8,684,090	-	8,684,090	-	10,645,923	123%
-	-	-	-	-	0%
13,014,065	-	13,014,065	-	5,682,368	44%
242,469,577	203,232,866	242,469,577	13,741,782	187,795,048	73%

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**Table 8**

## Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	BANK								
	LKR'000 as at 31-Dec-2020 (Post CCF & CRM)								
Risk Weight Asset Classes	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	15,796,965	12,607,345	-	-	-	-	-	-	28,404,310
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	871,429	1,014,287	-	-	776,600	-	-	2,662,317
Claims on Financial Institutions	-	-	4,166,138	-	-	3,588,053	-	-	7,754,191
Claims on Corporates	-	976,798	2,085,997	-	-	74,207,520	23,252	-	77,293,566
Retail Claims	257,760	393	-	1,791,246	88,909,045	8,661,532	-	-	99,619,976
Claims Secured by Residential Property	-	-	3,314,700	-	-	4,676,042	-	-	7,990,742
Claims Secured by Commercial Real Estate	-	-	-	-	-	567,812	-	-	567,812
Non-Performing Assets (NPAs)	-	-	270,685	-	-	4,890,184	3,733,254	-	8,894,123
Higher-risk Categories	-	-	-	-	-	-	-	25,803	25,803
Cash Items and Other Assets	8,420,270	1,363,797	-	-	-	5,246,643	-	-	15,030,709
Total	24,474,994	15,819,761	10,851,808	1,791,246	88,909,045	102,614,385	3,756,506	25,803	248,243,548

Description	GROUP								
	LKR'000 as at 31-Dec-2020 (Post CCF & CRM)								
Risk Weight Asset Classes	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	15,796,965	12,607,345	-	-	-	-	-	-	28,404,310
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	871,487	1,014,287	-	-	776,600	-	-	2,662,375
Claims on Financial Institutions	-	-	4,166,138	-	-	3,588,053	-	-	7,754,191
Claims on Corporates	-	976,798	2,085,997	-	-	74,207,883	23,252	-	77,293,930
Retail Claims	257,760	393	-	1,791,246	88,909,045	8,661,532	-	-	99,619,976
Claims Secured by Residential Property	-	-	3,314,700	-	-	4,676,042	-	-	7,990,742
Claims Secured by Commercial Real Estate	-	-	-	-	-	567,812	-	-	567,812
Non-Performing Assets (NPAs)	-	-	270,685	-	-	4,890,184	3,733,254	-	8,894,123
Higher-risk Categories	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	8,420,293	1,363,797	-	-	-	5,069,778	-	-	14,853,867
Total	24,475,017	15,819,820	10,851,808	1,791,246	88,909,045	102,437,884	3,756,506	-	248,041,325

BANK								
LKR'000 as at 31-Dec-2019 (Post CCF & CRM)								
0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
22,274,355	4,215,271	-	-	-	-	-	-	26,489,626
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	3,399,791	712,144	-	-	1,069,038	-	-	5,180,972
-	306,764	7,255,065	-	-	2,887,476	-	-	10,449,305
-	5,551	4,722,027	-	-	69,323,483	281,310	-	74,332,371
339,334	68,819	-	2,642,807	97,763,842	7,976,362	-	-	108,791,163
-	-	4,667,419	-	-	3,913,489	-	-	8,580,908
-	-	-	-	-	686,310	-	-	686,310
-	-	240,849	-	-	4,278,725	4,164,516	-	8,684,090
-	-	-	-	-	-	-	25,803	25,803
5,865,018	1,833,320	-	-	-	5,554,133	-	-	13,252,470
28,478,707	9,829,514	17,597,505	2,642,807	97,763,842	95,689,016	4,445,826	25,803	256,473,018

GROUP								
LKR'000 as at 31-Dec-2019 (Post CCF & CRM)								
0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
22,274,355	4,215,271	-	-	-	-	-	-	26,489,626
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	3,399,849	712,144	-	-	1,069,038	-	-	5,181,031
-	306,764	7,255,065	-	-	2,887,476	-	-	10,449,305
-	5,551	4,722,027	-	-	69,325,973	281,310	-	74,334,860
339,334	68,819	-	2,642,807	97,763,842	7,976,362	-	-	108,791,163
-	-	4,667,419	-	-	3,913,489	-	-	8,580,908
-	-	-	-	-	686,310	-	-	686,310
-	-	240,849	-	-	4,278,725	4,164,516	-	8,684,090
-	-	-	-	-	-	-	-	-
5,865,041	1,833,320	-	-	-	5,315,705	-	-	13,014,065
28,478,730	9,829,573	17,597,505	2,642,807	97,763,842	95,453,077	4,445,826	-	256,211,359

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**Table 9**

## Market Risk under Standardised Measurement Method

Item	BANK LKR '000		GROUP LKR '000	
	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
<b>(a) RWA for Interest Rate Risk</b>	1,065,625	887,576	1,065,625	887,576
General Interest Rate Risk	1,065,625	887,576	1,065,625	887,576
(i) Net Long or Short Position	1,065,625	887,576	1,065,625	887,576
(ii) Horizontal Disallowance	-	-	-	-
(iii) Vertical Disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific Interest Rate Risk	-	-	-	-
<b>(b) RWA for Equity</b>	-	-	-	-
(i) General Equity Risk	-	-	-	-
(ii) Specific Equity Risk	-	-	-	-
<b>(c) RWA for Foreign Exchange &amp; Gold</b>	37,969	23,962	37,969	23,962
<b>Capital Charge for Market Risk [(a) + (b) + (c)] * CAR</b>	<b>9,196,617</b>	<b>7,292,301</b>	<b>9,196,617</b>	<b>7,292,301</b>

**Table 10**

## Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

Business Lines	BANK									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2020			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2019		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		21,254,398	22,191,304	21,094,930	15%		17,622,084	21,254,398	22,191,304
The Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%		-	-	-	12%		-	-	-
Commercial Banking	15%		-	-	-	15%		-	-	-
The Alternative Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%	0.035	-	-	-	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-	15%	0.035	-	-	-
Capital Charges for Operational Risk (LKR'000)										
The Basic Indicator Approach	3,227,032					3,053,389				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	26,891,930					24,427,115				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				



Table 10 (Contd.)

## Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

Business Lines	GROUP									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2020			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2019		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		21,309,585	22,552,135	21,430,771	15%		16,913,568	21,309,585	22,552,135
The Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%		-	-	-	12%		-	-	-
Commercial Banking	15%		-	-	-	15%		-	-	-
The Alternative Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%	0.035	-	-	-	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-	15%	0.035	-	-	-
Capital Charges for Operational Risk (LKR'000)										
The Basic Indicator Approach	3,264,625					3,038,764				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	27,205,205					24,310,115				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

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**Table 11**

**Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories**

Bank	LKR '000 as at 31-Dec-2020				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
<b>Assets</b>	337,634,305	335,799,719	229,915,520	74,970,535	30,913,664
Cash and Cash Equivalents	9,144,540	9,144,735	9,144,735	-	-
Balances with Central Banks	2,195,247	2,195,247	2,195,247	-	-
Placements with Banks	5,091,335	5,086,600	-	-	5,086,600
Derivative Financial Instruments	239,535	-	-	-	-
Financial Assets - Recognised through Profit or Loss	2,416,792	74,970,535	-	74,970,535	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Financial Assets at Amortised Cost – Loans and Advances	210,185,486	208,350,822	183,749,912	-	24,600,910
Financial Assets at Fair Value through Other Comprehensive Income	73,257,835	-	-	-	-
Financial Assets at Amortised Cost - Debt Instruments	26,648,083	26,393,097	26,393,097	-	-
Investments in Subsidiaries	678,710	678,710	678,710	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	4,171,263	2,657,275	2,657,275	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	1,221,420	-	-	-	-
Other Assets	2,384,060	6,322,699	5,096,544	-	1,226,155
<b>Liabilities</b>	303,816,118	303,098,479	-	-	-
Due to Banks	4,941,573	7,264,763	-	-	-
Derivative Financial Instruments	250,700	-	-	-	-
Other Financial Liabilities Held-For- Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Depositors	240,584,022	236,676,328	-	-	-
Due to Other Borrowers	35,602,715	31,195,252	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	1,293,147	-	-	-	-
Deferred Tax Liabilities	863,083	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	7,018,906	14,962,136	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	13,261,973	13,000,000	-	-	-
<b>Off-Balance Sheet Liabilities</b>	197,230,088	207,906,355	199,501,491	-	-
Guarantees	2,526,706	2,526,706	2,526,706	-	-
Performance Bonds	17,443,244	17,443,244	15,554,598	-	-
Letters of Credit	10,396,025	10,396,025	9,522,404	-	-
Other Contingent Items	7,383,916	7,383,916	7,383,916	-	-
Undrawn Loan Commitments	127,015,736	123,595,736	123,595,736	-	-
Other Commitments	32,464,462	46,560,728	40,918,131	-	-
<b>Shareholders' Equity</b>					
Equity Capital (Stated Capital)/Assigned Capital	9,408,135	9,408,134	-	-	-
of which Amount Eligible for CET1	9,408,134	9,408,134	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	21,393,694	21,921,252	-	-	(255,313)
Accumulated Other Comprehensive Income	658,701	-	-	-	-
Other Reserves	2,357,657	1,371,854	-	-	458,555
<b>Total Shareholders' Equity</b>	33,818,187	32,701,240	-	-	203,241

Notes:

- 1) Differences in Cash and Cash Equivalents, Financial Assets - Recognised through Profit or Loss, Financial Assets at Amortised Cost – Loans and Advances, Financial Assets at Amortised Cost - Debt Instruments, Property, Plant and Equipment, Other Assets, Due to Banks, Due to Depositors, Due to Other Borrowers, Subordinated Term Debts and Other Liabilities is due to Classification differences and adjustments to published financial statements subsequently.
- 2) Difference in Retained Earnings is due to profit difference in SLAS and SLFRS accounting standards and Revaluation Reserve classification differences.
- 3) Accumulated Other Comprehensive Income is not considered in (b) as it is based on SLAS accounting standards.
- 4) Differences in Other Commitments is due to Notional Value of Derivative contracts reported in Published Financial Statements (a) and Carrying Value reported in Regulatory Reporting (b).

# corporate governance annexure

The Banking Act Direction No.11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka.

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
<b>3(1)</b>	<b>Responsibilities of the Board</b>	
	The Board has strengthened the safety and soundness of the Bank in the following manner	
3 (1) (i) (a)	Setting strategic objectives and corporate values	
	Strategic Plan for 2020-2023 was approved by the Board at the meeting held on 31st January 2020. Vision, mission and corporate values have been communicated to the staff via intranet and regular training.	✓
<b>3 (1) (i) (b)</b>	<b>Approving overall business strategy including risk policy and risk management</b>	
	Refer comments on 3 (1) (i) (a)	
	Board has approved the Risk Policy which includes the Risk management procedures and mechanisms with measurable goals.	✓
	The Bank annually revises Risk Goals contained in the Risk Policy in order to dynamically manage risk appetite of the Bank.	
<b>3 (1) (i) (c)</b>	<b>Risk Management</b>	
	The implementation of the Risk Policy is being monitored by the Integrated Risk Management Committee (IRMC) and the Board through a well structured risk reporting mechanism. IRMC minutes are submitted to the Board regularly as stipulated in the Terms of Reference of IRMC.	✓
<b>3 (1) (i) (d)</b>	<b>Communication with all stakeholders</b>	
	The Board has approved and implemented a policy of communication.	✓
	Board approved communication policy has been communicated to the staff via intranet of the Bank.	
<b>3 (1) (i) (e)</b>	<b>Internal control systems and management information systems.</b>	
	Such review is being carried out routinely by the Board. Risk control matrices are being looked at by individual departments at predetermined intervals. Implementation of internal controls is also looked into by the Internal Audit Department (IAD). Board monitors these through the IRMC and the Board Audit Review Committee (BARC).	✓
<b>3 (1) (i) (f)</b>	<b>Key Management Personnel (KMP)</b>	
	The Board has identified Key Management Personnel (KMP) as required by the Direction. Directors and identified who are in a position to significantly influence policy, direct and control over business activities, operations and risk management.	✓
<b>3 (1) (i) (g)</b>	<b>Define the areas of authority and key responsibilities for Director and KMP</b>	
	Matters reserved for the Board are specifically identified and approved by the Board.	✓
	Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions.	
<b>3 (1) (i) (h)</b>	<b>Oversight of the affairs of the Bank KMP</b>	
	Oversight of affairs of the Bank is carried out through a Board sub Committee, namely Board Supervisory Committee (BSC) where all KMP present their performance and make themselves available for any clarifications and explanations required by the BSC members. Board monitors this through the minutes of the BSC.	
	KMP also communicate to the Board via the monthly management report submitted to the Board of Directors. KMP 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.	✓
	KMP responsible for internal controls and compliance attend every IRMC meeting.	
	Board has delegated the function of overseeing IAD to BARC.	
	Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the IRMC, BARC and Assets and Liabilities Management Committee (ALCO) tabled at Board meetings.	
<b>3 (1) (i) (i)</b>	<b>Assess the effectiveness of own governance practices, including selection, nomination and election of directors and key management personnel, management of conflicts of interests</b>	
	The Board appraises its performance annually by using the Board of Directors self assessment questionnaire. Every Director is required to complete the questionnaire which aims to obtain Directors' feedback on the Board's performance on many aspects. The responses received from the Directors are reviewed by the Senior Director and discussed at the Board meeting.	✓
<b>3 (1) (i) (j)</b>	<b>Succession plan for KMP</b>	
	A comprehensive succession planning process is undertaken for KMP. The process involves identification of senior officers and grooming them to take over Corporate Management positions.	
	Succession Plan for KMP has been approved by the Board.	✓
	Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date.	
	Succession at Board level is ensured through maintaining the Board composition at a level higher than the statutorily required minimum number. This permits the Board to carefully fill any sudden vacancy created without an adverse impact on the functionality.	

# corporate governance annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (i) (k)	<b>Regular meetings with KMP</b> Refer comment on 3 (1) (i) (h) above	✓
3 (1) (i) (l)	<b>Regulatory environment and maintaining an effective relationship with regulators.</b> The Company Secretary is statutorily responsible for communications with the Registrar of Companies. This is included in the JD of the Company Secretary. Maintaining an effective relationship with the regulators is carried out through diligent compliance with applicable rules and regulations. This is included in the JD of the Compliance Officer. The Board is updated of the changes in the regulatory environment by the relevant KMP at the Board subcommittee and Board levels which discusses/endorse the steps taken to comply with such changes as appropriate. Compliance with statutory regulations is monitored regularly by the Board. The Compliance Officer of the Bank submits a monthly compliance report which covers all returns submitted to the regulators. A monthly report is submitted to the IRMC by the Compliance Officer capturing interactions with the Regulators and actions to be taken on new regulations.	✓
3 (1) (i) (m)	<b>Exercising due diligence in hiring and oversight of external auditors</b> Board has delegated this function to the BARC. TOR of the BARC contains provisions for hiring and oversight of External Auditors. The appointment of the External Auditor is made at the Annual General Meeting.	✓
3 (1) (ii)	<b>Appoint of Chairman and CEO and defining and approving their functions and responsibilities</b> Functions and the responsibilities of the Chairman and the CEO have been defined and approved by the Board. Chairman's functions and responsibilities are distinct from those of the CEO.	✓
<b>BOARD PROCEDURE</b>		
3 (1)(iii)	<b>Board Meetings</b> Board met 12 times in the year on a monthly basis and the Directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted. Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary.	✓
3 (1) (iv)	<b>Arrangements for Directors to include proposals in the agenda</b> Approved Board procedure includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board Meetings. Also monthly meetings are scheduled and informed to the Board at the beginning of each year to facilitate this.	✓
3(1) (v)	<b>Notice of meetings</b> The Board Procedure provides that the schedule of dates of meetings for the year is approved by the Board at or before the first Board meeting of the year and such approved schedule is notified to every Director thereby giving more than 7 days notice. Any change of the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting. Board Procedure further provides that any meeting other than that contained in the Schedule shall be given 7 days prior notice unless all the directors agree to meet at a shorter notice.	✓
3 (1) (vi)	<b>Directors' attendance</b> Details of the Directors attendance is set out on Page 50 of the Annual Report, 2020. All directors have attended at least two-thirds of the total number of Board meetings. No director has been absent from three consecutive meetings during the year under review. Board procedure contains required provisions in respect of Board attendance as specified in this Rule.	✓
3(1)(vii)	<b>Appointment and setting responsibilities of the Company Secretary</b> The Company Secretary who is an Attorney-at-Law satisfies the provisions contained in Section 43 of the Banking Act. JD of the Company Secretary includes the responsibilities to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	✓
3(1) (viii)	<b>Directors' access to advice and services of the company secretary</b> All Directors have access to the advice and services of the Company Secretary. Board Procedure contains required provisions as specified in this Rule.	✓
3 (1) (ix)	<b>Maintenance of Board minutes</b> Board minutes are maintained by the Company Secretary. The Board Procedure also provides for same. The Directors have access to the Board papers and minutes through a secure electronic link.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3(1)(x)	<p><b>Maintaining minutes with sufficient details to serve as reference for regulatory and supervisory authorities</b></p> <p>Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p> <p>The minutes of the meeting include;</p> <ul style="list-style-type: none"> <li>• A summary of data and information used by the Board in its deliberations</li> <li>• The matters considered by the board</li> <li>• The fact finding discussions and the issues of contention or dissent</li> <li>• The testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations</li> <li>• Matters regarding the risks to which the Bank is exposed and an overview of the risk management measures adopted</li> <li>• The decisions and board resolutions.</li> </ul> <p>Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.</p> <p>Minutes will refer to the paper which contains the data and opinions relied on by the Board and also contain any other matter considered by the Board outside what is contained in the paper (if any). Minutes are to be read with the relevant board paper. Reference of the paper considered is included in the minute.</p> <p>Board procedure also provides for the contents of the Board minutes.</p>	✓
3 (1) (xi)	<p><b>Directors' ability to seek independent professional advise.</b></p> <p>Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p>	✓
3(1)(xii)	<p><b>Dealing with conflicts of interest</b></p> <p>Board procedure specifically addresses avoidance of conflicts of interest.</p> <p>Board has made a determination as to what should be considered as material and such matters have been dealt by the Board as required by the Rule. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Board minutes provide evidence of compliance.</p>	✓
3(1)(xiii)	<p><b>Formal schedule of matters specifically reserved to it for Board's decision</b></p> <p>There is a schedule of matters reserved for Board approval which has been approved by the Board.</p>	✓
3 (1) (xiv)	<p><b>Inform Central Bank if there are solvency issues prior to taking any decision or action.</b></p> <p>No situation has arisen to challenge Bank's solvency. Board is furnished with sufficient information on a regular basis to enable the Board to act in the required manner if such a situation arises.</p> <p>Board has also approved and put in place a robust ALCO mechanism that would keep the liquidity position under control.</p> <p>IRMC discusses in detail the Key Risk Goals at each IRMC meeting and the minutes of the IRMC are submitted to the Board.</p>	✓
3 (1) (xv)	<p><b>Capital Adequacy</b></p> <p>The Bank is in compliance with regulatory and prudential requirements relating to capital adequacy. Capital Adequacy Ratios are submitted to the Board quarterly. IRMC also monitors this on a monthly basis through Key Risk Goals.</p>	✓
3 (1) (xvi)	<p><b>Publish Corporate Governance Report in this Annual Report</b></p> <p>Report is published in page 48 of the Annual Report of 2020.</p>	✓
3 (1) (xvii)	<p><b>Self-assessment of Directors</b></p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise, annually. The responses are collated and reviewed by the Senior Director and discussed at the Board meeting.</p> <p>The records of these assessments are maintained with the Company Secretary.</p>	✓
3 (2)	<b>Board's composition</b>	
3(2)(i)	<p><b>Number of Directors</b></p> <p>As per the CBSL Corporate Governance Direction, the number of directors on the board shall not be less than 7 and not more than 13. The Bank's Board composition was in compliance with this requirement throughout the year.</p>	✓
3(2)(ii)	<p><b>Period of service of a Director</b></p> <p>The period of service of a Director is limited to 9 years excluding the Executive Director. No Director of the Bank served for a period exceeding Nine years during the year.</p>	✓
3(2)(iii)	<p><b>Board balance</b></p> <p>The Board consisted of twelve directors with one Executive Director and eleven Non Executive Directors as at 31st December, 2020. Number of Executive Directors has not exceeded one-third of the number of directors (the specified number) at any time during the year.</p>	✓

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Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3(2)(iv)	<b>Independent Directors</b> The Board comprised five Independent Non Executive Directors out of a total of twelve Directors throughout the year. The Board determined the independent and non-independent status of the Non Executive Directors based on the declarations submitted by them in accordance with the criteria defined in this direction.	✓
3 (2) (v)	<b>Alternate Directors</b> No alternate director has been appointed during the year.	✓
3(2)(vi)	<b>Criteria for Non executive directors</b> Directors possess qualifications and experience with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. Brief profiles of the Directors are given on pages 12 to 15 of the Annual Report, 2020. Directors nominate names of eminent professionals or academics from various disciplines to the Board Nomination Committee which peruse the profiles and recommends suitable candidates to the Board.	✓
3(2)(vii)	<b>Quorum for the Board meeting is more than 50% of Directors and more than half the quorum to comprise non executive Directors</b> All meetings of the Board held during the year have been attended by a majority of Non Executive Directors.	✓
3 (2) (viii)	<b>Identify Independent non-executive directors in communications and disclose categories of Directors in Annual Report.</b> The Independent non-executive directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. Composition of the Board, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non- Executive directors are disclosed in page 12 to 15 of the Annual Report, 2020.	✓
3 (2) (ix)	<b>Formal and transparent procedure for appointments to the Board.</b> A Board composition and succession plan is in place. All appointments are considered and approved by the Nomination Committee and by the Board thereafter in addition to obtaining approval from the Central Bank of Sri Lanka.	✓
3 (2) (x)	<b>Election of Directors to fill a casual vacancy</b> Notice and Agenda for the AGM to be held in 2021 includes a proposal to seek shareholders' approval to elect Director/CEO, Mr Priyantha Talwatte who was appointed to the Board after the date of the Notice of the AGM held in 2020 and Dr. Ramesh Shanmuganathan who was appointed to the Board after the last AGM.	✓
3(2)(xi)	<b>Communication of reason for removal or resignation of Director</b> Resignations of Directors and the reasons were promptly informed to the regulatory authorities and shareholders together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	✓
3(2)(xii)	<b>Prohibition of Directors or employees of a bank becoming a Director of another Bank</b> Based on the quarterly declarations submitted by individual directors in the year 2020, no director is a Director of another Bank. Letter of appointment of employees includes a clause which stipulates that an employee shall not have any dealing with any other financial institution.	✓
3(3)	<b>Criteria to assess the fitness and propriety of directors</b>	
3(3) (i)	<b>Age of directors should not exceed 70 years</b> There are no directors on the Board of the Bank who are over 70 years of age.	✓
3(3)(ii)	<b>Directors should not hold directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.</b> No director of the Bank holds Directorships in more than 20 companies.	✓
3(3)(iii)	<b>Director or a CEO shall not be appointed as a Director or a CEO of another Licensed Bank operating in Sri Lanka prior to expiry of 6 months cooling-off period from the date of cessation of his/her office at a licensed bank.</b> None of the directors were appointed to the Board during the period under review as detailed in the provisions of the cooling -off period in the direction.	✓
3 (4)	<b>Management functions delegated by the Board</b>	
3 (4) (i) and 3 (4) (ii)	<b>All directors shall carefully study and clearly understand the delegation arrangements</b> <b>Extent of delegation should not hinder Board's ability to discharge its functions</b> Board Procedure includes a provision for delegation of powers by the Board. Board has delegated matters pertaining to the affairs of the Bank to the Board sub committees within the scope of the respective Board approved Terms of Reference. All delegations have been done by the Board after due consideration.	✓
3 (4) (iii)	<b>Review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the bank.</b> As and when new requirements have arisen, the Board has reviewed and amended delegation arrangements based on the recommendations made by the management.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
<b>3 (5)</b>	<b>The Chairman and the Chief Executive Officer</b>	
<b>3 (5) (i)</b>	<b>The roles of the chairman and the chief executive officer shall be separate</b> Roles of the Chairman and the CEO are separated and held by two separate individuals. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Bank giving effect to the strategies and policies approved by the Board.	✓
<b>3 (5) (ii)</b>	<b>Non Executive Chairman and appointment of a Senior Director</b> Mr. Gihan Cooray, a Non Executive Director functions as the Chairman. Mr. Conrad D'Souza, Independent Non Executive Director functions as the Senior Director. Terms of Reference of the Senior Director is approved by the Board. The designation of the Senior Director has been disclosed in the Annual Report, 2020.	✓
<b>3 (5) (iii)</b>	<b>Disclosure of identity of the Chairman and CEO and any relationship among the Board members.</b> The identity of the Chairman and the Chief Executive Officer and the absence of a relationship between the two persons are disclosed in the Annual Report 2020. No relationship exist amongst the members of the Board other than the following: Directors Mr. Gihan Cooray and Ms. Sherin Cader were nominated to the Board by the Bank's material shareholder John Keells Holdings PLC. Directors Mr. Suran Wijesinghe, Mr Arjun Fernando and Mr. Prasanna De Silva ( <i>retired from the Board of the Bank on 31st December 2020</i> ) were nominated to the Board by the Bank's material shareholder central Finance Company PLC	✓
<b>3 (5) (iv)</b>	<b>The chairman to (a) provide leadership to the board;(b) ensure that the board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the board in a timely manner.</b> These are considered as the three key responsibilities of the Chairman and included in the 'Functions of the Chairman and the CEO' approved by the Board. The requirement is further covered by the self evaluation process of the Board.	✓
<b>3 (5) (v)</b>	<b>Responsibility for agenda lies with the Chairman but may be delegated to the Company Secretary.</b> According to the Board Procedure, drawing up of the agenda has been delegated to the Company Secretary with strict adherence to the guidelines given in the said Procedure.	✓
<b>3 (5) (vi)</b>	<b>Ensure that all the directors are properly briefed and provided with adequate information in a timely manner.</b> This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board. Provision contained in Board Procedure strengthens this requirement.	✓
<b>3 (5) (vii)</b>	<b>Encourage active participation by all Directors and lead acting in the interests of the Bank.</b>	
<b>And</b>	<b>Encourage participation of non executive directors and relationship between non executive and executive directors</b>	
<b>3 (5) (viii)</b>	There is active participation by all directors at the Board meetings as well as at Board sub committee meetings as evidenced in the minutes. The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise.	✓
<b>3 (5) (ix)</b>	<b>Refrain from direct supervision of KMP and executive duties</b> Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.	✓
<b>3 (5) (x)</b>	<b>Ensure effective communication with shareholders</b> This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board. A communications policy has also been approved by the Board. The communication policy includes a provision for communication with shareholders.	✓
<b>3 (5) (xi)</b>	<b>CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.</b> The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.	✓
<b>3 (6)</b>	<b>Board appointed committees</b>	
<b>3 (6) (i)</b>	<b>Establishing Board sub committees, their functions and reporting</b> The Bank has established all four Board sub committees as required by the Rule namely Audit Committee, Human Resources and Remuneration committee, Nomination Committee and Integrated Risk Management Committee. All minutes of the Board sub committees are submitted to the Board and constitute a regular agenda item. All Board sub committees have formally appointed secretaries. Reports are contained in the Annual Report of 2020.	✓
<b>3 (6) (ii)</b>	<b>Audit committee</b>	
<b>3 (6) (ii) (a)</b>	<b>Chairman to be an independent non-executive director with qualifications and experience in accountancy and /or audit.</b> The Chairperson of the Board Audit Review Committee (BARC), Ms. Rachini Rajapaksa is an Independent Non-Executive Director. Refer page 12 to 15 for profile of Board of Directors. She is a Chartered Financial Analyst of the CFA Institute, USA and is a Fellow Member of the Chartered Institute of Management Accountants of UK. She possesses relevant skills and experience required for this position.	✓



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Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii) (b)	<b>Committee to comprise solely of non-executive directors</b> All members of the BARC are non executive directors.	✓
3 (6) (ii) (c)	<b>Functions of the Board Audit Committee</b> The reappointment of the external auditor for audit services has been recommended to the Board by the BARC. The BARC has discussed the implementation of CBSL guidelines issued to auditors from time to time and the application of the relevant accounting standards. The BARC ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. The BARC evaluates and makes recommendations to the Board with regard to the audit fee.	✓
3 (6) (ii) (d)	<b>Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.</b> The BARC obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Auditing Standards.	✓
3 (6) (ii) (e)	<b>Provision of non audit services by external auditors</b> The matters referred to in the Rule are covered in the Terms of Reference of the BARC and are exercised with due care and diligence. Further, a separate policy on the engagement of the external auditor to provide non-audit services to cover all aspects stated in this Direction is in place, approved by the Board of Directors. BARC further monitors the payments made to the auditor during the year for non-audit services to ensure compliance to the Direction.	✓
3 (6) (ii) (f)	<b>Determines scope of audit with the external auditors</b> The BARC Terms of Reference requires the BARC to discuss and finalise with the External Auditor the nature and scope of the audit. In order to comply, the External Auditors make a presentation at the BARC meeting detailing the proposed audit plan and scope. The Committee discussed and finalized the audit plan and scope with the External Auditor. During the tenure of the audit, regular status updates were obtained and discussed at the BARC meetings. 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	✓
3 (6) (ii) (g)	<b>Review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the bank's annual report and accounts and quarterly reports before submission to the board, the committee shall focus particularly on;</b> <b>major judgmental areas</b> <b>any changes in accounting policies and practices</b> <b>significant adjustments arising from the audit</b> <b>the going concern assumption; and</b> <b>the compliance with relevant accounting standards and other legal requirements.</b> BARC meetings were held in 2020 to review/comment and discuss the Bank's financial information and reports that are submitted by the CEO/CFO to ensure the integrity of the Financial Statements prepared for disclosure and published in the Bank's annual report and in the quarterly unaudited financial statements and reports. The Financial Statements discussed and reviewed are recommended to the Board for approval.	✓
3 (6) (ii) (h)	<b>Discussions with External Auditor to discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</b> The BARC met the External Auditors in the absence of the management of the Bank on two occasions in 2020. The External Auditors were invited to draw the attention of BARC to any areas of concern or any matter they wish to raise regarding the accounts or otherwise.	✓
3 (6) (ii) (i)	<b>Review of the external auditor's management letter and the management's response thereto.</b> Regular discussions with the External Auditors were carried out on the Audit Completion Letter (the management letter) and the management's response thereto. The BARC has also issued appropriate recommendations and guidance where necessary to ensure that such matters are resolved satisfactorily.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii) (j)	<b>Review of Internal Audit Function</b> The BARC carries out the following with regard to the Internal Audit function: <ul style="list-style-type: none"> <li>(i) Reviews the adequacy of the internal audit function and ensures that it conforms with the Internal Audit Charter which was reviewed by BARC in 2020. The annual audit plan of Internal Audit Department as well as the staff requirements were reviewed/ discussed at the time of approving the Audit Plan.</li> <li>(ii) The Audit plan for the year was approved by the BARC and the progress was reviewed on a regular basis.</li> <li>(iii) The Committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.</li> <li>(iv) The evaluation of the effectiveness of the internal controls in the Finnacle Core Banking system carried out by BARC appointed outsourced service provider was completed in 1Q 2020. The Committee reviewed the findings, recommendations and management action plans established for issue resolution.</li> <li>(v) The performance appraisal of the Head of Internal Audit (Head-IA) is carried out by the Chairperson of the BARC in consultation with the other members of the BARC along with adequate input from the CEO. Performance appraisals of senior staff are reviewed by the Head- IA and presented to the BARC for their concurrence.</li> <li>(vi) All senior appointments to the audit team were recommended by the BARC. Two new senior appointments were made to the audit team during the year 2020 upon moves by the existing incumbents to other divisions in the Bank.</li> <li>(vii) A process is in place to ensure that resignations of senior staff members of the internal audit department including Head- IA are advised to the Chairman BARC at periodic BARC meetings. (There have been no resignations of senior level staff during the year 2020 apart from the two internal moves mentioned in point iv above).</li> <li>(viii) The internal audit staff directly reports to Head- IA who in turn directly reports to BARC for independence. The audits are performed impartially, proficiently and with due professional care.</li> </ul>	✓
3 (6) (ii) (k)	<b>Internal Investigations</b> Investigation reports were tabled at the BARC meeting together with a status update on ongoing investigations and the relevant issues were discussed in detail with suitable action points agreed upon. BARC also ensures the key recommendations arising from such investigations are implemented.	✓
3 (6) (ii) (l)	<b>Attendees at Board Audit Committee meetings</b> CEO attends all BARC meetings upon invitation. Where it is deemed necessary, other corporate heads including the CFO/CRO/CCO are called for the meetings. During the period under review, BARC met with the External Auditor on ten occasions including two occasions without the presence of the management.	✓
3 (6) (ii) (m)	<b>The committee shall have (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary</b> This has been covered in detail in the Terms of Reference of the BARC and Internal Audit Charter. Please refer the Board Audit Review Committee Report on page 80 of the Annual Report	✓
3 (6) (ii) (n)	<b>Regular meetings</b> The Committee met ten times during the year 2020. Adequate notices of issues to be discussed are made available to all members of BARC. Minutes of proceedings of BARC are maintained by Head- IA who functions as the Secretary to the BARC. Due to the pandemic situation and intermittent lock downs which prevailed during the year, BARC meetings were held on a virtual platform commencing 2Q 2020.	✓
3 (6) (ii) (o)	<b>The board shall disclose in an informative way, details of the activities of the audit committee</b> <b>the number of audit committee meetings held in the year</b> <b>details of attendance of each individual director at such meetings</b> Please refer the Board Audit Review Committee Report on page 80 of the Annual Report.	✓
3 (6) (ii) (p)	<b>Maintain minutes of meetings</b> Detailed minutes are maintained by the Head- IA who is the Secretary to the BARC.	✓
3 (6) (ii) (q)	<b>Whistle Blowing Policy and relationship with external auditor</b> The Committee reviews issues relating to violation of internal controls if any and the arrangements by which the staff of the Bank may in confidence raise concerns about possible improprieties. The Committee also ensured that the procedures for the independent investigations of such matters are appropriate and are in place. The Whistle Blowing Policy provides for the confidentiality of potential whistle blowers. The BARC is the key representative body for overseeing the Bank's relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.	✓

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Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
<b>3 (6) (iii)</b>	<b>Human Resources and Remuneration Committee (HRRC)</b>	
<b>3 (6) (iii) (a)</b>	<b>Policy to determine the remuneration of directors, CEO and key management personnel</b> Board approved remuneration policy is in place	✓
<b>3 (6) (iii) (b)</b>	<b>Goals and targets for the directors, CEO and key management personnel.</b> Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balanced Scorecard process.	✓
<b>3 (6) (iii) (c)</b>	<b>Evaluation of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.</b> Minutes of the meeting of the HRRC indicate that such evaluations and the proposal put forward by HR/CEO for the remuneration in 2020 has been approved.	✓
<b>3 (6) (iii) (d)</b>	<b>CEO is present at all meetings of the committee, except when matters relating to the CEO are being discussed.</b> Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed.	✓
<b>3 (6) (iv)</b>	<b>Nomination Committee</b>	
<b>3 (6) (iv) (a)</b>	<b>Implement a procedure to select/appoint new directors, CEO and key management personnel</b> Approved TOR of the Nomination Committee includes the provisions stipulated. Nomination Committee has also adopted a process to select/recruit Chief Executive Officer and Key Management Personnel.	✓
<b>3 (6) (iv) (b)</b>	<b>Recommend (or not recommend) the re-election of current directors, taking into account the performance and contribution made by the director concerned towards the overall discharge of the board's responsibilities.</b> The Committee has considered and recommended re-election of directors in compliance with the Rule.	✓
<b>3 (6) (iv) (c)</b>	<b>Eligibility criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.</b> Criteria has been set and included in the JDs of KMP approved by the Nomination Committee	✓
<b>3 (6) (iv) (d)</b>	<b>Fit and proper criteria for directors, CEO and key management personnel</b> Affidavits of the Directors and CEO were submitted to the Committee during 2020 in order for the Committee to determine the suitability of the Directors and CEO. Having considered the Affidavits the Committee decided that the Directors and CEO are fit and proper persons to hold office. CBSL confirmation was also received on the fit and proper status of Directors.	✓
<b>3 (6) (iv) (e)</b>	<b>Consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and key management personnel.</b> The Committee has met the criteria set out in the Rule.	✓
<b>3 (6) (iv) (f)</b>	<b>Committee Chairman and other members</b> Senior Independent Director, Mr Conrad D'Souza serves as the Chairman of the Committee. CEO was invited to attend when her presence was deemed required by the Committee.	✓
<b>3 (6) (v)</b>	<b>Integrated Risk Management Committee (IRMC)</b>	
<b>3 (6) (v) (a)</b>	<b>Composition of IRMC</b> IRMC comprises of three non-executive directors, CEO and other relevant KMP. Committee functions as per the Board approved Terms of Reference in close co-operation with relevant KMP KMP in charge of risk management and control functions attend IRMC meetings regularly and other KMP attend and discuss the key risks pertaining to their areas once a year.	✓
<b>3 (6) (v) (b)</b>	<b>Risk assessment of the Bank, subsidiary companies and associate companies</b> Risk indicators are monitored by IRMC monthly through the Key Risk Goals paper. Key risks involved in the subsidiary companies are included in the Risk grids of the department overseeing such subsidiary and presented assessed and discussed at IRMC meetings. Each and every business/support unit of the Bank and subsidiary companies have separate risk grids populated using Risk and Control Self Assessment methodology covering all material risks.	✓
<b>3 (6) (v) (c)</b>	<b>Review the adequacy and effectiveness of all management level committees</b> The committee reviews the adequacy and effectiveness of all management level committees that has a relevance to risk. Minutes of Management level committees, namely Investment Committee, ALCO, Executive Risk management committee etc. are submitted to the Committee to review the adequacy and effectiveness of same. However in view of the role played by the Board credit Committee, minutes of the management level credit committee have not been submitted to IRMC.	✓
<b>3 (6) (v) (d)</b>	<b>Corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels</b> Risks are monitored through monthly submission of Key Risk Goals report and quarterly stress tests as well as bank risk grid submitted to live IRMC meetings where corrective action has been taken as reflected in the minutes.	✓
<b>3 (6) (v) (e)</b>	<b>Committee to meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</b> IRMC has held eight meetings during the year.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (v) (f)	<p><b>Actions against Officers responsible for failure to identify specific risks or implement corrective actions</b></p> <p>Currently Committee monitors risk Management by Departments through the departmental risk grids. In the event action is required against an officer found to have failed in identifying specific risks and take prompt corrective actions as recommended by the committee, action will be taken against him/her in terms of the Bank's established Human Resources policy.</p> <p>The Committee is authorized to direct Chief Executive Officer to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee and is documented in the Terms of Reference of IRMC</p>	✓
3 (6) (v) (g)	<p><b>Risk assessment report to the Board</b></p> <p>A report has been submitted to the Board after each IRMC meeting as required by the Rule. In addition minutes of all IRMC meetings have been submitted to the Board.</p>	✓
3 (6) (v) (h)	<p><b>Compliance function</b></p> <p>The Compliance officer submits a report to the Committee at every meeting. The Bank has established a separate Compliance Division to assess the Bank's compliance. The Compliance Officer carries out the compliance function and report to the committee periodically on Bank's compliance with laws, regulations and approved policies on all areas of business operations.</p>	✓
3 (7)	<b>Related Party Transactions</b>	
3 (7) (i)	<p><b>Categories of Related Parties and avoidance of conflict of interest</b></p> <p>Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the Board to avoid any conflicts of interests that may arise, in transacting with related parties as per the definition in the direction.</p> <p>Board has also approved a framework for managing Related Party Transactions and monitors its implementation through Related Party Transactions Review Committee.</p>	✓
3 (7) (ii)	<p><b>Types of transactions with related parties covered by this Direction ;</b></p> <p><b>The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation</b></p> <p><b>The creation of any liabilities of the bank in the form of deposits, borrowings and investments</b></p> <p><b>The provision of any services of a financial or non financial nature provided to the bank or received from the bank</b></p> <p><b>The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</b></p> <p>The Board approved related party policy contains provisions for same.</p>	✓
3 (7) (iii)	<p><b>Ensure that the Bank does not engage transactions with related parties that would grant such parties more favourable treatment</b></p> <p>Refer comment in 3 (7) (i) above.</p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p> <p>Board has taken steps to establish a Related Party Transactions Review Committee which has been entrusted with the task of ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules. This committee met four times during the year 2020.</p>	✓
3(7)(iv)	<p><b>Granting accommodation to a director of close relation of a Director</b></p> <p>All accommodations to directors and/or their close relatives have been granted with the approval of the Board. The Board ensured that such accommodation was secured by security determined by the Monetary Board.</p>	✓
3(7) (v)	<p><b>Accommodation granted to persons or concerns of persons or close relations of persons who subsequently are appointed as Directors of the Bank</b></p> <p>This situation has not arisen in the Bank to date. However the Company Secretary obtains declarations from all the Directors prior to their appointment and they are requested to declare the transaction</p>	✓
3(7)(vi)	<p><b>Favourable treatment or accommodation to Bank employees or their close relations</b></p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p>	✓
3(7)(vii)	<p><b>Remittance of accommodation subject to Monetary Board approval</b></p> <p>No such facility has been remitted in violation of this rule.</p>	✓

## corporate governance annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
<b>3(8)</b>	<b>Disclosures</b>	
<b>3(8) (i)</b>	<b>Publish Annual Report and quarterly financial statements</b> Annual Report and quarterly financial statements were published as required by the rule.	✓
<b>3(8) (ii)</b>	<b>Disclosures in the Annual Report</b>	
<b>3(8) (ii) (a)</b>	<b>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.</b> Included in page 83 of the Annual Report of 2020.	✓
<b>3(8) (ii) (b)</b>	<b>A report by the Board on the Bank's internal control mechanism</b> Included in page 77 to 78 of the Annual Report of 2020.	✓
<b>3(8) (ii) (c)</b>	<b>External Auditor's certification on the effectiveness of the internal control mechanism</b> Assurance Report by auditors under "Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 –Assurance Reports for Banks on Directors' Statements on Internal Control" has been obtained and included in the Annual Report of 2020.	✓
<b>3(8) (ii) (d)</b>	<b>Details of Directors, including names, fitness and propriety, transactions with the Bank the total of fees/remuneration paid by the Bank</b> Included in pages 52 to 57 of the Annual Report of 2020	✓
<b>3(8) (ii) (e)</b>	<b>Total net accommodation as defined in 3(7)(iii) granted to each category of related parties.</b> Disclosed under Report of Board of Directors on the Affairs of the Bank included in page 52 and 57 of the Annual Report 2020.	✓
<b>3(8) (ii) (f)</b>	<b>The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel</b> Included in page 52 and 57 of the Annual Report of 2020.	✓
<b>3(8) (ii) (g)</b>	<b>The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after January 1, 2010.</b> All findings of the 'Factual Findings Reports' of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report.	✓
<b>3(8) (ii) (h)</b> Complied	<b>A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances</b> Included in the Annual Report, 2020.	✓
<b>3(8) (ii) (i)</b> Complied	<b>A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.</b> No such matter has been specified by the Monetary Board of CBSL.	✓

# ten year key performance trends

Year Ended December 31st	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>LKR Mn (Group)</b>										
<b>OPERATING RESULTS</b>										
Gross Income	11,885	17,673	20,362	20,854	20,279	25,547	35,333	43,461	46,314	40,666
Net Interest Income	4,404	5,755	7,675	8,940	9,105	9,786	11,909	15,164	16,134	13,672
Net Fees & Other Income	2,089	2,576	2,235	3,177	3,414	3,925	5,005	6,146	6,418	7,569
Total Operating Income	6,493	8,331	9,910	12,117	12,519	13,711	16,914	21,310	22,552	21,241
Operating Expenses	(4,017)	(4,697)	(5,779)	(6,363)	(6,862)	(7,620)	(8,773)	(10,310)	(10,808)	(9,839)
Impairment	235	(433)	(451)	(1,182)	(985)	(690)	(1,089)	(3,274)	(3,301)	(3,847)
Profit Before Taxation	2,711	3,201	3,681	4,571	4,672	5,400	7,052	7,726	8,444	7,555
Taxation & Levies	(1,105)	(1,250)	(1,544)	(2,035)	(2,058)	(2,531)	(3,680)	(4,024)	(4,730)	(3,500)
<b>Profit After Taxation</b>	<b>1,607</b>	<b>1,951</b>	<b>2,136</b>	<b>2,537</b>	<b>2,614</b>	<b>2,869</b>	<b>3,371</b>	<b>3,702</b>	<b>3,714</b>	<b>4,055</b>
Other Comprehensive Income (OCI)			(9)	104	(32)	(236)	1,262	(288)	664	327
<b>Total Comprehensive Income</b>			<b>2,127</b>	<b>2,641</b>	<b>2,582</b>	<b>2,633</b>	<b>4,634</b>	<b>3,414</b>	<b>4,378</b>	<b>4,382</b>
<b>As at December 31st</b>										
<b>ASSETS</b>										
Cash & Short-Term Funds	3,695	2,534	3,020	6,900	6,392	4,188	6,850	6,438	8,756	9,145
Statutory Deposits with Central Bank	4,284	5,089	4,032	3,992	5,284	8,512	11,213	12,762	8,377	2,195
Government Treasury Bills & Bonds	24,982	34,038	44,812	40,696	31,623	36,738	49,335	74,254	71,839	107,414
Investment Securities	3,153	2,221	2,315	3,949	7,065	6,926	7,028	-	-	-
Loans & Advances	61,188	73,424	82,327	98,347	121,143	149,818	186,746	221,506	226,794	210,186
Other Assets	2,280	2,591	2,894	1,419	1,386	1,814	1,941	5,085	4,154	4,147
Property Plant & Equipment	1,891	1,908	2,048	2,194	2,143	1,996	3,364	3,669	4,073	3,682
Intangible Assets	600	642	680	1,283	1,224	1,189	1,154	1,303	1,376	1,222
<b>Total Assets</b>	<b>102,073</b>	<b>122,447</b>	<b>142,128</b>	<b>158,781</b>	<b>176,262</b>	<b>211,180</b>	<b>267,629</b>	<b>325,016</b>	<b>325,369</b>	<b>337,991</b>
<b>LIABILITIES</b>										
<b>Deposits</b>	<b>67,633</b>	<b>86,274</b>	<b>95,730</b>	<b>111,010</b>	<b>129,158</b>	<b>151,502</b>	<b>194,269</b>	<b>231,463</b>	<b>226,872</b>	<b>240,574</b>
Due to Banks	1,277	2,712	1,401	2,923	2,276	11,851	12,315	18,475	6,484	4,942
Deferred Tax Liabilities	236	280	341	413	733	969	1,828	1,050	1,160	1,028
Borrowings	20,203	18,695	27,508	25,402	23,433	23,536	30,573	36,676	50,735	47,695
Other Liabilities	4,095	4,390	5,410	5,138	5,491	6,001	7,175	10,294	8,723	8,628
<b>Total Liabilities</b>	<b>93,444</b>	<b>112,351</b>	<b>130,390</b>	<b>144,887</b>	<b>161,090</b>	<b>193,859</b>	<b>246,159</b>	<b>297,957</b>	<b>293,974</b>	<b>302,866</b>
<b>SHAREHOLDERS' FUNDS</b>										
Share Capital/Stated Capital	5,101	5,101	5,101	5,101	5,101	5,101	5,101	8,866	9,408	9,408
Reserve Fund	224	314	419	538	661	796	1,011	1,199	1,372	1,562
Reserves	3,304	4,681	6,217	8,255	9,409	11,423	15,358	16,994	20,616	24,155
<b>Total Shareholders' Funds</b>	<b>8,629</b>	<b>10,096</b>	<b>11,738</b>	<b>13,895</b>	<b>15,171</b>	<b>17,321</b>	<b>21,470</b>	<b>27,059</b>	<b>31,396</b>	<b>35,125</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>102,073</b>	<b>122,447</b>	<b>142,128</b>	<b>158,781</b>	<b>176,262</b>	<b>211,180</b>	<b>267,629</b>	<b>325,016</b>	<b>325,369</b>	<b>337,991</b>
Commitments & Contingencies	72,792	86,239	90,267	98,799	96,792	123,585	171,587	190,602	199,359	197,231

## ten year key performance trends

Year Ended December 31st	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>RATIOS (Group)</b>										
Operating Income Growth (%)	(2.94)	28.31	18.95	22.27	3.33	9.52	23.36	25.99	5.83	(5.82)
Cost/Income Ratio (%)	61.86	56.38	58.31	52.52	54.81	55.58	51.87	48.38	47.92	46.32
Return On Average Assets (%)	1.73	1.74	1.61	1.69	1.56	1.48	1.41	1.25	1.14	1.22
Total Assets to Shareholders' Funds (Times)	11.83	12.13	12.11	11.43	11.62	12.19	12.47	12.01	10.36	9.62
Tier 1 Capital Adequacy Ratio (%)	13.42	13.82	14.78	14.16	13.15	11.40	10.83	12.15	13.30	14.79
Total Capital Adequacy Ratio (%)	17.44	18.18	20.00	18.28	15.53	15.82	13.89	15.59	17.96	18.37
Return on Average Shareholders' Funds (%)	20.82	20.84	19.57	19.79	17.99	17.66	17.38	15.26	12.71	12.19
<b>SHAREHOLDER INFORMATION (Group)</b>										
Market Value per Share (LKR)-Voting	57.00	56.00	62.20	97.00	86.30	80.90	78.00	89.20	80.00	60.00
Market Value per Share (LKR)-Non Voting								82.10	80.00	75.00
Net Asset Value per Share (LKR)	37.42	43.78	50.90	60.25	65.79	75.11	93.10	97.42	110.61	123.74
Earnings Per Share (LKR)	6.59	8.00	8.76	10.41	10.72	11.77	13.83	13.04	13.08	14.29
Price Earning Ratio (Times)	8.65	7.00	7.10	9.32	8.05	6.87	5.64	6.84	6.11	4.20
Earnings Yield (%)	11.56	14.29	14.09	10.73	12.43	14.55	17.73	14.62	16.35	23.81
Cash Dividend Per Share (LKR)	2.10	2.10	2.10	2.10	2.10	2.10	-	-	2.30	2.00
Scrip Dividend Per Share (LKR)	-	-	-	-	-	-	2.10	2.10	-	-
Dividend Payout Ratio (%)	30.14	24.82	22.67	19.09	18.53	16.88	14.36	15.76	17.58	14.00
% of 20 Largest Shareholders-Voting	78.22	65.78	79.64	81.53	86.02	87.69	88.77	89.51	89.90	87.28
% of 20 Largest Shareholders-Non Voting	-	-	-	-	-	-	-	99.57	99.71	99.72
<b>OTHER INFORMATION (Group)</b>										
Number of Employees	1,853	2,037	2,262	2,562	2,695	2,770	2,943	3,128	3,151	2,832
Number of Branches	48	57	72	89	92	93	93	94	96	96
No of ATMs	60	70	100	124	131	136	136	172	176	173



# service network

## BRANCHES

No	Name of the Branch	Address
1	Akkaraipathu	No. 210, Main Street, Akkaraipathu
2	Akuressa	No. 73, Matara Road, Akuressa
3	Aluthgama	No. 411, Galle Road Aluthgama
4	Ambalangoda	No. 20, 5th Cross Street, Ambalangoda
5	Ambalantota	No. 61, Main Street, Ambalantota
6	Anuradhapura	No. 294/A, Maithripala Senanayaka Mawatha, Anuradhapura
7	Avissawella	No. 107, New Ratnapura Road, Avissawella
8	Badulla	No. 10, Bank Road, Badulla
9	Balangoda	No. 86/A, Bans Ratwatte Mawatha, Balangoda
10	Bandaragama	No. 14, Panadura Road, Bandaragama
11	Bandarawela	No. 326, Badulla Road, Bandarawela
12	Battaramulla	No. 103 A, Pannipitiya Road, Battaramulla
13	Batticaloa	No. 29, Bar Road, Batticaloa
14	Boralesgamuwa	No. 36 Lake Road, Boralesgamuwa
15	Borella	No. 67, D.S. Senanayake Mawatha, Borella, Colombo 08
16	Chilaw	No. 43, Kurunegala Road, Chilaw
17	Cinnamon Gardens	No. 4 A, Independence Avenue, Colombo 07
18	City Branch	No. 76, York Street, Colombo 01
19	Corporate	No. 242, Union Place, Colombo 02
20	Crescat	B 14, Basement, Crescat Boulevard, Galle Road, Colombo 03
21	Dambulla	No 700, Anuradapura Road, Dambulla
22	Dehiwala	No. 163, Galle Road, Dehiwala
23	Deniyaya	Janahitha Building, Pallegama Road, Deniyaya
24	Digana	No. 964/6, Nilagama, Digana, Rajawella
25	Elpitiya	No. 42, Ambalangoda Road, Elpitiya
26	Embilipitiya	No. 70, New Town Road, Embilipitiya
27	Galle	No. 144, Matara Road, Pettigalawatta, Galle
28	Gampaha	No. 112, Baudhaloka Mawatha, Gampaha
29	Gampola	No. 13, Nawalapitiya Road, Gampola
30	Giriulla	No. 145/A, Kurunegala Road, Giriulla
31	Gothatuwa	No. 35, New Town, Gothatuwa, IDH
32	Hambantota	No. 39, Main Road, Hambantota
33	Havelock Town	No. 100, Havelock Road, Colombo 05
34	Hikkaduwa	No. 08, Galle Road, Hikkaduwa
35	Homagama	No. 113/A, High Level Road, Homagama
36	Horana	No. 192B, Ratnapura Road, Horana
37	Ja-ela	No. 176, Colombo Road, Ja-ela
38	Jaffna	No. 35, Stanley Street, Jaffna
39	Kadawatha	No. 144/1A, Sumitomo Building, Kandy Road, Kadawatha
40	Kaduruwela	No. 292, Sawmill Junction, Kaduruwela, Polonnaruwa
41	Kaduwela	No. 510, Colombo Road, Kaduwela
42	Kalmunai	No. 174, Batticaloa Road, Kalmunai
43	Kaluthara	No. 340, Main Street, Kalutara
44	Kandy	No. 147, Kotugodella Veediya, Kandy
45	Kandy City Centre	L1-17, Level 1, Kandy City Centre, No. 05, Dalada Veediya, Kandy
46	Karapitiya	No. 241, Hirimbura Road Karapitiya
47	Katugastota	No. 146, Kurunegala Road, Katugastota
48	Kegalle	No. 176, Walawwa watta, Kegalle

## service network

No	Name of the Branch	Address
49	Kiribathgoda	No. 69, Makola Road, Kiribathgoda
50	Kohuwala	No. 135A, Tissara Plaza, Dutugemunu Street, Kohuwala
51	Kollupitiya	No. 349, Lee Hedges Bulding , Galle Road, Colombo 03
52	Kotahena	No. 258, George R De Silva Mawatha, Colombo 13
53	Kottawa	No. 269/1, Mahalwarawa Junction, Kottawa
54	Kuliyapitiya	No. 72 A, Hettipola Road, Kuliyapitiya
55	Kurunegala	No. 37, Puttalam Road, Kurunegala
56	Mahabage	No. 590, Negombo Road, Mahabage
57	Maharagama	No. 129, High Level Road, Maharagama
58	Malabe	No. 410/4, Athurugiriya Raod, Malabe
59	Matale	No. 237/241, Main Street, Matale
60	Matara	No. 56, Esplanade Road, Matara
61	Mathugama	No. 123/1 , Agalawatta Road, Matugama
62	Mawathagama	No. 56, Kurunegala Road, Mawathagama
63	Millennium	No. 46/58, Nawam Mawatha, Colombo 02
64	Minuwangoda	No. 59, Negombo Road, Minuwangoda
65	Monaragala	No. 190, Wellawaya Road, Monaragala
66	Moratuwa	No. 89, New Galle Road, Moratuwa
67	Mount Lavinia	No. 269, Galle Road, Mount Lavinia
68	Narahenpita	No. 255/2 Kirula Road, Colombo 05
69	Nawala	No. 267A, Nawala Road, Nawala
70	Negombo	No. 72A, Old Chillaw Road, Negombo
71	Nelliady	No. 171/1, Jaffna - Point Pedro Road, Nelliady
72	Nittambuwa	No. 39, Kandy Road, Nittambuwa
73	Nugegoda	No. 128, High Level Road, Nugegoda
74	Nuwara Eliya	No. 2 Windsor Hotel building, New Kandy road, Nuwara Eliya
75	Old Moor Street	No. 360, Old Moor Street, Colombo 12
76	Panadura	No. 229, Galle Road, Panadura
77	Peradeniya	Royal Mall Complex, No. 903/18, William Gopallawa Mw, Kandy
79	Pettah Bankshall Street	No. 54 A, Bankshall Street, Colombo 11
78	Pettah Main Street	No. 244, Main Street, Pettah
81	Pilimathalawa	No. 234 ,Colombo Road, Pilimathalawa
80	Piliyandala	No. 30 ,Moratuwa Road, Piliyandala
82	Rajagiriya	No. 196, Sri Jayawardenapura Mawatha, Welikada, Rajagiriya
83	Rathnapura	No. 189, Main Street, Ratnapura
84	Sri Sangaraja Mawatha	No. 545 A, Sri Sangaraja Mawatha ,Colombo 10
85	Tangalle	No. 110, Tissa Road, Tangalle
86	Thalawathugoda	No. 245/2, Pannipitiya Road, Thalawathugoda
87	Tissamaharama	No. 43/2 , Kachcheriyagama, Hambanthota Road , Tissamaharama
88	Trincomalee	No. 96, Main Street, Trincomalee
89	Vavuniya	No. 45A, 02nd Cross Street, Vavuniya
90	Ward Place	No. 16, Ward Place, Colombo 07
91	Wariyapola	No. 84, Puttalam Road, Wariyapola
92	Wattala	No. 492, Negombo Road, Wattala
93	Weligama	No. 354/29, Samaraweera Place, Sirimavo Bandaranayake Mawatha, Weligama
94	Wellawatte	No. 595, Galle Road, Wellawatte
95	Wennappuwa	No. 289, Chilaw Road, Wennappuwa
96	World Trade Center	Unit L03/EB/01, Level 03, East Tower, Echelon Square, Colombo 01

## OFFSITE ATMs

	ATM Location Name	Address
1	Arpico Hyde Park	Arpico Super Centre, No.69, Hyde Park Corner, Colombo 02.
2	Arpico Navinna	Arpico Super Centre, No.310, High Level Road, Navinna, Maharagama.
3	Asiri-General	No.181, Kirula Road, Narahenpita.
4	Athurugiriya	No.25, Malabe Road, Athurugiriya.
5	Attidiya	No.74, Main Road, Attidiya, Dehiwala.
6	Awissawella Union Apparel	Union Apparel (Pvt) Ltd, Block C1, C.V.Gunaratne Industrial Park, Seethawakapura, Avissawella.
7	Keells Borella	Keells Borella, No.85, Dr N.M. Perera Mawatha, Colombo 08.
8	Cinnamon Lakeside	No.115, Sir Chittampalam A Gardiner Mawatha, Colombo 02.
9	Digana Off-Site	MAS Factory, BOI, Pallekelle.
10	Galle Sahana	"Sahana" No.438, Matara Road, Megalle, Galle.
11	Gampaha Railway Station	Sri Lanka Railway station, Gampaha.
12	Ganemulla Railway Station	Sri Lanka Railway Station, Ganemulla.
13	Hive 02	No.256, Sri Ramanathan Mawatha, Kotahena, Colombo 15.
14	JKH Water Front	Water Front, No.92, Glennie Street, Colombo 2AA.
15	Kaduruwela	Texwin Clothing(PVT)LTD, BOP 398, Abayapura, Pulasthigama, Kaduruwela.
16	Kaduwela	The Main Bus Stand, Awissawella Road, Kaduwela.
17	Keells Kalubowila	Keells Kalubowila, No.53,Hospital Road, Kalubowila, Dehiwala.
18	Kandy Railway Station	Sri Lanka Railway Station, Kandy.
19	Kolonnawa	Laugfs Supermarket, No.228, Kolonnawa Road, Kolonnawa.
20	Keells Kottawa	Keells super, No.119, Horana Road, Kottawa.
21	Laugfs Nedimala	Laughs Sun-up Super Market, No.288, Hill Street, Dehiwala.
22	Laugfs Pitakotte	No.338, Kotte Road, Pitakotte.
23	Leesons Ragama	Leesons Hospital, No.32, Thewatta Road, Ragama.
24	Laugfs Kohuwala	Laughs Sun-up Super Market, No.17, Sunethradevi Mawatha, Kohuwala.
25	Matara Arpico	Arpico Super Centre, No.A2, Matara Road, Matara.
26	Mawaramandiya	Biyagama Multi Corporative Society Limited, "Samupakara Mandiraya", Mawaramandiya, Siyambalape.
27	Miriswatte	Lanka Filling Station, No.144, Kandy Road, Miriswatte, Mudungoda.
28	Negombo Off-site	Negombo Super K, No.250, Colombo Road, Negombo.
29	Orion City	Orion Management Consortium Ltd, No.752/1, Base Line Road, Colombo 09.
30	Panadura Arpico	Arpico Super Center, No.542, Galle road, Panadura.
31	Kandana Arpico	Arpico Daily, No.88, Negambo road, Kandana.
32	Keells Rajagiriya	Keells Super Rajagiriya, No.475, Sri Jayewardenepura Road, Rajagiriya.
33	Keells Wattala	Keells Super-Wattala, No.385, Negombo Road, Wattala.
34	Peradeniya Off-site	Royal Mall Shopping Complex, No.903/18, William Gopallawa Mw, Kandy.
35	Processing Centre	No.256, Sri Ramanathan Mawatha, Kotahena, Colombo 15.
36	Rathmalana	Lanka Sathosa Limited, Rathmalana Mega, Police Trans Camp, No.650/A, Galle Road, Rathmalana.
37	Rathnapura Off-Site	No.278, Colombo Road, Rathnapura.
38	Laugfs Seeduwa	Laughs Sun-up Super Market, No.10, Kotugoda Road, Seeduwa.

## OFFSITE CRMs

	CRM Location Name	Address
1	Ampara Off-site	Liyanwala Building, Nidahas Mawatha, Ampara.
2	ANC Education	ANC Education, No.310, R A DeMel Mw, Colombo 03.
3	CINEC	CINEC Maritime Campus, Millennium Drive, IT Park ,Malabe.
4	Kurunegala Off-site	Arpico Super centre, No.275, Colombo Road, Kurunegala.
5	SLIIT	SLIIT, New Kandy Road, Malabe.

# glossary

## A

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalents.

### ACTUARIAL GAIN/LOSS

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

## B

### BASEL III

The Basel Committee on Banking Supervision (BCBS) issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

### BASIS POINT (BP)

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

## C

### CAGR

Compounded annual growth rate. The rate at which it would have grown if it grew at an even rate compounded annually.

### CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

### COST TO INCOME RATIO

Operating expenses (excluding provision for bad and doubtful debts) expressed as a percentage of net income.

### CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/ equity securities.

### 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.

### CURRENCY 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.

## D

### DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

### DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

### DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

## E

### EARNINGS PER ORDINARY SHARE (EPS)

The profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

### EFFECTIVE INCOME TAX RATE

Provision for taxation divided by the profit before taxation.

### EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

### EXPECTED CREDIT LOSSES ('ECL')

The weighted average, with respect to the risk of default occurring, of the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows that are expected to be received, discounted at the original effective interest rate.

### EXPOSURE AT DEFAULT ('EAD')

ECL approach is the loan loss impairment method under SLFRS 9 on "Financial Instruments". ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). ECL measurements are unbiased and are determined by evaluating a range of possible outcomes.

## F

### 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 the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### FINANCIAL ASSET

Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### FINANCIAL GUARANTEE CONTRACT

Is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

## FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## FINANCIAL LIABILITY

Is a contractual obligation to deliver cash or another financial asset to another entity.

## FORWARD EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

## G

### GLOBAL REPORTING INITIATIVE (GRI)

The GRI is an international independent standards organisation that helps businesses, governments, and other organisations understand and communicate their impacts on issues such as climate change, human rights, and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

## GROUP

A parent and all its subsidiaries.

## GUARANTEES

Three party agreement involving a promise by one party (the guarantor) to fulfill the obligations of a person owning a debt if that person fails to perform.

## H

### HIGH QUALITY LIQUID ASSETS (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on Central Governments and Central Banks.

## I

### IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

## INTEREST MARGIN

Net interest income expressed as a percentage of 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 COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

## INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

### INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

## L

### LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

### LIQUID ASSETS RATIO

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

### LIQUIDITY COVERAGE RATIO ('LCR')

The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

### LOANS TO DEPOSITS RATIO

Total loans and advances expressed as a percentage of the total deposit portfolio.

## LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

### LOAN-TO-VALUE RATIO (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

## M

### MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

### 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.

### 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.

## N

### NET ASSETS VALUE PER ORDINARY SHARE

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

### NET INTEREST INCOME

Difference between what banks earn on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

### NPA RATIO

Total non-performing advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

# glossary

## NON-PERFORMING ADVANCES COVER (NPA COVER)

Cumulative loan loss provision as a percentage of total Non-Performing Advances (net of Interest in Suspense).

## NET STABLE FUNDING RATIO (NSFR)

Measures the amount of longer term, stable sources of funding employed by a Bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

## O

### OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

## P

### PRICE EARNINGS RATIO (P/E RATIO)

Market price of a share divided by the earnings per share.

### PRICE TO BOOK VALUE

Market price of a share divided by the net assets value of a share.

### PROVISION COVER

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

## R

### RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

### RETURN ON ASSETS

Profit after tax divided by average assets.

### RETURN ON EQUITY

Profit after Tax divided by the average shareholders' funds.

## RISK APPETITE

The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

## RISK WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

## S

### SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

### SWAPS (CURRENCY)

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. Alternatively a simultaneous spot sale and forward purchase of a currency.

## T

### 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 debt.

### TOTAL CAPITAL

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

## V

### 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.

## Y

### YIELD TO MATURITY (YTM)

Discount rate at which the present value of future payments would equal the security's current price.

# administrative details

In the interest of safeguarding the well-being of the shareholders due to the potential health risks created by Covid -19 pandemic and having considered related governmental health and safety guidelines, guidelines issued by the Colombo Stock Exchange (CSE) on holding virtual shareholder meetings and relevant statutory provisions, the Twenty Second (22nd) Annual General Meeting (AGM) of Nations Trust Bank PLC ('the Bank') will be held by virtual means.

The details regarding the participation and the procedure to be adopted during the AGM is set out below;

## 1. Date, Time and Conduct of AGM

- (a) AGM by virtual means will be held on Wednesday, 31st March, 2021 at 10.00 a.m.
- (b) Board members and other key officials who are essential for the administration of the formalities and conduct of AGM will be physically present in the Board Room of the Bank.
- (c) Shareholders will only be able to participate in the AGM by virtual means via the designated online platform.

## 2. Confirmation of participation and pre registration

- (a) Shareholders of the Bank who wish to participate at the virtual AGM are required to pre- register. In order to pre- register, the Registration Form given in the page 235 in this Annual Report should be duly completed and forwarded to the Bank together with a copy of National Identity Card (NIC) or passport of the shareholder/proxy holder to the e mail address: Company Secretary@nationstrust.com or Fax to No. +94 112307854 or post to the address given in the Registration Form to be received by the Bank not less than 48 hours prior to the time scheduled for the AGM.

- (b) Shareholders are entitled to appoint a proxy holder to participate at the virtual AGM on his/her behalf. Completed proxy form should be forwarded to e mail address: Company Secretary@nationstrust.com or Fax to No. +94 112307854 or post to the address given in the Registration Form to be received by the Bank not less than 48 hours prior to the time scheduled for the AGM.
- (c) The Bank will forward to the shareholders who register for the AGM, the AGM meeting log-in information via e mail in advance of the AGM. Meeting log-in information is authorized only for the use by the shareholders/ proxy holders.
- (d) The Bank encourages shareholders to submit duly completed proxy forms appointing one of the Directors of the Bank to represent them at the AGM by completing the Form of Proxy accordingly in order that each such shareholder may be identified and recorded as if such shareholder was present at the meeting.
- (e) Ordinary Shareholders with voting rights could vote their preference on the agenda items and relevant procedures will be explained at the meeting.

3. The Shareholders who are unable to participate in the virtual AGM may send their questions on the matters listed in the Notice of Meeting to the e mail: Company Secretary@nationstrust.com or via Fax No: +94 112307854 or by post to the Company Secretary, Nations Trust Bank PLC, No. 242, Union Place, Colombo 02. The responses from the Board of Directors and the Management to the questions will be forwarded to the shareholders by the Bank.

4. This Notice together with Registration Form, Notice of Meeting and Proxy Forms will also be published in the Bank's website (www.nationstrust.com) and in the website of the Colombo Stock Exchange (www.cse.lk).
5. The Date fixed for the AGM to be held on 31st March 2021 will not be affected due to any unforeseen event (eg. a public holiday is declared, curfew is imposed) since arrangements will be in place to proceed via on-line platform.

By order of the Board



**Theja Silva**  
General Counsel/ Group Company Secretary

24th February 2021



# notice of meeting

Notice is hereby given that the Twenty Second Annual General Meeting of Nations Trust Bank PLC will be held by virtual means on Wednesday, 31st March, 2021 at 10.00 a.m. centered at the Board Room of Nations Trust Bank PLC at No. 242, Union Place, Colombo 02, Sri Lanka.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December, 2020 with the Report of the Auditors thereon.
3. To re-elect Mr. Gihan Cooray who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.
4. To re-elect Mr. Conrad D'Souza who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.
5. To re-elect Mr. Russell De Mel who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.
6. To elect Mr. Priyantha Talwatte who was appointed to the Board after the date of the Notice of the last Annual General Meeting, as a Director in terms of Article 25 of the Articles of Association of the Company.
7. To elect Dr. Ramesh Shanmuganathan who was appointed to the Board after the last Annual General meeting, as a Director in terms of Article 25 of the Articles of Association of the Company.
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.
9. To authorise the Directors to determine and make donations.
10. To consider any other business of which due notice has been given.

## Notes:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her behalf.
- ii. A proxy need not be a shareholder of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board



**Theja Silva**  
General Counsel/ Group Company Secretary

24th February 2021  
Colombo

# form of proxy (voting shareholders)

I/We ..... of

being a member/members of Nations Trust Bank PLC, hereby appoint.....

..... of .....

..... or failing him/her

Mr. Gihan Cooray	or failing him
Mr. Suran Wijesinghe	or failing him
Mr. Conrad D'Souza	or failing him
Ms. Rachini Rajapaksa	or failing her
Mr. Russell De Mel	or failing him
Mr. Sumit Maheshwari	or failing him
Mr. Savanth Sebastian	or failing him
Ms. Sherin Cader	or failing her
Mr. Chanaka Wickramasuriya	or failing him
Mr. Arjun Fernando	or failing him
Dr Ramesh Shanmuganathan	or failing him
Mr Priyantha Talwatte	

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Twenty Second Annual General Meeting of the Company to be held by virtual means on Wednesday, 31st March, 2021 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any other resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this ..... (.....) day of March, 2021.

.....  
Signature/s

Please indicate with a (✓) in the space below how you wish your votes to be cast:

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2020 with the Report of the Auditors thereon.		
2. To re-elect Mr. Gihan Cooray who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.		
3. To re-elect Mr. Conrad D'Souza who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.		
4. To re-elect Mr. Russell De Mel who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.		
6. To elect Mr Priyantha Talwatte who was appointed to the Board after the date of the Notice of the last Annual General Meeting, as a Director in terms of Article 25 of the Articles of Association of the Company.		
7. To elect Dr. Ramesh Shanmuganathan who was appointed to the Board after the last Annual General Meeting, as a Director in terms of Article 25 of the Articles of Association		
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.		
9. To authorise the Directors to determine and make donations.		

# form of proxy (voting shareholders)

## Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be forwarded to the e mail address: [Company.Secretary@nationstrust.com](mailto:Company.Secretary@nationstrust.com) or Fax to No. +94 112307854 or post to the address given in the Registration Form to be received by the Bank not less than 48 hours prior to the time scheduled for the AGM.
3. If the Form of Proxy is signed by an Attorney, the Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.
5. If this Form is returned without any indication as to how the person appointed as Proxy shall vote, the Proxy shall exercise his/her discretion as to how he/she votes, or whether he/she abstains from voting.

## Please fill in the following details:

NIC No.:

Share Folio No.:

Name:

Address:

Jointly with:

# form of proxy (non-voting shareholders)

I/We ..... of

being a member/members of Nations Trust Bank PLC, hereby appoint.....

..... of .....

..... or failing him/her

Mr. Gihan Cooray	or failing him
Mr. Suran Wijesinghe	or failing him
Mr. Conrad D'Souza	or failing him
Ms. Rachini Rajapaksa	or failing her
Mr. Russell De Mel	or failing him
Mr. Sumit Maheshwari	or failing him
Mr. Savanth Sebastian	or failing him
Ms. Sherin Cader	or failing her
Mr. Chanaka Wickramasuriya	or failing him
Mr. Arjun Fernando	or failing him
Dr Ramesh Shanmuganathan	or failing him
Mr Priyantha Talwatte	

as my/our Proxy to represent me/us at the Twenty Second Annual General Meeting of the Company to be held by virtual means on Wednesday, 31st March, 2021 at 10.00 a.m. and at any adjournment thereof.

In witness I/we placed my/our hand/s hereto on this ..... (.....) day of March, 2021.

.....  
Signature/s

# form of proxy (non-voting shareholders)

## Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be forwarded to the e mail address: [Company.Secretary@nationstrust.com](mailto:Company.Secretary@nationstrust.com) or Fax to No. +94 112307854 or post to the address given in the Registration Form to be received by the Bank not less than 48 hours prior to the time scheduled for the AGM.
3. If the Form of Proxy is signed by an Attorney, the Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.

## Please fill in the following details:

NIC No.:

Share Folio No.:

Name:

Address:

Jointly with:

# registration form

## NATIONS TRUST BANK PLC

### TWENTY SECOND ANNUAL GENERAL MEETING- 31ST MARCH 2021

To: The Company Secretary  
Nations Trust Bank PLC  
No. 242, Union Place,  
Colombo 02

Full Name of the Shareholder  
(In the event of joint shareholders, please mention the  
name of primary holder)

Address of the Shareholder

Shareholder's NIC No./Passport No./Company  
Registration Number

Telephone Number

Mobile:

Landline:

E mail Address (to which the on-line meeting link  
should be forwarded by the Bank)

#### IF A PROXY IS APPOINTED

Full Name of the proxy holder

Proxy holder's NIC No./Passport No.

Telephone Number

Mobile:

Landline:

E mail Address (to which the on-line meeting link  
should be forwarded by the Bank)

Shareholder's signature

Date:

#### Notes:

- In the case of a Company/Corporation, this form should be attested in the manner prescribed by its Articles of Association
- If this form is signed by an Attorney for an on behalf of a shareholder, notarially certified copy of the Power of Attorney registered in the Books of the bank should be attached.





# corporate information

## REGISTERED NAME

Nations Trust Bank PLC

## LEGAL FORM

A Public Limited Liability Company incorporated in Sri Lanka under the Companies Act No.17 of 1982 and re-registered under the Companies Act No.07 of 2007. A Licensed Commercial Bank established under the Banking Act No. 30 of 1988.

## COMPANY REGISTRATION NUMBER

PQ 118

## DATE OF INCORPORATION

21st January 1999

## COMPANY SECRETARY

Theja Silva

## REGISTERED OFFICE

No. 242, Union Place, Colombo 2.  
Telephone : +94 11 4313131  
Facsimile : +94 11 2307854  
E-mail :  
ntbinvestorrelations@nationstrust.com  
Web page : www.nationstrust.com  
SWIFT : NTBCLKLX

## AUDITORS

Messrs. Ernst & Young  
Chartered Accountants,  
No. 201, De Saram Place,  
Colombo 10.

## CREDIT RATING

A (lka) from Fitch Ratings Lanka Ltd.

## DIRECTORS

Mr Gihan Cooray - Chairman  
Mr Conrad D'Souza - Senior Director  
Mr Suran Wijesinghe  
Ms. Rachini Rajapaksa  
Mr Russell De Mel  
Mr Sumit Maheshwari  
Mr Savanth Sebastian  
Ms Sherin Cader  
Mr Chanaka Wickramasuriya  
Mr Arjun Fernando  
Mr Priyantha Talwatte  
Dr Ramesh Shanmuganathan

## Board Supervisory Committee

Mr. Suran Wijesinghe - Chairman  
Mr. Savanth Sebastian  
Ms. Sherin Cader  
Mr. Arjun Fernando

## Board Audit Review Committee

Ms. Rachini Rajapaksa – Chairperson  
Mr Suran Wijesinghe  
Mr. Savanth Sebastian  
Ms. Sherin Cader

## Human Resources and Remuneration Committee

Mr. Gihan Cooray - Chairman  
Ms. Rachini Rajapaksa  
Mr Russel De Mel  
Mr Conrad D'Souza

## Nomination Committee

Mr Conrad D'Souza -Chairman  
Mr. Gihan Cooray  
Mr Chanaka Wickramasuriya  
Mr. Arjun Fernando

## Credit Committee

Mr. Gihan Cooray - Chairman  
Mr. Russel De Mel  
Mr. Chanaka Wickramasuriya  
Mr. Arjun Fernando

## Integrated Risk Management Committee

Mr. Suran Wijesinghe - Chairman  
Ms. Rachini Rajapaksha  
Ms. Sherin Cader

## Related Party Transactions Review Committee

Mr. Russell De Mel - Chairman  
Mr Chanaka Wickramasuriya  
Mr Priyantha Talwatte



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